PACCAR Financial Europe
Financial Statements 2020

Hugo van der Goeslaan 1
5643 TW Eindhoven
The Netherlands

PACCAR FINANCIAL EUROPE BV
FINANCIAL STATEMENTS 2020

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

`

TABLE OF CONTENTS

`

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. The Company provides short term and long term truck and trailer rental services through its full service lease subsidiary, PACCAR Leasing GmbH (PacLease). Furthermore, the Company is responsible for the remarketing of used trucks returning from its own portfolio as well as the trucks returning under a buy-back guarantee provided by DAF.

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.

2020 Group Results compared to 2019

The heavy truck market (above 16 ton) in Europe (EU27+3) decreased 28% to 230,400 registrations (2019: 320,000). The European medium duty truck market (6 to 16 ton) decreased 23% to 41,400 units (2019: 53,600).

The Company provided retail financing for 30.9% of DAF trucks registered in all European markets in which the Company operated in 2020 compared to 27.2% in 2019. In Brazil the Company achieved a market share of 29.2% compared to 24.7% in 2019.

The portfolio of finance receivables and equipment on operating leases increased from €2.7 billion in 2019 to €2.8 billion in 2020. Dealer wholesale receivables decreased to €543 million at December 31, 2020 from €631 million at December 31, 2019 reflecting lower build rates at DAF. Commercial paper, loans and term debt, on which the Company pays interest, decreased to €2.9 billion at the end of 2020 from €3.0 billion at the end of 2019.

Company revenue increased by €73.4 million to €631.8 million reflecting higher used truck revenues, higher rental income and higher revenue from financing reflecting the increasing portfolio. The Company reported pre-tax income of €4.7 million for the year ended December 31, 2020, compared to pre-tax income of €17.1 million in 2019. The pre-tax result is impacted by a challenging used trucks market as a result of oversupply of used trucks in the market and the Covid-19 pandemic leading to higher used trucks levels in the first half of the year. The pre-tax result reflects the increase of cost of sales, higher depreciation and impairments of operating leases, higher additions to the allowance for impairment losses and higher selling and administrative expenses partially offset by higher revenue and lower interest expense.

Net income in 2020 is €(6.0) million compared to 2019 net income of €12.8 million. The effective tax rate of 225.5% increased from 24.9% mainly reflecting the charge off of the deferred tax assets in Spain, Poland and France.

The end of year number of employees decreased 1.4% from 416 in 2019 to 410 in 2020.

Risks and Risk Management

The Company has a comprehensive risk management process in place. The Company's risk appetite can be characterized as balanced and prudent, in order to minimize business risk exposure. The following are significant risks which could have a material impact on the Company's financial condition or results of operations.

COVID-19

The COVID-19 pandemic and various governmental responses to contain the outbreak have resulted in a significant reduction in global economic activity. National and local governments have issued various stay-at-home orders, travel restrictions and border closures affecting consumers and businesses. These restrictions have been lifted to various degrees in different locations, but are subject to being re-imposed. PACCAR's operations have been designated as essential businesses in many jurisdictions as they support the transport of food, medical supplies and other essential materials which means PACCAR and the Company may operate under certain conditions including ensuring employee health and safety is maintained.

The full extent and duration of the adverse effect on the Company's business is uncertain and depends on the severity of the pandemic and how quickly and to what extent global and local economies are able to recover from the effects of the pandemic. Prolonged unemployment, changes in consumer behavior as a result of COVID-19, as well as other pandemic related economic factors such as business failures, lower housing and construction starts, lower automobile sales and disruptions in financial markets could have further adverse effects on DAF's truck production, resulting in lower new business volume for the Company, and may also cause higher finance portfolio past dues, credit losses and used truck losses. Other unforeseen impacts of the COVID-19 pandemic could also impact the Company's business and results of operations.

Sales of DAF products

As a captive finance 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, which may lead to decreased 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, but not eliminate, 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 19 and 20 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 19 and 20 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 provide consistent procedures in risk analysis and credit decisions. Credit risk is further disclosed in note 19 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 €2.0 billion Commercial Paper (CP) program, a €2.5 billion Euro Medium Term Note (EMTN) program 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 Company was able to meet its 2020 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.

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 19 and 20 to the consolidated financial statements. In 2020 the Company attracted a new three years A+ rated Euro Medium Term Notes Program amounting to €300 million.

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 and networks to process, transmit and store electronic information, and to manage or support a variety of its business processes and activities. If the Company's computer systems were to be damaged, disrupted or breached, it could impact data availability and integrity, lead to unauthorized disclosure of confidential information of the Company's customers, suppliers and employees. Security breaches could also result in a violation of EU and international privacy and other laws and subject the Company to various litigations and governmental proceedings. The Company maintains and continues to invest in protections to guard against such events such as conducting third-party penetration tests, implementing software detection and prevention tools, event monitoring, and disaster recoverability.

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 2020, as in the previous year, the company had no special reserves for lawsuits.

2021 Outlook
It is estimated that European truck industry sales in the above 16-ton market in 2021 will be in the range of 250,000 - 280,000 vehicles. 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.

The Company expects its finance receivables and equipment on operating lease portfolio in 2021 to increase modestly by growing new business in current markets. On the back of the strong demand for new trucks as well as the disappearance of the oversupply of used trucks, the used trucks market is forecasted to strengthen with robust demand and increasing prices. The Company will continue to expand its used trucks resale locations. Capital Investments in systems will be at the same level as 2020. The Company expects to continue to meet its debt funding needs in 2021 through the public debt market and loans from other PACCAR group companies. 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 average number of people working for the Company is expected to grow slightly in 2021 reflecting the increasing business.

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 9, 2021

G. J. B. Bas

H. C. A. M. Schippers

T. R. Hubbard
Directors PACCAR Financial Europe BV

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020

(Before appropriation of net income)

In €'000

ASSETS	**Notes**	**2020**	**2019**
Cash and cash equivalents	4	29,181	66,335
Wholesale receivables, net	5	543,263	631,403
Inventory	6	103,811	129,877
Prepaid expenses and other current assets	7	52,338	33,833
Equipment on operating lease, net	8	1,299,305	1,187,269
Finance and other receivables, net	9	1,549,671	1,583,990
Deferred income tax assets	10	21,338	22,638
Other non-current assets	11	22,383	26,361
Intangible assets	12	12,899	11,301
Total Assets		**3,634,189**	**3,693,007**

LIABILITIES & EQUITY			
Liabilities			
Accounts payable, accrued expenses and other	13	141,080	77,940
Commercial paper, bank loans and other short-term debt	14	1,014,648	1,068,888
Term debt	15	1,907,572	1,958,000
Deferred income tax liabilities	10	2,509	291
Other non-current liabilities	16	51,049	26,830
Total Liabilities		**3,116,858**	**3,131,949**
Shareholder Equity			
Paid-in capital	17	73,000	73,000
Additional paid-in capital	17	224,046	224,046
Foreign currency translation	17	(59,281)	(18,900)
Accumulated fair value changes of financial instruments	17	7,004	4,367
Retained earnings previous years		278,545	265,741
Net income		(5,983)	12,804
Total Shareholder Equity		**517,331**	**561,058**
Total Liabilities and Equity		**3,634,189**	**3,693,007**

CONSOLIDATED INCOME STATEMENT - 2020

In €'000	Notes	Year ended December 31	
		2020	2019
Revenue	21	**631,821**	**558,370**
Cost of sales used trucks	21	302,591	250,893
Interest expense	22	12,633	14,962
Depreciation and operating expense - operating leases	8	245,728	208,844
Other operating expense	23	19,414	21,498
(Release of) / addition to allowance for impairment losses	9	6,325	1,051
Selling and administrative expense	24	40,466	44,063
		627,157	**541,311**
Income before income taxes		**4,664**	**17,059**
Income tax expense	25	10,647	4,255
Net income		**(5,983)**	**12,804**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - 2020

In €'000	Notes	Year ended December 31	
		2020	2019
Net income		**(5,983)**	**12,804**
Other comprehensive income / (loss)			
Foreign currency translation	17	(40,381)	8,883
Movement on cash flow hedges	17	3,550	10,407
Income tax effect	17	(913)	(2,065)
Net movement on financial instruments		2,637	8,342
Total other comprehensive income to be reclassified to income statement in subsequent periods		(37,744)	17,225
Total comprehensive income, net of tax		**(43,727)**	**30,029**

CONSOLIDATED STATEMENT OF CASH FLOWS – 2020

In €’000	Notes	Year ended December 31	
		2020	**2019**
Operating activities:			
Net income		**(5,983)**	**12,804**
Taxes paid		(15,838)	(14,292)
Taxes received		2,791	419
Acquisition of equipment on operating lease	8	(489,571)	(604,387)
Disposal of equipment on operating lease	8	144,641	167,247
Net decrease / (increase) in wholesale receivables	5	83,658	(19,603)
Items included in net income not affecting cash:			
Depreciation and amortization	8,11,12	235,231	204,715
Allowance for impairment	5,9	6,325	1,051
Deferred income tax expense	10	3,527	(6,321)
Derivative contracts	20	53,647	24,258
Net foreign exchange differences		(40,328)	9,320
Other, net	27	47,462	(6,847)
Net cash used in operating activities		**25,562**	**(231,636)**
Investing activities:			
Finance and other receivables originated	9	(523,418)	(602,039)
Collections on finance and other receivables	9	545,075	565,843
Acquisition of property, plant & equipment	11	(2,587)	(292)
Acquisition of software	12	(3,338)	(3,530)
Other, net		(1,982)	40
Net cash used in investing activities	27	**13,750**	**(39,978)**
Financing activities:			
Net proceeds from / (payments on) Commercial Paper	14	(50,820)	236,196
Net change in short term bank loans	14	(3,324)	3,324
Net proceeds from affiliates	13,15	228,770	62,500
Net (payments on) Medium Term Notes	15	(249,717)	(1,317)
Payment of lease liabilities	18	(1,281)	(1,059)
Net cash used in financing activities	27	**(76,372)**	**299,644**
Net foreign exchange difference on cash		(94)	(93)
Net (decrease) increase in cash and cash equivalents		**(37,154)**	**27,937**
Cash and cash equivalents at beginning of period	4	66,335	38,398
Cash and cash equivalents at end of period		**29,181**	**66,335**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - 2020

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, 2019	73,000	224,046	(27,783)	(3,975)	230,045	35,696	531,029
Net income	-	-	-	-	-	12,804	12,804
Other comprehensive income	-	-	8,883	8,342	-	-	17,225
Total comprehensive income	-	-	8,883	8,342	-	12,804	30,029
Appropriation of net income	-	-	-	-	35,696	(35,696)	-
As of December 31, 2019	73,000	224,046	(18,900)	4,367	265,741	12,804	561,058
Net income	-	-	-	-	-	(5,983)	(5,983)
Other comprehensive income	-	-	(40,381)	2,637	-	-	(37,744)
Total comprehensive income	-	-	(40,381)	2,637	-	(5,983)	(43,727)
Appropriation of net income	-	-	-	-	12,804	(12,804)	-
As of December 31, 2020	73,000	224,046	(59,281)	7,004	278,545	(5,983)	517,331

* See note 17.

