# PACCAR FINANCIAL EUROPE BV
# FINANCIAL STATEMENTS 2015

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

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## FINANCIAL REVIEW BY MANAGEMENT

### General

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

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

### 2015 Group Results compared to 2014

The Western European above 16 ton truck market increased 19% to 269,000 registrations (2014: 226,900). The 6-16 ton truck market in Western Europe increased 5% to 49,000 registrations (2014: 46,900).

The Company provided retail financing for 26.4% of DAF trucks registered in all markets in which the Company operated in 2015 compared to 27.4% in 2014. The decrease in market share was due to the high number of DAF registrations at the end of 2013 but not financed until 2014 due to the strong pull forward demand for Euro 5 trucks before Euro 6 environmental regulations became effective in 2014.

The portfolio of finance receivables and equipment on operating leases increased from €1.64 billion to €1.88 billion at December 31, 2015. The higher asset base reflects strong growth in the UK and the Netherlands and further growth in Poland and Czech Republic. Furthermore, lower repossessions due to improved portfolio quality contributed to the growth. Wholesale receivables increased to €572 million at December 31, 2015 from €460 million at December 31, 2014 reflecting increased demand for heavy duty trucks. Commercial paper, loans and term debt, on which the Company pays interest, increased to €2.02 billion at the end of 2015 from €1.69 billion, consistent with the asset growth.

Company revenue increased by €44 million to €384 million reflecting higher used truck sales and increased average receivables. The Company reported pre-tax income of €44.5 million for the year ended December 31, 2015, compared to pre-tax income of €36.8 million in 2014. The pre-tax result reflects higher revenue, lower interest expenses, lower operating expenses and lower addition to the allowance for impairment losses, partially offset by higher cost of sales of used trucks and higher depreciation. Net income in 2015 is €34.9 million compared to 2014 net income of €32.2 million. The effective tax rate of 21.6% increased from 12.6% reflecting the 2014 recognition of a deferred tax asset in Spain.

At year end, 303 people were working for the Company compared to 296 at year end 2014.

**Risks and Risk Management**

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

*Sales of DAF products*

As a captive lease company, the Company's business is substantially dependent upon the sale of DAF products and its ability to offer competitive financing in Europe. Changes in the volume of DAF sales due to a variety of reasons could impact the level of business of the Company. The Company does not limit or spread these risks by expanding into other markets independent from DAF.

*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 company margins, lower market share or both. Compared to competition, the Company benefits from the relationships with PACCAR Inc., the Company's ultimate parent, DAF, the DAF dealer network and the knowledge of DAF products.

*Foreign currency risk and translation risk*

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

*Interest rate risk*

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

*Residual value risk*

Residual value risk is the risk that the estimated residual value of leased assets established at lease origination, for the Company's operating leases and certain direct financing leases, will not be recoverable when the leased asset is returned to the Company. The Company does not hedge residual value risks. The Company does however have 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 auctions 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 will be exposed to a greater risk of loss on sale of returned equipment. Also changes in legislation and regulatory requirements can impact the results of the Company. In particular, 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*

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

*Liquidity risk*

Disruptions or volatility in the European financial markets could limit the Company's sources of liquidity, or the liquidity of customers and dealers. The Company is exposed to liquidity risk from the potential limited market availability of funds at the time of repayment of short-term and long-term debt. The Company's policies strive to mitigate liquidity risk by overdraft and credit facilities. Debt maturities are managed to reflect the maturity profile of the assets. The Company, including its wholly owned subsidiary in the U.K., PACCAR Financial Plc, funds it's financing activities through a €1.25 billion Commercial Paper (CP) program, a €1.5 billion Euro Medium Term Note Program (EMTN) and loans from other PACCAR group companies. The CP program is rated A-1 and the EMTN program is rated A+ by Standard & Poor's Rating Services. These programs are supported by a keep-well agreement from PACCAR Inc. A lowering of the Company's credit ratings could increase the cost of borrowing and adversely affect access to capital markets.

The medium-term notes are listed on the London Stock Exchange and SIX Swiss Stock exchange. The Company issued €450 million of debt under the EMTN program in 2015 of which €150 million through a private placement.

The Company was able to meet its 2015 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 18 and 19 to the consolidated financial statements.