NOTES TO THE CONSOLIDATED STATEMENTS - 2020

1. GENERAL NOTES

Description of the business
PACCAR Financial Europe BV (the “Company”), Eindhoven, The Netherlands (registration 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.

These consolidated financial statements comprise the Company and its subsidiaries (collectively the ‘Group’ and individually ‘Group companies’). 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”. From the Brazilian subsidiary, the Company provides funding to the Brazilian customers. 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 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’. Furthermore, the Company is responsible for the remarketing of used trucks returning from its own portfolio as well as the trucks returning under a buy-back guarantee provided by DAF. The risk on these trucks remain with DAF. The Company receives a fee for these services.

The operations of the Company are fundamentally affected by its relationship with PACCAR (see note 26).

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

Financial reporting period
These financial statements cover the year 2020, which ended at the balance sheet date of 31 December 2020.

Statement of compliance
The consolidated financial statements of the Company are part of the statutory financial statements of the Company. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and with Section 2:362(9) of the Netherlands Civil Code.

Application of Section 402, Book 2 of the Netherlands Civil Code

The financial information of the Company is included in the consolidated financial statements. For this reason, in accordance with Section 402, Book 2 of the Netherlands Civil Code, the separate statement of income statement of the Company exclusively states the share of the result of participating interests after tax and the other income and expenses after tax.

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:

- Amendments to IFRS 3 – Definition of a Business, effective January 1, 2020
- Amendments to IAS 1 and IAS 8 – Definition of Material, effective January 1, 2020
- Updated references to the Conceptual Framework, effective January 1, 2020
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform – phase 1, effective January 1, 2020
- Amendment to IFRS 16 – Covid-19-Related Rent Concessions, effective June 1, 2020

The U.K. Financial Conduct Authority recently announced to stop publishing GBP LIBOR benchmark rates by the end of 2021. Certain financing products provided by the Company to dealers and retail customers as well as financing products are linked to GBP LIBOR benchmark rates. Any new benchmark will likely not replicate LIBOR exactly, which could impact currently active contracts which terminate after 2021. During 2021, the Company has efforts underway to offer new finance contracts which makes use of alternative benchmark rates in replacement of all instances where LIBOR was previously used. Changes to benchmark rates will have an uncertain impact on finance receivables and other financial obligations and our current or future cost of fund. The Company will attempt to minimize the impact of differences between the current and replacement benchmark rates.

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2020.

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 new standards below are expected to have no material impact on the financial statements of the Company:

- IFRS 17 – Insurance Contracts, effective January 1, 2023. Not yet endorsed by the European Union.

The amendments below are expected to have no material impact on the financial statements of the Company:

- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform – phase 2, effective January 1, 2021. Endorsed by the European Union.
- Amendments to IFRS 3 – References to a Conceptual Framework, effective January 1, 2022. Not yet endorsed by the European Union.
- Amendments to IAS 37 – Onerous Contracts — Cost of Fulfilling a Contract, effective January 1, 2022. Not yet endorsed by the European Union.

- Annual Improvements to IFRS Standards 2018–2020, effective January 1, 2022. Not yet endorsed by the European Union.
- Amendments to IAS 16 - Property, Plant and Equipment — Proceeds before Intended Use , effective January 1, 2022. Not yet endorsed by the European Union.
- Amendments to IAS 8 – Definition of Accounting Estimates, effective January 1, 2023. Not yet endorsed by the European Union.
- Amendments to IAS 1 and IFRS Practice Statement 2 – 'Disclosure of Accounting Policies, effective January 1, 2023. Not yet endorsed by the European Union.
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current, effective January 1, 2023. Not yet endorsed by the European Union.

Authorization of the financial statements

On April 9, 2021, the Board of Directors authorized the issuance of the Company's 2020 financial statements at the shareholder 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. These have been measured at fair value.

Going concern

These financial statements have been prepared on the basis of the going concern assumption.

Functional and presentation currency

These consolidated financial statements are presented in euros, 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 in the company financial statements.

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 BV	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
PACCAR Participações Ltda	100%	Brazil	January 18, 2018
Banco PACCAR S.A.	100%	Brazil	July 20, 2018
PACCAR Portugal, Unipessoal, Lda	100%	Portugal	August 28, 2018

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, 8 and 9. 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 20.

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 21.

Foreign currency
Foreign currency transactions
The functional currency of the Company and all of its subsidiaries is the Euro, except for the subsidiary based in the United Kingdom, where the British Pound ("GBP") is the functional currency and subsidiaries based in Brazil where the Real ("BRL") 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 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 and are recorded as "Other Expenses" in the income statement.

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

	Dec. 31, 2020	Average 2020	Dec. 31, 2019	Average 2019
GBP/€	1.1190	1.1255	1.1823	1.1407
US$/€	0.8186	0.8761	0.8918	0.8933
PLN/€	0.2192	0.2251	0.2350	0.2327
CZK/€	0.0381	0.0378	0.0393	0.0390
BRL/€	0.1575	0.1714	0.2213	0.2268
AUD/€	0.6298	0.6051	0.6261	0.6212

Financial assets at amortised cost – Derivative financial assets

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 financial assets at amortized cost ("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 equity. The gains and losses on cash flow hedge transactions, initially reported to shareholder 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 income statement. 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 income statement.

Non-derivative financial assets and financial liabilities – recognition and derecognition
The Company initially recognizes financial assets at amortized cost (“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.

Financial assets at amortized costs – Non derivative financial assets

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 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 initially recognized at fair value and subsequently recorded at amortized cost 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.

The Company has purchased used trucks from third party under a repurchase obligation of a related party. Although the Company takes title to and has control over these units the Company is not exposed to price risk related to used trucks. These stocks are measured at cost as the Company does not hold the price risk related to these stock.

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".
On a regular basis, the Company 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 cash generating units (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 cost of disposal. 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.

Financial assets at amortized costs – 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 net realizable value of the equipment. 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".

Impairment – Allowance for impairment on wholesale and retail receivables
The Company recognises loss allowances for ECLs on financial assets, wholesale and retail receivables, measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECLs. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.
The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company considers a receivable to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The Company considers this to be BBB- or higher per Standard & Poor’s. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

i Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). Expected credit loss is a probability-weighted estimate of credit losses over the expected life of a financial asset using all reasonable and supportable information available about past events and current conditions supplemented by forecasts of future economic conditions.

ii Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

iii Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

iv Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

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 10).

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 equity.

Other non-current assets (excluding derivative financial assets) / (in)tangible fixed assets
Other assets and liabilities are initially recognized at cost which approximates fair value. These assets are subsequently measured at amortized cost less, when required, an allowance for impairment. Tangible and intangible 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 19) 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
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 21 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 21 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 have control and besides 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 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 21 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 or that have been obtained from related parties where the Company acts as principal, 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 the date of transfer of control. 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. Fees received for trucks sold on behalf of related parties where the Company acts as agent is recorded in the line “Other revenue” in the income statement.

Suspension of revenue

Operating lease rental income, interest income finance lease, interest income wholesale financing and support income is deferred when it is no longer probable that the economic benefits associated with the contracts will flow to the Company. If a financial asset becomes credit impaired, the effective interest is calculated over the net carrying amount (gross carring amount less loss allowance). 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. As from this moment interest will be recognized over the gross carrying amount.

Leases
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

(i) As a lessee
At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments and less lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Company presents right-of-use assets that do not meet the definition of investment property in 'non-current assets' and lease liabilities in 'non-current liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease. If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘other revenue’.

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, 2020 was as follows:

In €'000	Finance	Rental	Elimi-nations	Internal Total	Reported adjustments	IFRS
Revenue						
Revenue from external customers *	446,508	52,066	-	498,574	133,247	631,821
Inter-segment revenue	470	-	(470)	-	-	-
Segment revenue	**446,978**	**52,066**	**(470)**	**498,574**	**133,247**	**631,821**
Cost of sales used trucks	(136,525)	-	-	(136,525)	(166,066)	(302,591)
Interest expense	(13,084)	123	(155)	(13,116)	483	(12,633)
Depreciation and operating expense - operating leases	(255,087)	(22,836)	-	(277,923)	32,195	(245,728)
Other operating expense	(3)	(27,191)	-	(27,194)	7,780	(19,414)
Addition to allowance for impairment losses	(5,402)	122	-	(5,280)	(1,045)	(6,325)
Selling and administrative expense	(34,237)	(5,624)	625	(39,236)	(1,230)	(40,466)
Total income before income taxes	**2,640**	(3,340)	**-**	**(700)**	**5,364**	**4,664**

The segment reporting as of and for the year ended December 31, 2019 was as follows:

In €'000	Finance	Rental	Elimi-nations	Internal Total	Reported adjustments	IFRS
Revenue						
Revenue from external customers *	307,778	63,155	-	370,933	187,437	558,370
Inter-segment revenue	648	-	(648)	-	-	-
Segment revenue	**308,426**	**63,155**	**(648)**	**370,933**	**187,437**	**558,370**
Cost of sales used trucks	(28,707)	-	-	(28,707)	(222,186)	(250,893)
Interest expense	(14,435)	(186)	145	(14,476)	(486)	(14,962)
Depreciation and operating expense - operating leases	(207,854)	(27,220)	-	(235,074)	26,230	(208,844)
Other operating expense	(8)	(31,577)	-	(31,585)	10,087	(21,498)
Addition to allowance for impairment losses	1,907	(7)	-	1,900	(2,951)	(1,051)
Selling and administrative expense	(36,584)	(6,263)	503	(42,344)	(1,719)	(44,063)
Total income before income taxes	**22,745**	**(2,098)**	**-**	**20,647**	**(3,588)**	**17,059**

** Reference is made to Note 21*

Reconciliation to the financial statements

The internal reported revenue of the finance segment does not include the revenue of 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, 2020:

In €'000	Retail Finance	Rental	Wholesale Finance	Total
Revenue				
Revenue from external customers	554,741	62,738	14,342	631,821

The following table presents the revenue for each product for the year ended December 31, 2019:

In €'000	Retail Finance	Rental	Wholesale Finance	Total
Revenue				
Revenue from external customers	457,923	79,140	21,307	558,370

Geographic information

The geographical segment reporting for the year ended December 31, 2020 was as follows:

In €'000	Domestic	Other Continent	U.K.	Outside Europe	Eliminations	Total
Revenue						
Revenue from external customers	66,728	482,119	74,672	8,302	-	631,821
Inter-segment revenue	7,093	-	-	-	(7,093)	-
Segment revenue	**73,821**	**482,119**	**74,672**	**8,302**	**(7,093)**	**631,821**

In €'000	Domestic	Other Continent	U.K.	Outside Europe	Eliminations	Total
Total assets						
Segment assets	3,216,858	1,871,475	720,689	191,395	-	6,000,417
Eliminations / unallocated	-	-	-	-	(2,366,228)	(2,366,228)
Total assets	**3,216,858**	**1,871,475**	**720,689**	**191,395**	**(2,366,228)**	**3,634,189**

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.	Outside Europe	Eliminations	Total
Total assets						
Segment assets	2,745,389	2,141,258	922,375	191,395	-	6,000,417
Eliminations / unallocated	-	-	-	-	(2,366,228)	(2,366,228)
Total assets	**2,745,389**	**2,141,258**	**922,375**	**191,395**	**(2,366,228)**	**3,634,189**

The geographical segment reporting as of and for the year ended December 31, 2019 was as follows:

In €'000	Domestic	Other Continent	U.K.	Outside Europe	Eliminations	Total
Revenue						
Revenue from external customers	70,621	400,470	82,642	4,637	-	558,370
Inter-segment revenue	10,903	-	-	-	(10,903)	-
Segment revenue	**81,524**	**400,470**	**82,642**	**4,637**	**(10,903)**	**558,370**
Total assets						
Segment assets	3,351,647	1,858,007	751,861	226,367	-	6,187,882
Eliminations / unallocated	-	-	-	-	(2,494,875)	(2,494,875)
Total assets	**3,351,647**	**1,858,007**	**751,861**	**226,367**	**(2,494,875)**	**3,693,007**

In €'000	Domestic	Other Continent	U.K.	Outside Europe	Eliminations	Total
Total assets						
Segment assets	2,844,076	2,163,909	953,530	226,367	-	6,187,882
Eliminations / unallocated	-	-	-	-	(2,494,875)	(2,495,634)
Total assets	**2,844,076**	**2,163,909**	**953,530**	**226,367**	**(2,494,875)**	**3,693,007**

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	**2020**	2019
Wholesale receivables, BRL denominated	16,833	68,613
Wholesale receivables, Euro denominated	272,931	291,037
Wholesale receivables, GBP denominated	253,630	272,332
Wholesale receivables gross	543,394	631,982
Allowance for impairment losses wholesale receivables	(131)	(579)
Wholesale receivables, net	543,263	631,403

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, on three month LIBOR rates for GBP-denominated receivables and on one month CDI rates for BRL-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:

	2020			2019		
In €'000	Individually assessed (stage 3)	Not individually assessed (stage 1 and 2)	Total	Individually assessed (stage 3)	Not individually assessed (stage 1 and 2)	Total
Current	438	542,702	543,140	5,739	621,893	627,632
Past due accounts						
0 - 30 days	4	250	254	58	4,292	4,350
31 - 60 days	-	-	-	-	-	-
61 - 90 days	-	-	-	-	-	-
Over 90 days	-	-	-	-	-	-
Receivables, gross	442	542,952	543,394	5,797	626,185	631,982
Allowance	(4)	(127)	(131)	(58)	(521)	(579)
Receivables, net	438	542,825	543,263	5,739	625,664	631,403

The lifetime ECL equals the 12 months ECL due to the average maturity of the leases that is less than 12 month.

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

In €'000	**2020**	2019
Balance as of January 1	(579)	(176)
Charge off / Write downs	21	155
(Addition) / Release	427	(565)
Exchange rate differences	.	7
Balance as of December 31	(131)	(579)

The individually assessed part of the allowance for impairment loss is €4 (2019: €58).

Provision matrix

In order to determine the amount of Expected Credit Loss (ECL) to be recognised in the financial statements, the Company has set up a provision matrix based on its historical observed default rates which is adjusted for forward-looking estimates and establishes that quantitative ECL has been calculated as:

PD %	**2020**	**2019**
AAA	0.00	0.00
AA	0.01	0.01
A	0.03	0.03
BBB	0.08	0.09
BB	0.31	0.33
B	1.67	1.72
CCC/C	13.54	13.32

For dealers on with performance and financial concerns the Probability of Default (PD) amounts to 100%. Loss Given Default (LGD) used for the quantitative ECL amounts to 1%.

6. INVENTORY

In €'000	**2020**	2019
Used trucks inventory	103,811	129,877
Inventory	103,811	129,877

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 the moment of sale of the equipment to a third party or a related PACCAR entity or when the equipment is financed with a customer.

The Company purchased used trucks from third parties under a repurchase obligation of a related party. Although the Company takes title to and has control over these units the Company is not exposed to price risk related to these used trucks. These units are measured at cost as the Company does not hold the price risk related to this stock.

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

In €'000	**2020**	**2019**
Balance as of January 1	129,877	104,320
Used trucks returned / repossessed from operating leases	128,072	142,332
Used trucks returned / repossessed from finance leases	107,012	48,445
Trucks from related parties and from trade in	104,875	139,887
Recoveries / (write-downs) of inventory	17,081	(10,197)
Used trucks sold	(164,000)	(163,783)
Used trucks sold on behalf of related parties / Used Trucks refinanced	(218,789)	(131,318)
Foreign currency translation difference	(317)	191
Balance as of December 31	103,811	129,877

7. PREPAID EXPENSES AND OTHER CURRENT ASSETS

In €'000	**Notes**	**2020**	2019
Short term derivative assets	20	3,394	1,929
Income tax receivables		4,907	-
Prepaid expenses and other current assets		44,037	31,904
Prepaid expenses and other current assets		52,338	33,833

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 €1,160 (2019: €1,767).

8. EQUIPMENT ON OPERATING LEASE, NET

In €'000	**2020**	2019
Equipment on operating lease	1,310,843	1,192,670
Impairment	(11,538)	(5,401)
Equipment on operating lease, net	1,299,305	1,187,269

The movement of these items is as follows:

In €'000	Equipment on operating lease	Impairment	Total
Book value as of January 1, 2020	1,192,670	(5,401)	1,187,269
Additions	489,571	(19,404)	470,167
Disposal to inventory	(141,339)	13,267	(128,072)
Other movements	2,172	-	2,172
Depreciation	(224,653)	-	(224,653)
Impairment from repossession	(2,156)	-	(2,156)
Foreign currency translation differences	(5,422)	-	(5,422)
Book value as of December 31, 2020	1,310,843	(11,538)	1,299,305
Accumulated depreciation	362,167	11,538	373,705
Gross Cost as of December 31, 2020	1,673,010	-	1,673,010

In €'000	Equipment on operating lease	Impairment	Total
Book value as of January 1, 2019	951,159	(874)	950,285
Additions	604,387	(9,379)	595,008
Disposal to inventory	(147,184)	4,852	(142,332)
Other movements	(22,683)	-	(22,683)
Depreciation	(197,705)	-	(197,705)
Impairment from repossession	(1,202)	-	(1,202)
Foreign currency translation differences	5,898	-	5,898
Book value as of December 31, 2019	1,192,670	(5,401)	1,187,269
Accumulated depreciation	343,564	5,401	348,965
Gross Cost as of December 31, 2019	1,536,234	-	1,536,234

The equipment on operating lease includes an amount of €121,245 (2019: €139,421) for the rental fleet. In 2020 the additions to the rental fleet amounted to €44,820 (2019: €42,289), the depreciation of the rental fleet amounted to €20,460 (2019: €26,649) and the disposals from the rental fleet amounted to €41,405 (2019: €23,979). Other movements relate primarily to restructures, early settlements and movements from inventory.

The average remaining term of the outstanding operating lease agreements in 2020 is 28 months (2019: 30 months). For rental agreements the average remaining term is 10 months (2019: 8 months).

The minimum lease payments to be received after December 31, 2020 and 2019 were as follows (amounts in €'000):

Term	**2020**	2019
< 1 year	233,097	218,256
2 – 5 years	216,985	224,309
>5 years	281	272
Total	450,363	442,837

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 2020 is 37 months (2019: 39 months). The average term of the rental agreements at inception is 24 months (2019: 24 months). The operating lease installments due are recorded in “Trade and other receivables” (Note 9).

The carrying amount of equipment on operating lease includes the unguaranteed residual values of the equipment at the end of the contract for an amount of €881,447 at December 31, 2020 (2019: €748,029) and guaranteed residual values of €3,346 (2019: €36,277). 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	**2020**	2019
Depreciation on equipment on operating lease	224,653	197,705
Net additions to impairments of equipment on operating lease	19,404	9,379
Operating expense on equipment on operating lease and other	1,671	1,760
Depreciation and operating expense – operating leases	245,728	208,844

In 2020 the Company incurred an average write-off of €8 on 138 customers (2019: €13 on 67 customers) with repossessed operating lease contracts and recovered an average of €6 from 76 customers (2019: €3 from 48 customers).

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

9. FINANCE AND OTHER RECEIVABLES, NET

In €'000	**2020**	2019
Finance receivables, net	1,492,943	1,523,510
Trade and other receivables	56,728	60,480
Balance as of December 31	1,549,671	1,583,990

Finance receivables, net

In €'000	**2020**	2019
Retail finance receivables	1,598,619	1,625,644
Unearned interest retail finance receivables	(88,327)	(88,434)
Allowance for impairment losses	(17,349)	(13,700)
Finance receivables, net	1,492,943	1,523,510
Current portion of finance receivables	564,963	553,083
Non-current portion of finance receivables	927,980	970,427

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, 2020 the carrying amount of receivables under these loans was €193,915 (2019: €150,568).

During 2020 new business volume of €523,418 (2019: €602,039) was added to the retail finance receivables.

The retail finance receivables are detailed as follows:

	2020			2019		
In €'000	Fixed rate	Variable rate	Total	Fixed rate	Variable Rate	Total
Euro denominated	862,322	-	862,322	901,892	-	901,892
GBP denominated	526,415	109,498	635,913	579,557	96,053	675,610
BRL denominated	100,384	-	100,384	48,142	-	48,142
Total	1,489,121	109,498	1,598,619	1,529,591	96,053	1,625,644

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 minimum lease payments to be received after December 31, 2020 and 2019 was as follows (amounts in €'000):

	2020		2019	
Term	*Retail finance receivables*	*Minimum lease payments*	*Retail finance receivables*	*Minimum lease payments*
< 1 year	598,693	501,750	594,090	512,721
2 – 5 years	977,775	769,343	1,009,320	781,259
>5 years	22,151	10,109	22,234	753
Total	1,598,619	1,281,202	1,625,644	1,294,733

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, 2020 and December 31, 2019 respectively taking into account the estimated impairment losses to be incurred.

The reconciliation between the retail finance receivables and the minimum lease payments was as follows:

In €'000	**2020**	2019
Retail finance receivables, gross	1,598,619	1,625,644
Unguaranteed residual values	(244,398)	(252,564)
Unearned interest	(62,939)	(67,530)
Expected credit losses	(10,080)	(10,816)
Minimum lease payments	1,281,202	1,294,734

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

In €'000	**2020**	2019
Balance as of January 1	(13,700)	(12,380)
(Additions charged to) / releases to income statement	(6,895)	(634)
Credit losses incurred	1,078	1,410
Further write downs / (write ups)	1,855	(2,119)
Foreign currency translation differences	313	23
Balance as of December 31	(17,349)	(13,700)

The net addition to the allowance for impairment losses on finance receivables was €3,649 (2019: addition: €1,320).