*Other operational risks*

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

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

The Company’s reputation and its brand name are valuable assets and claims or regulatory actions, even unsuccessful or without merit, could adversely affect the Company’s reputation and the brand image. An extensive compliance program is in place to ensure that employees are aware of applicable rules and regulations. To cover legal risks, the appropriate precautions are taken, whereby the specific circumstances of each case are considered. On 31 December 2015, as in the previous year, the company had no special reserves for lawsuits.

**2016 Outlook**

It is estimated that European truck industry sales in the above 16-ton market in 2016 will be in the range of 260,000-290,000 vehicles, dependent on economic developments. This could make 2016 the best truck market since 2008. 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. 2016 production levels are expected to develop in line with the estimated truck market.

The Company expects its finance receivables and equipment on operating lease portfolio in 2016 to increase modestly by increasing new business in current markets and entering new markets through cross border leasing. Furthermore, in the beginning of 2016 the Company opened a DAF used trucks center in Poland. Used trucks coming from the Company’s portfolio and from DAF which are intended for the Polish market, will be remarketed through this used trucks center.

The Company expects to continue to meet its debt funding needs in 2016 through the public debt market and loans from other PACCAR group companies. The credit risks to which the Company is exposed are forecasted to be comparable to 2015. Furthermore, the value of the Company’s collateral is expected to remain comparable on average.

The Company continues to manage its selling, general and administrative expenses commensurate to economic circumstances. The number of people working for the Company is expected to grow slightly in 2016 reflecting increasing business in Czech Republic and Poland.

**Forward Looking Statements**

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

Eindhoven, The Netherlands
April 7, 2016

G.J.B. Bas

R. E. Armstrong

R. A. Bengston
Directors PACCAR Financial Europe BV

PACCAR FINANCIAL

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS OF DECEMBER 31, 2015

(Before appropriation of net income)

**In €'000**

| **ASSETS** | **Notes** | **2015** | 2014 |
|---|---|---|---|
| Cash and cash equivalents | 4 | 18,154 | 4,666 |
| Wholesale receivables, net | 5 | 571,810 | 459,536 |
| Inventory, prepaid expenses and other current assets | 6 | 42,373 | 39,421 |
| Equipment on operating lease, net | 7 | 626,583 | 545,843 |
| Finance and other receivables, net | 8 | 1,249,658 | 1,091,397 |
| Deferred income tax assets | 9 | 16,988 | 24,198 |
| Other non-current assets | 10 | 14,399 | 5,555 |
| Intangible assets | 11 | 485 | 210 |
| **Total Assets** | | **2,540,450** | **2,170,826** |
| | | | |
| **EQUITY & LIABILITIES** | | | |
| **Liabilities** | | | |
| Accounts payable, accrued expenses and other | 12 | 99,887 | 97,392 |
| Commercial paper, bank loans and other short-term debt | 13 | 791,101 | 448,865 |
| Term debt | 14 | 1,231,037 | 1,236,824 |
| Deferred income tax liabilities | 9 | 766 | 7,280 |
| Other non-current liabilities | 15 | 29,130 | 35,237 |
| **Total Liabilities** | | **2,151,921** | **1,825,598** |
| | | | |
| **Shareholder's equity** | | | |
| Paid-in capital | 16 | 13,000 | 13,000 |
| Additional paid-in capital | 16 | 224,046 | 224,046 |
| Foreign currency translation | 16 | (12) | (6,163) |
| Accumulated fair value changes of financial instruments | 16 | (4,495) | (6,767) |
| Retained earnings previous years | | 121,112 | 88,961 |
| Net income | | 34,878 | 32,151 |
| **Total Equity** | | **388,529** | **345,228** |
| | | | |
| **Total Equity and Liabilities** | | **2,540,450** | **2,170,826** |