Provision matrix

In order to determine the amount of ECL to be recognised in the financial statements, the Company has set up a provision matrix based on its historical observed default rates which is adjusted for forward-looking estimates and establishes that quantitative ECL has been calculated as:

In %	**2020**	**2019**
Current portfolio	0.63	0.69
10-29 days	3.28	3.43
30-59 days	11.33	11.92
60-90 days	14.34	14.38
90+	28.47	29.89

The qualitative ECL has been calculated based on the following assumptions:

In bps	**2020**	**2019**
GDP Growth EU	-%	-8%
GDP Growth UK	1%	-2%
Past dues	1%	-%
Repossessions	-%	-3%
Market size heavy duty truck market	1%	-2%

The effect of qualitative ECL will be added to / deducted from the quantitative ECL.

Addition to allowance for impairment losses in Income Statement

In €'000	**Notes**	**2020**	2019
(Release of) / addition to the:			
Impairment retail finance lease receivables		6,895	634
Impairment on wholesale receivables	5	(448)	410
Impairment for rental receivables		(122)	7
Allowance for impairment losses		6,325	1,051

In 2020 the Company incurred an average write-off of €10 on 215 customers (2019: €9 on 161 customers) with repossessed finance lease contracts and recovered an average of €9 from 136 customers (2019: €26 from 159 customers).

The aging of the finance lease receivables at December 31, 2020 and 2019 was as follows:

In €'000	**2020**	2019
Current portfolio	1,590,590	1,618,220
0 - 30 days	3,163	2,172
	1,593,753	1,620,392
Past due		
31 - 60 days	612	1,729
61 - 90 days	1,117	259
over 90 days	3,137	3,264
	4,866	5,252
Total receivables	1,598,619	1,625,644

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 €16,903 (2019: €22,892).

Non-performing amounts are generally more than 90 days past the contractual due date. As of December 31, 2020 the total portfolio amount of customer balances that were non-performing was €6,307 (2019: €11,441).

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	**2020**	2019
Forborne retail finance receivables	12,297	2,911
Unearned interest forborne retail finance receivables	(749)	(211)
Forborne finance receivables, net	11,548	2,700

The movement of the forborne finance receivables was as follows:

In €'000	**2020**	2019
Balance as of January 1	2,700	2,713
Additions	13,586	-
Write-off	(207)	-
Payments received	(4,531)	(13)
Balance as of December 31	11,548	2,700

Forborne receivables showed a significant increase compared to prior year, which was partially Covid-19 related.

The interest income recognized on forborne finance receivables in the year amounted to nil (2019: nil). The aging of the forborne receivables was as follows:

	2020			2019		
In €'000	Individually assessed	Not individually assessed	Total	Individually assessed	Not individually assessed	Total
Current portfolio	-	-	-	-	-	-
0 - 30 days	472	9,361	9,833	373	-	373
	472	9,361	9,833	373	-	373
Past due						
31 - 60 days	-	78	78	-	-	-
61 - 90 days	-	-	-	-	-	-
over 90 days	2,386	-	2,386	2,538	-	2,538
	2,386	78	2,464	2,538	-	2,538
Total receivables	2,858	9,439	12,297	2,911	-	2,911

The remaining risk and exposure on this account is limited. The expected credit loss for forborne receivables is included in impairment retail finance lease receivables, based on the simplified approach.

Trade and other receivables

In €'000	**Notes**	**2020**	2019
VAT receivable		18,580	23,148
Interest and lease receivables, net		9,611	13,725
Accounts receivable affiliates	26	28,537	23,607
Trade and other receivables		56,728	60,480

VAT receivable

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

Interest and lease receivables

In €'000	**2020**	2019
Interest and lease receivables	7,923	11,572
Rental receivables	1,962	2,467
Impairment rental receivables	(274)	(314)
Interest and lease receivables, net	9,611	13,725

Interest and lease receivables mainly relate to receivables on customers from operating leases. 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:

In €'000	**2020**	2019
0 - 30 days	6,298	7,492
Past due Accounts		
31 - 60 days	181	814
61-90 days	30	329
Over 90 days	3,376	5,404
Receivables, gross	9,885	14,039
Impairment	(274)	(314)
Receivables, net	9,611	13,725

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

In €'000	**2020**	2019
Balance as of January 1	(314)	(324)
(Additions) / release	122	(7)
(Recoveries) / Write-off	(82)	17
Balance as of December 31	(274)	(314)

10. DEFERRED TAX

Deferred income taxes as of December 31, 2020 and 2019 consist of the following:

	Statement of Financial Position		Income Statement	
In €'000	**2020**	2019	**2020**	2019
Deferred income tax assets				
Impairment on portfolio assets	3,203	2,363	840	613
Lower future depreciation of equipment on operating lease for income tax purposes	923	1,290	(367)	942
Lease accounting	11,364	13,468	(2,104)	4,117
Fair value changes of financial instruments used for hedging (OCI, no income statement impact)	17	-	-	-
Fair value changes of financial instruments through income statement	152	448	(296)	145
Losses available to offset future taxable income	6,210	7,805	(1,595)	3,319
Depreciation operating lease	1,206	1,589	(383)	(187)
Other	4,442	5,435	(993)	1,078
Effect of netting with deferred tax liabilities	(6,179)	(9,760)	3,581	(3,774)
Gross deferred income tax assets	21,338	22,638	(1,317)	6,253

In €'000	**2020**	2019	**2020**	2019
Deferred income tax liabilities				
Impairment on portfolio assets	(194)	(324)	130	(108)
Accelerated depreciation of equipment on operating lease for income tax purposes	(84)	(142)	58	(66)
Lease accounting	(352)	(427)	75	3
Fair value changes of financial instruments used for hedging (OCI, no income statement impact)	(2,784)	(1,576)	-	-
Depreciation operating lease	(4,513)	(6,841)	2,328	(1,661)
Other	(761)	(741)	(20)	(18)
Effect of netting with deferred tax assets	6,179	9,760	(3,581)	3,774
Gross deferred income tax liabilities	(2,509)	(291)	(1,010)	1,924
Net deferred income tax	18,829	22,347	(2,327)	8,177

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 €6,210 (2019: €7,805). This arises from operating losses in the past years in Germany.

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.

Due to uncertainty of realization, in 2020 no "losses available to offset future taxable income" and other temporary tax differences have been recognized for PACCAR Financial España S.L €4,466, PACCAR Financial Polska Sp.z.o.o. €4,166, PACCAR Financial CZ s.r.o. €1,833 (2019: €1,596), PACCAR Financial France S.A.S. €903 and for PACCAR Participações Ltda for an amount of €35 (2019: €53). Taxable losses are infinitely deductible with future taxable income except for Poland, Czech Republic and Slovakia where the expiration date of the taxable losses is 2023 at the latest.

Within the Company the recoverability of the net operating losses are reviewed on a periodic basis. The expiration date of the unrecognized losses differs per country and varies between one year and an undefined period.

11. OTHER NON-CURRENT ASSETS

In €'000	**Notes**	**2020**	2019
Long term derivative assets	20	7,898	18,060
Fixed assets		14,485	8,301
Other non-current assets		22,383	26,361

Fixed assets

	2020			2019		
In €'000	Land & Buildings	Equipment	Total	Land & Buildings	Equipment	Total
Book value as of January 1	6,266	2,035	8,301	4,979	618	5,597
Recognition of right-of-use asset on initial application of IFRS 16	-	-	-	1,758	996	2,754
Adjusted balance at January 1	6,266	2,035	8,301	6,737	1,614	8,351
Additions	2,515	72	2,587	117	175	292
Additions right-of-use assets	4,818	449	5,267	-	1,521	1,521
Transfer	-	-	-	(186)	186	-
Disposal	(44)	(176)	(220)	(59)	(727)	(786)
Depreciation	(731)	(634)	(1,365)	(343)	(728)	(1,071)
Exchange rate differences	-	(85)	(85)	-	(6)	(6)
Book value as of December 31	12,824	1,661	14,485	6,266	2,035	8,301
Accumulated depreciation	2,799	2,234	5,033	2,068	1,596	3,664
Gross Cost as of December 31	15,623	3,895	19,518	8,334	3,631	11,965

Fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses. In "Land & Buildings" an amount of €4,899 (2019: €2,385) is included for land. Land is not depreciated. The remaining average depreciation period at December 31, 2020 is 17 years (2019: 18) for Buildings and 2 years (2019: 2) 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.

12. INTANGIBLE ASSETS

In €'000	**2020**	2019
Software	12,899	11,301

Intangible assets
Intangible fixed assets relate to acquired software. The movement of the intangible assets is as follows:

In €'000	**2020**	2019
Book value as of January 1,	11,301	8,019
Additions	3,338	3,530
Amortization	(1,212)	(207)
Exchange rate differences	(528)	(41)
Book value as of December 31,	12,899	11,301
Accumulated amortization	2,141	1,434
Accumulated impairments	311	311
Gross Cost as of December 31,	15,351	13,046

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 amortization expense is recorded in the line "Depreciation on other assets" in "Selling and administrative expense" line of the Income statement.

The Company started projects to the replace the back office system in Europe and implement a back office system in Brazil. As these back offices systems became partially operational in Europe and fully operational in Brazil, amortization has been recognized for the operational parts as from the financial year 2019. These assets are depreciated on a straight line basis over the estimated time of 20 years. The costs incurred up to 31 December 2020 for the not yet operational part amounted to €10,982 (2019: €7,121) are capitalized.

13. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER

In €'000	**Notes**	**2020**	2019
Accounts payable affiliates	26	57,578	27,993
Accounts payable		16,009	10,745
Lease liability	18	1,227	750
Income tax payable		6,567	6,585
Derivative contracts	20	21,039	2,231
Accrued expenses		25,517	13,267
Deferred income		5,643	7,279
Other current liabilities		7,500	9,090
Accounts payable, accrued expenses and other		141,080	77,940

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 €1,799 (2019: €1,901). 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.

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

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

In €'000	**2020**	2019
Commercial paper	1,014,648	1,065,564
Short term debt	-	3,324
Commercial paper, bank loans and other short-term debt	1,014,648	1,068,888

Commercial paper
Since 2001, the Company 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, 2020 and 2019, the carrying amounts of the outstanding notes under the commercial paper program were as follows:

	2020			2019		
Currency	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of days to repayment in 2021*	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of days to repayment in 2020*
Euro denominated	555,136	(0.53)%	30	441,217	(0.45)%	23
GBP denominated	377,664	0.05%	20	446,154	0.76%	19
USD denominated	81,848	0.23%	24	178,193	1.85%	20
Total	1,014,648	(0.25)%	27	1,065,564	0.44%	21

The effective interest rates are the weighted average interest rates as of December 31, 2020 and December 31, 2019, respectively.

Short term debt
Redemption payments regarding non-current liabilities that are due next year, are presented under current liabilities.

15. TERM DEBT

In €'000	Notes	2020	2019
Long term advances	26	1,008,943	809,654
Euro Medium Term Notes		898,629	1,148,346
Term debt		1,907,572	1,958,000

Euro Medium Term Notes
Since September 10, 2004, the Company has maintained a Euro Medium Term Note program. All notes outstanding as of December 31, 2021 are listed on the London Stock Exchange (PSM). The Professional Securities Market is not a regulated market, and consequently, the Company is not a Dutch public interest entity (Organisatie van Openbaar Belang).
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, 2021 and 2020, the carrying amounts of the outstanding notes under the Euro Medium Term Notes program were as follows:

	2020			2019		
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	898,629	0.02%	15	1,148,346	0.15%	13
GBP denominated	-			-		
Due within one year	299,145			548,346		
Due after one year	599,484			600,000		

The effective interest rates are the weighted average interest rates including the effect of hedging instruments as of December 31, 2021 and December 31, 2020, respectively.

Further reference is made to note 6 to the company balance sheet and company income statement.

16. OTHER NON-CURRENT LIABILITIES

In €'000	**Notes**	**2020**	2019
Deferred income	13	8,142	9,993
Lease liabilities	18	5,112	1,972
Derivative contracts	20	35,330	11,818
Other non-current liabilities	13	2,465	3,047
Other non-current liabilities		51,049	26,830

Lease liabilities can be specified as follows:

In €'000	Lease payments
Less than 1 year	1,227
Between 1 and 5 years	5,112
More than 5 years	-
	6,339

17. SHAREHOLDER EQUITY

Paid-in capital

As of December 31, 2020, 730,000 ordinary shares at €100 nominal value were authorized and issued.

Additional paid-in capital

The additional paid-in capital concerns the income from the issuing of shares in so far as this exceeds the nominal value of the shares (above par income).

No additional paid in capital has been paid in cash in financial year 2020 and financial year 2019.

Foreign currency translation
The foreign currency translation reserve comprises all exchange rate differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Accumulated fair value changes of financial instruments
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The 2020 valuation increase of cash flow hedges through equity is €(2,373) (2019: €6,483) and the release is €264 (2019: €1,373). The release is recorded in the interest expense line in the income statement.

As of December 31, 2020, the gross fair value changes of financial instruments were €3,550 (2019: €10,407). The profit in 2020 on cash flow hedges, recognized in OCI were net of deferred income tax of €2,637 (2019: €8,342).

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.

18. LEASES

The Company leases a number of facilities under operating leases. The leases typically run for a period of 5 to 10 years, with an option to renew the lease after that date. Lease payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices. For certain operating leases, the Company is restricted from entering into any sub-lease arrangements.

The warehouse and factory leases were entered into many years ago as combined leases of land and buildings.

The Company leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Company has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Company is a lessee is presented below.

Right-of-use-assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

In €'000	Land & Buildings	Equipment	Total
Book value as of January 1	1,503	1,238	2,741
Additions to right-of-use assets	4,818	449	5,267
Derecognition of right-of-use assets	(44)	(176)	(220)
Depreciation	(580)	(455)	(1,035)
Book Value as of December 31	5,697	1,056	6,753

Lease liabilities are disclosed in the corresponding notes in the consolidated financial statements (notes 13 and 16).

Amounts recognised in consolidated statement of cash flows

In €'000	**2020**	2019
Total cash outflow for leases	1,281	1,059

Amounts recognised in profit or loss

In €'000- Operating leases under IFRS 16	**2020**	2019
Interest on lease liabilities	48	50
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	914	748
Expenses relating to short-term leases	-	46
	962	844

Extension options

Some property leases contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Interest rate risk

The Company is exposed to changes in interest rates. The Company uses derivative contracts, where needed, to match the interest conditions of funding with the interest conditions of receivables arising from the retail and wholesale finance business. See note 20 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. The Company entered into USD and AUD loans with PACCAR Financial Corp. PACCAR Inc. and PACCAR Financial Pty Ltd. 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:

	2020		2019	
In €’000	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
Assets				
Retail finance & wholesale receivables	(29,149)	30,417	(29,358)	30,635
Derivatives	(465)	497	(3,563)	2,525
Liabilities				
Debt	9,155	(9,454)	8,025	(8,193)
Derivatives	(2,533)	2,411	(4,597)	3,968
	(22,992)	23,871	(29,493)	28,935

The effect on shareholder equity of a 100 bps increase across the yield curve is a decrease of (€2,933) (2019: increase of (€8,206)) and the effect on the income statement is a loss of €66 (2019: profit of €46). The effect on shareholder equity of a 100 bps decrease is an increase of €2,841 (2019: increase of €6,540) and the effect on the income statement is a profit of €67 (2019: €47 loss). 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, 2020 *(in €'000)*	Within 1 year	1-5 years	> 5 years	Total
Assets				
Fixed rate finance lease	518,168	852,664	21,660	1,392,492
Fixed rate operating lease	426,590	882,956	1,297	1,310,843
Variable rate finance lease	117,801	-	-	117,801
Wholesale receivables	543,394	-	-	543,394
Cash and cash equivalents	29,181	-	-	29,181
Total of interest earning assets	1,635,134	1,735,620	22,957	3,393,711
Liabilities				
Term debt	(299,145)	(599,484)	-	(898,629)
Commercial paper	(1,014,648)	-	-	(1,014,648)
Long term loans affiliates	(388,834)	(620,109)	-	(1,008,943)
Short term loans affiliates	(27,256)	-	-	(27,256)
Total of interest bearing liabilities	(1,729,883)	(1,219,593)	..	(2,949,476)
Gross gap	(94,749)	516,027	22,957	444,235
Effect of derivative contracts	25,683	(25,683)	-	-
Net gap	(69,066)	490,344	22,957	444,235

As of December 31, 2019 *(in €'000)*	Within 1 year	1-5 years	> 5 years	Total
Assets				
Fixed rate finance lease	523,789	893,016	21,740	1,438,545
Fixed rate operating lease	401,093	790,940	623	1,192,656
Variable rate finance lease	98,665	-	-	98,665
Wholesale receivables	631,982	-	-	631,982
Cash and cash equivalents	66,335	-	-	66,335
Total of interest earning assets	1,721,864	1,683,956	22,363	3,428,183
Liabilities				
Term debt	(548,346)	(600,000)	-	(1,148,346)
Commercial paper	(1,065,564)	-	-	(1,065,564)
Long term loans affiliates	-	(809,654)	-	(809,654)
Bank loans	(3,324)	-	-	(3,324)
Total of interest bearing liabilities	(1,617,234)	(1,409,654)	-	(3,026,888)
Gross gap	104,630	274,302	22,363	401,295
Effect of derivative contracts	79,022	(79,022)	-	-
Net gap	183,652	195,280	22,363	401,295

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 20). The following table summarizes the impact on the Company balance sheet of a 10% strengthening of GBP, PLN, CZK and BRL 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 has been fully hedged.

As of December 31, 2020 and 2019 (in €'000)	**2020**	2019
Assets in foreign currency	161,360	190,518
Liabilities in foreign currency	(147,477)	(151,822)
	13.883	38,696
Foreign currency translation – equity	(17,261)	(43,185)
Effect on income before income taxes	(3,378)	(4,489)

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 or internally imposed capital requirements or to any direct financial covenants.

The Company funds its financing activities through a €2.0 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 €3.2 billion of credit facilities, composed of a 364-day facility and a four year and five year facility. The Company did not use these credit facilities for the years ended December 31, 2020 and December 31, 2019. 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, 2020 (in €'000)	Within 1 year	within 1 to 5 years	> 5 Years	Total Undiscounted 2020	Carrying amount 2020
Non derivative financial liabilities					
Accounts payable, accrued expenses and other	62,466	-	-	62,466	62,466
Commercial paper, bank loans and other short term debt	1,014,431	-	-	1,014,431	1,014,648
Term debt	300,375	600,068	-	900,443	898,629
Loans from affiliates	471,974	639,068	9	1,111,051	1,066,521
Other non-current liabilities	-	18,228	-	18,228	18,228
	1,849,246	1,257,604	9	3,106,189	3,060,492
Derivative financial assets and liabilities					
Derivatives	(15,432)	(18,209)	(29)	(33,670)	(45,076)
	1,833,814	1,239,395	(20)	3,072,519	3,015,416

As of December 31, 2019 (in €'000)	Within 1 year	within 1 to 5 years	> 5 Years	Total Undiscounted 2019	Carrying amount 2019
Non derivative financial liabilities					
Accounts payable, accrued expenses and other	47,536	-	-	47,536	47,536
Commercial paper, bank loans and other short term debt	1,065,787	-	-	1,065,787	1,065,564
Term debt	550,773	600,501	-	1,151,274	1,148,346
Loans from affiliates	52,230	837,123	-	889,353	837,647
Other non-current liabilities	-	16,429	-	16,429	16,429
	1,716,326	1,454,053	-	3,170,379	3,115,522
Derivative financial assets and liabilities					
Derivatives	(14,852)	(21,831)	-	(36,684)	(5,940)
	1,701,473	1,432,222	-	3,133,695	3,109,582

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, 2020 (in €'000)	Within 1 year	within 1 to 5 years	> 5 years	Total Undiscounted
Inflows	23,089	25,192	111	48,392
Outflows	(7,657)	(6,983)	(82)	(14,722)
Net	15,432	18,209	29	33,670

As of December 31, 2019 (in €'000)	Within 1 year	within 1 to 5 years	> 5 Years	Total Undiscounted
Inflows	24,499	32,302	-	56,801
Outflows	(9,646)	(10,471)	-	(20,117)
Net	14,853	21,831	-	36,684

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 into account collateral at December 31, 2020 was €1,780 million (2019: €1,799 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, 2020 the top ten customers represented 12.9% (2019: 13.0%) of the total portfolio with no single customer representing more than 2.3% (2019: 2.6%) 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:

Risk Category	**2020** Portfolio at year-end	2019 Portfolio at year-end
Lower than Average Risk	31%	32%
Average Risk	64%	64%
Higher than Average Risk	5%	4%

Wholesale receivables
The maximum credit exposure for wholesale receivables before taking into account collateral was €543,394 (2019: €631,982).

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	**2020** Portfolio at year-end	2019 Portfolio at year-end
Lower than Average Risk	11%	12%
Average Risk	67%	78%
Higher than Average Risk	22%	10%

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 €20,642 (2019: €9,028). Furthermore the future depreciation of equipment on operating lease over the total remaining life of the portfolio would be €54,493 (2019: €55,519) higher. If residual values in the entire operating lease portfolio increase by 10%, the immediate effect on financial results is an income of €11,305 (2019: €5,829).

20. 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.

In €'000	**2020** Carrying amount	**2020** Fair Value	2019 Carrying amount	2019 Fair Value
Financial assets				
Finance receivables, net	1,492,943	1,498,789	1,523,510	1,523,213
Financial liabilities				
Euro Medium Term Notes	898,629	901,914	1,148,346	1,153,794

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, 2020 and December 31, 2019 respectively which are classified as level 3 under IFRS 13, "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) which classifies as level 2 under IFRS 13, "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 19.

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, "Financial Instruments disclosures, fair value measurements".

As of December 31, 2020, 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	-	-	339	119
Cross currency swaps	4,723	-	27,350	16,077
At fair value through income statement - level 2	..	..	..	..
Cross currency swaps	3,175	3,186	7,641	3,017
Currency forward contracts	-	208	-	1,826
Total	7,898	3,394	35,330	21,039

As of December 31, 2019, 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	11	-	432	202
Cross currency swaps	14,748	-	2,806	-
At fair value through income statement - level 2				
Cross currency swaps	3,301	1,929	8,580	-
Currency forward contracts	-	-	-	2,029
Total	18,060	1,929	11,818	2,231

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, 2020, 5 (2019: 7) Euro interest rate swap contracts were outstanding with a notional amount of €69.8 million (2019: €130.9 million), an average remaining term of 16 months (2019: 17) and average fixed Euro interest to be paid of 0.08% (2019: 0.29%). Furthermore as of December 31, 2020, 3 (2019: 6) GBP interest rate swap contracts were outstanding with a notional amount of £11.9 million (2019: £31.0 million), an average remaining term of 16 months (2019: 16 months) and fixed GBP interest to be paid of 1.09% (2019: 1.44%). 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, 2020 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	170,900	1.80%	€/£0.87	15
AUD/EUR	92,784	0.74%	A$/€0.62	23
USD/EUR	698,492	0.27%	$/€0.88	19
USD/GBP	259,774	1.38%	$/£0.76	18
AUD/GBP	15,559	1.94%	A$/£0.56	29

As of December 31, 2019 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	216,900	1.81%	€/£0.85	13
AUD/EUR	92,784	0.74%	A$/€0.62	35
USD/EUR	490,390	0.32%	$/€0.89	27
USD/GBP	205,532	1.65%	$/£0.76	24

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, 2020 the Company had the following currency forwards:

Currency	Number of contracts	Notional amount in '000	Remaining life time (days)	Exchange rate
USD	3	$100,000	23	€0.84
PLN	2	zł31,000	15	€0.23
CZK	1	Kč11,000	19	€0.04
GBP	1	£4,000	4	€1.10
USD	3	$14,021	134	R$5.66

As of December 31, 2019 the Company had the following currency forwards:

Currency	Number of contracts	Notional amount in '000	Remaining life time (days)	Exchange rate
USD	5	$200,000	20	€0.90
PLN	1	zł46,000	14	€0.23
CZK	1	Kč25,100	14	€0.04

21. REVENUE

In €'000	**2020**	2019
Revenue from financing	65,594	72,856
Rental income	285,603	257,074
Revenue from sales of used trucks	273,672	221,678
Other revenue	6,952	6,762
Total Revenue	631,821	558,370

Included in revenue from financing is interest revenue from affiliates of €9,111 (2019: €14,036). In 2020 no interest income on individually assessed finance lease receivables is included in revenue from financing (2019: €-). Revenue from financing interest and rental income is recorded in accordance with IFRS 16.

Used trucks income includes income from used trucks sold by the Company for both trucks returned from its operating activities as well as used trucks sold on behalf of their related party for which the Company has control.

Other revenue mainly relates to commission income earned from activities where the Company acts as an agent and interest income on excess cash.

Sales of used trucks
In 2020 the Company sold 10,102 leased trucks and trailers (2019: 8,487 trucks and trailers).

The revenue of sales of used trucks (IFRS 15 Revenue) can be split as follows:

In €'000	**2020**	2019
Revenue from sales of used trucks	132,266	137,482
Revenue from units early settled	4,880	8,052
Revenue from sales of used trucks on behalf of related parties	136,526	76,144
Total Revenue	273,672	221,678

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

In €'000	**2020**	2019
Cost of used trucks sold	161,031	166,752
Cost of units early settled	5,034	7,997
Cost of used trucks sold on behalf of related parties	136,526	76,144
Total Cost of sales	302,591	250,893

22. INTEREST EXPENSE

In €'000	**2020**	2019
Interest expense commercial paper and term debt	(572)	5,481
Interest expense affiliated PACCAR company debt	24,539	20,876
Interest expense interest rate derivative contracts	(15,484)	(15,077)
Result on derivatives for hedging	809	963
Other, net	3,341	2,719
Interest expense	12,633	14,962

Interest expense includes a loss of €470 (2019: €41 profit) relating to exchange rate differences. Included in "Other, net" are the expenses incurred for credit facilities (see note 19) as well as the amortization of costs of setting up and maintaining the Euro Medium Term Note program.

23. OTHER OPERATING EXPENSES

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

In €'000	**2020**	2019
Leasing expenses rental fleet	-	6
Other vehicle expenses	19,414	21,492
Other operating expenses	19,414	21,498

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.

24. THE SELLING AND ADMINISTRATIVE EXPENSE

In €'000	**Notes**	**2020**	2019
Salaries		9,352	11,518
Pension costs	28	1,394	1,730
Social security costs		1,457	2,425
Other personnel costs		2,131	627
Depreciation on other assets	11, 12, 18	2,577	1,278
Expenses cross charged by affiliated PACCAR companies	26	17,785	18,946
Other expenses		5,770	7,539
Selling and administrative expense		40,466	44,063

At year end, 382 people were working for the Company (2019: 390) of which 106 were located in the Netherlands (2019: 108).

25. INCOME TAX EXPENSE

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

In €'000	**2020**	2019
Total income before taxes	4,722	17,059
Income tax expense at statutory income tax rate	1,180	4,265
Effect of various tax rates in foreign operations	17	231
Effect of permanent differences	63	697
Deferred tax expense / (deferred tax income) from de-recognition / recognition of deferred tax asset	9,771	(705)
Prior year adjustments	743	(245)
Income tax expense due to deferred income tax rate changes	(1,127)	12
Income tax expense at effective income tax rate of 225.5% (2019: 24.9%)	10,647	4,255

The effective tax rate of 225.5% is higher than the 2019 effective tax rate of 24.9% mainly reflecting charge off of losses available to offset future taxable income position and charge off of deferred tax positions in Spain, Poland, France and Czech Republic.

There are no uncertain tax positions to report.

Deferred tax

The current part of the taxation is €8,320 (2019: €12,432) and the deferred part of the taxation is €2,327 (2019: €(8,177)). The movement of the deferred tax assets and liabilities through the income statement is disclosed in the note 10.

26. RELATED PARTY TRANSACTIONS

Related parties of the Company are:

- PACCAR Holding BV
- PACCAR Inc
- PACCAR Financial Corp.
- PACCAR Financial Pty Ltd.
- DAF Trucks NV and its subsidiaries
- Leyland Trucks Ltd.
- DAF Truck Brazil
- 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 €635 (2019: €564) 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 2017 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, 2020 of €470,727 (2019: €276,574). The effective interest rate in 2020 is 1.65% (2019: 3.21%) and the average weighted number of months to repay is 29 months (2019: 40 months). The company paid €5,711 interest expense in 2020 (2019: €3,285) to PACCAR Inc.

PACCAR Financial Corp.

PACCAR Financial Corp. is the captive finance and lease company of PACCAR Inc in the U.S. 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, 2020 of €428,094 (2019: €423,506). The effective interest rate in 2020 is 3.21% (2019: 2.40%) and the average weighted number of months to repay is 6.4 months (2019: 39 months). The company paid €12,457 interest expense in 2020 (2019: €12,929) to PACCAR Financial Corp.

The company paid €1,546 (2019: €1,273) to PACCAR Financial Corp. relating to the maintenance of the term debt programs and the overdraft credit facilities (note 19).

PACCAR Financial Pty Ltd

PACCAR Financial Pty Ltd is the captive finance and lease company of PACCAR Australia. The Company entered into a loan agreement with PACCAR Financial Pty Ltd. The interest and other conditions are determined on an arm's length basis. There is a long term amount outstanding at December 31, 2020 of €110,122 (2019: €109,573). The effective interest rate in 2020 is 3.071% (2019: 3.071%) and the average weighted number of months to repay is 24 months (2019: 59). The company paid €3,153 interest expense in 2020 (2019: €2,682) to PACCAR Financial Pty Ltd.

DAF Trucks NV and its subsidiaries

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

<u>Wholesale financing</u>

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 2020, DAF Trucks NV and its subsidiaries have assigned receivables for an amount of €2,505,738 (2019: €3,583,651) to the Company. At December 31, 2020 an amount of €5,525 (2019: €7,648) owed to DAF was outstanding. During 2020 interest income of €7,448 (2019: €11,752) was charged to DAF Trucks NV or its subsidiaries related to the wholesale financing. At December 31, 2020 a receivable of €15,407 (2019: €12,142) 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 2020 an amount of €172,429 (2019: €255,682) of trucks were purchased from DAF Trucks NV or its subsidiaries, to be leased or rented out.

Used trucks remarketing

The Company sells certain trucks that have been returned to DAF Trucks NV on behalf of DAF Trucks NV and most of its subsidiaries as principal and for some subsidiaries as agent. During 2020 used trucks have been sold on behalf of DAF Trucks NV as principal for an amount of €136,526 (2019: €76,144). The Company received a fee for Used Truck sales of €3,780 (2019: €2,495).

Personnel and services

The people working for the PACCAR Financial Europe group in the Netherlands and the UK 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 €17,364 to the Company in 2020 (2019: €18,946) for the employees and services provided.

Taxes

The Company paid €6,881 income taxes to DAF Trucks NV (2019: €5,637). The Company forms a fiscal unity with DAF Trucks NV for income taxes for the Dutch legal entities. 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.

DAF Truck Brazil and its subsidiaries

DAF Truck Brasil and its subsidiaries is 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 Truck Brasil extends with its dealers. The main condition is that the first 30 days of interest is paid by DAF Truck Brasil. During 2020, DAF Brazil assigned receivables for an amount of €159,100 (2019: € 171,750) to the Company. At December 31, 2020 an amount of €50 (2019: €696) owed to DAF Brasil was outstanding. During 2020 interest income of €1,486 (2019: €2,713) was charged to DAF Brasil related to the wholesale financing.

Services

DAF Truck Brasil provides general services for the PACCAR Financial Europe group and charged €77 to the Company in 2020 (2019: €130) for the services provided.

Key Management Personnel

The emoluments, including pension costs charged in the financial year to the company, its subsidiaries and consolidated other companies amounted to €1,885 (2019: €1,824) for key management personnel. The base salary amounts to €952 for 2020, (2019: €905), others amounts to €933 (2019: €919). These costs were cross charged by DAF Trucks NV and PACCAR Inc. to PACCAR Financial Holdings Europe BV.

27. CASH FLOW STATEMENT

The net cash provided by operating, investing and financing activities includes interest paid for €18,735 (2019: €14,328) and interest received for €61,892 (2019: €70,782).

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 relate to working capital movements can be specified as follows:

In €’000	**2020**	2019
Inventory	26,050	(28,529)
Payables and other	21,412	21,682
Other, net	47,462	(6,847)

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

Movements in finance activities materially reconciles with the movements in the balance sheet accounts. For the Euro Medium Term Note and long term debt to group companies reference is made to Note 6 of the Company financial statements.

28. POST EMPLOYMENT BENEFITS AND CONTINGENT LIABILITIES

In the Netherlands and U.K., the Company uses the services provided by affiliated PACCAR companies. The Company is charged for these services and considers the charges as reasonable. In all other countries in which the Company operates the Company has employees.

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 liability of €378 has been recognized as of December 31, 2020 (defined benefit asset 2019: €129). In 2020 the related income statement impact of €342 (2019: €245) was recognized in “Selling and administrative expense”.

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. A defined benefit liability of €229 (2019: €227) has been recognized as of December 31, 2020. In 2020 an income statement impact of €263 (2019: €247) was recognized in "Selling and administrative expense".

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 2020 contributions of €142 (2019: €128) 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 2020 contributions of €61 (2019: €55) 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 2020 an amount of €231 (2019: €222) 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 €1,449 (2019: €1,231) has been recognized as of December 31, 2020. In 2020 an income statement impact of €355 (2019: €840) was recognized in "Selling and administrative expense".

29. EVENTS AFTER THE REPORTING PERIOD

There are no events after reporting date.

Signed:

G. J. B. Bas H. C. A. M. Schippers

T. R. Hubbard
Directors PACCAR Financial Europe BV

April 9, 2021

COMPANY BALANCE SHEET AS OF DECEMBER 31, 2020

(Before appropriation of net result)

In €'000 **ASSETS**	**Notes**	**2020**	2019
Non-current assets			
Financial fixed assets	3	1,872,835	1,914,502
Current assets			
Other current assets	4	1,340,248	1,404,735
Cash and cash equivalents		5,069	26,262
Total Assets		**3,218,152**	**3,345,499**

EQUITY AND LIABILITIES			
Shareholder equity			
Paid-in capital	5	73,000	73,000
Additional paid-in capital	5	224,046	224,046
Foreign currency translation	5	(59,281)	(18,900)
Accumulated fair value changes of financial instruments	5	7,004	4,367
Retained earnings previous years	5	278,545	265,741
Net income	5	(5,983)	12,804
Total Shareholder Equity		**517,331**	**561,058**
Long-term debt and other non-current liabilities	6	1,672,157	1,742,254
Short-term debt	7	1,028,664	1,042,187
Total Liabilities		**2,700,821**	**2,784,441**
Total Equity and Liabilities		**3,218,152**	**3,345,499**

COMPANY INCOME STATEMENT - 2020

In €'000	**Year ended December 31**	
	2020	2019
Net income after income taxes from investments in consolidated group companies	(7,220)	10,336
Other income and expenses after income taxes	1,237	2,468
Net income	**(5,983)**	**12,804**

NOTES TO THE COMPANY BALANCE SHEET AND COMPANY INCOME STATEMENT - 2020
(in thousands of Euros)

1. GENERAL NOTES

The company financial statements are part of the 2020 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.

The Company makes use of the option to eliminate intragroup expected credit losses against the book value of loans and receivables from the Company to participating interests, instead of elimination against the equity value / net asset value of the participating interests.

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)	**2020**	2019
Investments in group companies	437,162	485,993
Long-term advances to group companies	1,430,950	1,413,750
Derivatives	4,723	14,759
Financial fixed assets	1,872,835	1,914,502

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

In €'000	**2020**	2019
Book value as of January 1	485,993	375,850
Investment in subsidiary	-	89,293
Foreign currency translation differences	(40,381)	8,884
Accumulated fair value changes financial instruments	(1,230)	1,631
Income on investments in group companies	(7,220)	10,336
Book value as of December 31	437,162	485,993

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

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

Long-term advances to group companies In €'000	**2020**	2019
Book value as of January 1	1,413,750	1,309,150
Increases	478,000	571,800
Redemptions	(460,800)	(467,200)
Book value as of December 31	1,430,950	1,413,750

The long term advances to group companies in 2020 and 2019 were Euro denominated. At December 31, 2020, 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, 2020 the average interest rate was 0.46% (2019: 0.77%).

Derivative contracts

In €'000	**2020**	2019
Book value as of January 1	14,759	3,458
Change in fair value	(9,828)	11,301
Short term / reclassification	(208)	-
Book value as of December 31	4,723	14,759

As of December 31, 2020, there were 2 (2019: 13) interest rate swaps outstanding with a notional amount of €29,600 (2019: €417,757) and an average term of 2,3 months (2019: 28.9 months).

4. OTHER CURRENT ASSETS

As of December 31 (in €'000)	**2020**	2019
Short term advances to group companies	1,329,895	1,398,940
Dividend receivable group companies	15	-
Derivatives	208	-
Prepaid expenses and other	10,130	5,795
Book value as of December 31	1,340,248	1,404,735

The short-term advances to group companies include advances denominated in GBP 320,208 (2019: GBP 346,846), advances in PLN 33,205 (2019: PLN 46,209) and advances in CZK 10,983 (2019: CZK 25,472). The advances to group companies are interest bearing with a monthly floating interest rate. At December 31, 2020, 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	**2020**	2019
Book value as of January 1	1,398,940	1,337,959
Increases	2,630,854	2,563,363
Redemptions	(2,687,396)	(2,536,770)
Interest	6,837	10,780
Foreign currency translation differences	(19,340)	23,608
Book value as of December 31	1,329,895	1,398,940

Derivative contracts

As of December 31, 2020 the Company had the following currency forwards:

Currency	Number of contracts	Notional amount in '000	Remaining life time (days)	Exchange rate (€)
USD	3	USD 100,000	23	0.84
PLN	2	PLN 31,000	15	0.23
CZK	1	CZK 11,000	19	0.04
GBP	1	GBP 4,000	4	1.10

As of December 31, 2019 the Company had the following currency forwards:

Currency	Number of contracts	Notional amount in '000	Remaining life time (days)	Exchange rate (€)
USD	5	USD 200,000	20	0.90
PLN	1	PLN 46,000	14	0.23
CZK	1	CZK 25,100	14	0.04

5. EQUITY

Issued capital

As of December 31, 2020 730,000 (2019: 730,000) 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, 2019	73,000	224,046	(27,783)	(3,975)	230,045	35,696	531,029
Net income	-	-	-	-	-	12,804	12,804
Other comprehensive income	-	-	8,883	8,342	-	-	17,225
Total comprehensive income	-	-	8,883	8,342	-	12,804	30,029
Appropriation of net income	-	-	-	-	35,696	(35,696)	-
As of December 31, 2019	73,000	224,046	(18,900)	4,367	265,741	12,804	561,058
Net income	-	-	-	-	-	(5,983)	(5,983)
Other comprehensive income	-	-	(40,381)	2,637	-	-	(37,744)
Total comprehensive income	-	-	(40,381)	2,637	-	(5,983)	(43,727)
Appropriation of net income	-	-	-	-	12,804	(12,804)	-
As of December 31, 2020	73,000	224,046	(59,281)	7,004	278,545	(5,983)	517,331

* See note 17.

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 2020

The proposal to the shareholder meeting is to deduct the net income for the period ended December 31, 2020 from the retained earnings of previous years.

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

As of December 31 (in €'000)	**2020**	2019
Euro Medium Term Notes	898,629	1,148,345
Long term advances to group companies	743,526	589,774
Deferred tax liability	2,432	971
Derivative contracts	27,570	3,164
Long-term debt and other non-current liabilities	1,672,157	1,742,254

Euro Medium Term Notes
The movement of the Euro Medium Term Notes is as follows:

In €'000	**2020**	2019
Principal amount	1,448,345	1,149,662
Repaid up to 31 December	(300,000)	-
Outstanding principal amount at 1 January	1,148,345	1,149,662
Euro Medium Term Notes program	300,284	298,683
Repayments	(550,000)	(300,000)
Outstanding principal amount at 31 December	898,629	1,148,345
Current portion at 31 December	299,145	548,345
Non-current portion at 31 December	599,484	600,000

Since September 10, 2004, the Company has maintained a Euro Medium Term Note program. All notes outstanding as of December 31, 2020 are listed on the London Stock Exchange (PSM). The Professional Securities Market is not a regulated market, and consequently, the company is not a Dutch public interest entity (Organisatie van Openbaar Belang).

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, 2020 and 2019, the carrying amounts of the outstanding notes under the Euro Medium Term Notes program were as follows:

	2020			2019		
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	898,629	0.02%	15	1,148,345	0.15%	13
Due within one year	299,145			548,345		
Due after one year	599,484			600,000		

The effective interest rates are the weighted average interest rates including the effect of hedging instruments as of December 31, 2020 and December 31, 2019, respectively.

Long term advances to group companies

In 2020 PACCAR Financial Europe acquired loans from PACCAR Inc. for an amount of $237,000 and repaid an amount of $0.

Derivative contracts

As of December 31, 2020, there were 14 (2019: 5) USD cross currency swap contracts with a notional amount of $793,000 (2019: $200,417) and a remaining term of 17 months (2019: 29 months) and 6 (2019: nil) A$ cross currency swap contracts with a notional amount of A$150,000 (2019: A$ nil) and a remaining term of 23 months (2019: 0 months).

7. SHORT-TERM DEBT

As of December 31 (in €'000)	**2020**	2019
Commercial paper	1,000,661	1,033,086
Short term payables	5,739	1,363
Accounts payable affiliates	5,902	5,609
Derivative contracts	16,362	2,129
Short-term debt	1,028,664	1,042,187

Commercial paper

Since 2001 the Company 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, 2020 and 2019, the carrying amounts of the outstanding notes under the commercial paper program were as follows:

	2020			2019		
Currency	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of days to repayment in 2021*	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of days to repayment in 2020*
Euro denominated	555,136	(0.53)%	30	441,217	(0.45)%	23
GBP denominated	363,677	0.05%	19	413,676	0.99%	17
USD denominated	81,848	0.23%	20	178,193	1.85%	20
Total	1,000,661	(0.25)%	27	1,033, 086	0.53%	20

The effective interest rates are the weighted average interest rates as of December 31, 2020 and December 31, 2019, respectively.

Derivative contracts

As of December 31, 2020, there were 5 (2019: 3) interest rate swap contracts outstanding with a notional amount of €69,800 (2019: €34,800) and an average term of 16 months (2019: 14.8 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 €307 (2019: €406).

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 2020	Other EY network 2020	Total EY 2020
Audit of the financial statements	441	476	917
Other audit engagements	28	-	28
Tax-related advisory services	-	17	17
Other non-audit services	-	-	-
Total	469	493	962

(in €'000)	Ernst & Young Accountants LLP 2019	Other EY network 2019	Total EY 2019
Audit of the financial statements	434	472	905
Other audit engagements	43	-	43
Tax-related advisory services	-	17	17
Other non-audit services	-	-	-
Total	477	488	965

The fees mentioned in the table for the audit of the financial statements 2020 (2019) relate to the total fees for the audit of the financial statements 2020 (2019), irrespective of whether the activities have been performed during the financial year 2020 (2019).

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

H. C. A. M. Schippers

T. R. Hubbard
Directors PACCAR Financial Europe BV

April 9, 2021

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 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 shareholder of PACCAR Financial Europe BV

Report on the Audit of the Financial Statements 2020

Our Opinion

We have audited the financial statements 2020 of PACCAR Financial Europe BV, based in Eindhoven, the Netherlands. The financial statements comprise the consolidated and 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 2020, and of its result and its cash flows for 2020 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 accompanying company financial statements give a true and fair view of the financial position of PACCAR Financial Europe BV as at 31 December 2020, and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2020
- The following statements for 2020: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2020
- The company income statement for 2020
- 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 (PFE or the Company) in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	€ 4.8 million (2019: € 4.6 million)
Benchmark applied	2% of Earnings before interest, tax, depreciation and amortization (EBITDA)
Explanation	Based on our professional judgment, we believe EBITDA to be the financial statement measure most important to users of the financial statements. EBITDA is the total of Income before income taxes, Interest expense and Depreciation on equipment on operating lease (note 8). We determined materiality consistent with the previous year.

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

We agreed with the board of directors that misstatements in excess of € 240,000, 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

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

The Group has structured its activities in 17 legal entity components, of which 4 are located in the Netherlands, 11 in other European countries and 2 in Brazil. 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 and PACCAR Leasing GmbH
- France: PACCAR Financial France S.A.S.
- United Kingdom: PACCAR Financial Plc.
- Spain: PACCAR Financial España S.L.
- Italy: PACCAR Financial Italia S.r.l.
- Poland: PACCAR Financial Polska Sp. z o.o.
- Czech Republic: PACCAR Financial CZ s.r.o.

We have performed full scope audit procedures ourselves at the group entities located in the Netherlands. The group entities in Belgium, Germany, France, the United Kingdom, Spain, Italy and Poland, with a full scope audit, were audited by other auditors within the EY network. In aggregate these full scope audit procedures represent approximately 89% of Total Assets, 90% of Revenue and 90% of EBITDA. As of 2020 we performed specific scope procedures on the component Czech Republic (PACCAR Financial CZ s.r.o.), which represents 3% of Total Assets, 4% of Revenue and 6% of EBITDA. Slovakia (PACCAR Financial Slovakia s.r.o.), Portugal (PACCAR Portugal, Unipessoal, Lda), and Brazil (PACCAR Participações Ltda and Banco PACCAR S.A.) 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 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 board of directors. The key audit matters are not a comprehensive reflection of all matters discussed.

In comparison with previous year, we added the estimation uncertainty with respect to the (de)recognition of the deferred tax assets as a key audit matter, partly due to sustained losses by some of its subsidiaries.

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.

Estimation uncertainty with respect to the allowance for expected credit losses on Wholesale receivables and Finance and other receivables	
Risk	At 31 December 2020, the allowances for impairment losses on Wholesale receivables and Finance and other receivables amount to € 17.5 million (2019: € 14.3 million). The Company recognizes loss allowances for expected credit losses on wholesale and Finance and other receivables. Expected credit loss is a probability-weighted estimate of credit losses over the expected life of a financial asset using all reasonable and supportable information available about past events and current conditions supplemented by forecasts of future economic conditions. Qualitative assumptions are updated to reflect the forward looking view of management, taking into account information from public sources. Since the recognition and measurement of expected credit losses for Wholesale receivables and Finance and other receivables involves complex calculations and estimation uncertainty and judgment regarding historical loss experiences and expectations of future economic conditions, we consider this a key audit matter. The related disclosures regarding the allowance for impairment losses are included in Note 2 Summary of significant accounting policies, Note 5 Wholesale receivables, net, Note 9 Finance and other receivables, net and Note 19 Financial risk management objectives and policies of the financial statements.
Our audit approach	Our audit procedures included, amongst others, evaluating the appropriateness of the Company's accounting policies related to the recognition of expected credit losses according to IFRS9 "Financial Instruments". We have gained an understanding of the estimation process of determining the allowance for expected credit losses on Wholesale receivables and Finance and other receivables. We evaluated the design and tested operating effectiveness of the controls governing the allowance for expected credit losses process, which includes controls regarding monitoring of the receivables from loan and lease agreements and management's analysis of the credit loss history. Furthermore, we verified the accuracy of the input data, and challenged management's key assumptions used in setting expectations of future economic conditions including the impact of Covid-19. We tested the completeness and accuracy of historic credit losses through

	reconciliation with the company's financial records, including the frequency and severity loss percentages and verified the arithmetical accuracy of the credit loss calculations.
Key observations	We consider management's key assumptions and estimates, used in the estimation process and in the expected credit loss model regarding the Wholesale receivables and Finance and other receivables to be reasonable. The disclosures are in accordance with the requirements under EU-IFRS.

Estimation uncertainty with respect to the residual value of equipment on operating lease	
Risk	At 31 December 2020, the equipment on operating lease amounts to €1,299 million (31 December 2019: € 1,187 million), net of depreciation and impairments of € 12 million. Management evaluates the residual values of equipment on operating lease (trucks) against the market value of comparable used trucks. 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. Management exercises judgment in the estimation of the residual values, and makes use of models and market information to make these estimates as accurate as possible. The fair values used to reassess the residual values are derived from recent transaction prices from the Company itself, external parties as published on online vehicle marketplaces and trade leaflets, and approved by the pricing committee of the Company. Since the determination of the residual value of equipment on operating lease requires management judgment, the use of complex models and market information, we consider this a key audit matter. The related disclosures regarding the residual value of equipment on operating lease are included in Note 2 Summary of significant accounting policies, Note 8 equipment on operating lease, net, and Note 19 Financial risk management objectives and policies of the financial statements.
Our audit approach	Our audit procedures included, amongst others, evaluating the appropriateness of the Company's accounting policies related to the depreciation and recognition of impairment of equipment on operating lease according to IAS36 "Impairment of assets". We have gained an understanding of the estimation process with respect to the determination of residual values for equipment on operating lease. We have attended meetings of the pricing committee where the overall developments in the used trucks markets and adjustments to the residual values were being discussed. We also evaluated and challenged assumptions made by management in determining the portfolio valuation model and the quarterly residual value price matrix, including the country specific return rate used in the impairment model. In addition, on a sample base, we recalculated the applied residual values, used by management in the impairment model, based on underlying input such as truck options and truck specifics. We considered sales of used trucks in the first few months of 2021 for evidence about residual values as at 31 December 2020. Finally, we evaluated whether the disclosures are in accordance with the requirements under EU-IFRS.

Estimation uncertainty with respect to the residual value of equipment on operating lease	
Key observations	We consider management's key assumptions and estimates, used in the estimation process and in the impairment model, to be reasonable. In establishing the residual value at year-end 2020 management was responsive to the market circumstances at year-end 2020 and took into consideration the expected market values for 2021. The disclosures are in accordance with the requirements under EU-IFRS.

Estimation uncertainty with respect to the net realizable value of the used trucks inventory	
Risk	At 31 December 2020, used trucks inventory amounts to €104 million (2019: €130 million). The net realizable value is reassessed periodically and, when deemed necessary, the carrying amount is decreased to net realizable value. Management reassesses the net realizable value of used trucks. Used trucks pricing is derived from recent transaction prices from the Company itself, external parties as published on online vehicle marketplaces and trade leaflets, and is eventually approved by the Company's executive pricing committee. If needed the carrying amount of used trucks inventory is lowered to reflect the net realizable value. Since the determination of the net realizable value requires management judgment and a mix of internal and external market information, we consider this a key audit matter. The related disclosures regarding the used trucks inventory are included in Note 2 Summary of significant accounting policies, Note 6 Inventory, and Note 21 Revenue.
Our audit approach	Our audit procedures included, amongst others, evaluating the appropriateness of the Company's accounting policies related to the measurement of used trucks inventory according to IAS2 "Inventories". We have gained an understanding of the estimation process with respect to the determination of the net realizable value. We inquired management about the developments in the market and have attended meetings of the pricing committee where the overall developments in the used trucks markets and adjustments to the used trucks pricing matrix were discussed. We evaluated and challenged assumptions made by management in determining these values. In order to test the valuation of the used trucks inventory as of year-end 2020, we specifically considered sales of used trucks in the first months of 2021 for evidence about the net realizable values as at 31 December 2020. Finally, we evaluated whether the disclosures are in accordance with the requirements under EU-IFRS.
Key observations	We consider management's key assumptions and estimates, used in the assessment of the net realizable value of the used trucks inventory to be reasonable. The disclosures are in accordance with the requirements under EU-IFRS.

Estimation uncertainty with respect to the (de)recognition of deferred tax assets	
Risk	At 31 December 2020 the Company recognized deferred tax assets for an amount of € 21 million (2019: 23 million). Deferred tax assets are calculated applying the applicable tax laws in each jurisdiction in which the group operates. Differences in tax bases, current or enacted income tax rates applicable, and income tax returns make this calculation inherently complex. A part of these assets arises from the carry-forward of unused tax losses by subsidiaries that are to be offset against future taxable profits. These tax assets are recognized to the extent that there is convincing evidence that sufficient future taxable profits will be available against which the unused tax losses can be utilized by the subsidiary. We have taken into account the fact that some subsidiaries recorded losses in 2020 as well as in prior year(s). We consider this to be strong evidence that future taxable profits may not be available. Management decided that for those subsidiaries, the recognition of a deferred tax asset is not appropriate. Management forecasts the future taxable profits of its subsidiaries and considers tax planning opportunities. Based on this forecast, management evaluates whether deferred tax assets can be recognized or not. As the forecast made by management is subjective by nature, taking into consideration the sustained losses at some of the subsidiaries, we considered the recognition of the deferred tax asset as a key audit matter. The related disclosures regarding the deferred tax assets are included in Note 2 Summary of significant accounting policies, Note 10 Deferred tax, and Note 25 Income tax expenses.
Our audit approach	Our audit procedures included, amongst others, evaluating the appropriateness of the Company's accounting policies related to the recognition of deferred tax assets according to IAS12 "Income taxes". We gained an understanding of management's estimation process with respect to the financial forecasts for its subsidiaries. We discussed and challenged management on the current and future taxable results of the legal entities within the group and we inspected the internally prepared forecasts. We compared the information in the forecast with the past financial performance of the Company and its subsidiaries. We re-performed the calculation of the deferred tax assets based on different local tax regulations and evaluated to what extent management's estimate of future profits was reasonable. We have involved EY tax specialists to support us in these procedures. We evaluated whether the forecasts prepared by management and tax planning opportunities provide convincing (other) evidence in order to recognize deferred tax assets. Finally, we evaluated whether the disclosures are in accordance with the requirements under EU-IFRS.
Key observations	We consider management's forecast of future taxable profit and tax planning opportunities to be reasonable, providing convincing evidence for recognition of the deferred tax assets. The disclosures are in accordance with the requirements under EU-IFRS.

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 as required by 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 substantially less than the scope of those performed in our audit of the financial statements.

The board of directors 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 as required by 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 for the Financial Statements

The board of directors 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, the board of directors is responsible for such internal control as the board 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, the board of directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the board of directors should prepare the financial statements using the going concern basis of accounting unless the board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The board of directors 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.

Our Responsibilities for the audit of the Financial Statements

Our objective is to plan and perform the audit engagement 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 detect all material errors and fraud during our audit.

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 among others:

- 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 the board of directors
- Concluding on the appropriateness of the board of directors' 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 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. Decisive were the size and/or the 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 board of directors 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 board of directors 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 board of directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. 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.

Eindhoven, 9 April 2021

Ernst & Young Accountants LLP

Signed by P.A.E. Dirks