PACCAR FINANCIAL

## CONSOLIDATED INCOME STATEMENT - 2015

| In €'000 | Notes | Year ended December 31 | |
|---|---|---|---|
| | | **2015** | 2014 |
| **Revenue** | 20 | **385,554** | **340,443** |
| Cost of sales used trucks | 20 | 136,601 | 103,443 |
| Interest expense | 21 | 21,932 | 24,682 |
| Depreciation and operating expense - operating leases | 7 | 127,572 | 115,371 |
| Other operating expense | 22 | 20,182 | 24,328 |
| Addition to allowance for impairment losses | 8 | 3,416 | 5,749 |
| Selling and administrative expense | 23 | 31,379 | 30,086 |
| | | **341,082** | **303,659** |
| **Income before income taxes** | | **44,472** | **36,784** |
| Income tax expense | 24 | 9,594 | 4,633 |
| **Net income** | | **34,878** | **32,151** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - 2015

| In €'000 | Notes | Year ended December 31 | |
|---|---|---|---|
| | | **2015** | 2014 |
| **Net income** | | **34,878** | **32,151** |
| **Other comprehensive income/ (loss)** | | | |
| Foreign currency translation | 16 | 6,151 | 7,195 |
| Movement on cash flow hedges | 16 | 2,983 | (1,153) |
| Income tax effect | 16 | (711) | 196 |
| Net movement on financial instruments | | 2,272 | (957) |
| **Total other comprehensive income to be reclassified to income statement in subsequent periods** | | **8,423** | **6,238** |
| **Total comprehensive income, net of tax** | | **43,301** | **38,389** |

## CONSOLIDATED STATEMENT OF CASH FLOWS - 2015

| **In €'000** | **Notes** | **Year ended December 31** | |
|---|---|---|---|
| | | **2015** | 2014 |
| **Operating activities:** | | | |
| Net income | | 34,878 | 32,151 |
| Acquisition of equipment on operating lease | 7 | (313,052) | (219,550) |
| Disposal of equipment on operating lease | 7 | 109,138 | 80,062 |
| Net (in)/ decrease in wholesale receivables, gross | 5 | (111,852) | 38,316 |
| Items included in net income not affecting cash: | | | |
| Depreciation and amortization | 7,10,11 | 124,362 | 111,721 |
| Allowance for impairment | 5,7,8 | 5,534 | 9,182 |
| Deferred income tax expense | 9 | 167 | 6,501 |
| Derivative contracts | 19 | 5,588 | 452 |
| Net foreign exchange differences | | 6,043 | 7,856 |
| Other, net | 26 | 789 | (567) |
| **Net cash provided by operating activities** | | **(138,405)** | **66,124** |
| **Investing activities:** | | | |
| Finance and other receivables originated | 8 | (595,893) | (523,742) |
| Collections on finance and other receivables | 8 | 431,120 | 438,924 |
| Other, net | 10 | (395) | (247) |
| **Net cash used in investing activities** | 26 | **(165,168)** | **(85,065)** |
| **Financing activities:** | | | |
| Net change in Commercial Paper | 13 | 342,004 | (98,219) |
| Net (payments to)/ proceeds from affiliates | 12, 13, 14 | (122,747) | 59,452 |
| Net proceeds from Medium Term Notes | 14 | 97,892 | 51,627 |
| **Net cash provided by financing activities** | 26 | **317,149** | **12,860** |
| Net foreign exchange difference on cash | | (88) | (52) |
| **Net increase/ (decrease) in cash and cash equivalents** | | **13,488** | **(6,133)** |
| Cash and cash equivalents at beginning of period | 4 | 4,666 | 10,799 |
| **Cash and cash equivalents at end of period** | | **18,154** | **4,666** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - 2015

| 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, 2014 | 13,000 | 224,046 | (13,358) | (5,810) | 64,182 | 24,779 | 306,839 |
| Net income | | | | | | 32,151 | 32,151 |
| Other comprehensive income/ (loss) | | | 7,195 | (957) | | | 6,238 |
| Total comprehensive income/ (loss) | | | 7,195 | (957) | | 32,151 | 38,389 |
| Appropriation of net income | | | | | 24,779 | (24,779) | - |
| As of December 31, 2014 | 13,000 | 224,046 | (6,163) | (6,767) | 88,961 | 32,151 | 345,228 |
| Net income | | | | | | 34,878 | 34,878 |
| Other comprehensive income | | | 6,151 | 2,272 | | | 8,423 |
| Total comprehensive income | | | 6,151 | 2,272 | | 34,878 | 43,301 |
| Appropriation of net income | | | | | 32,151 | (32,151) | |
| As of December 31, 2015 | 13,000 | 224,046 | (12) | (4,495) | 121,112 | 34,878 | 388,529 |

* See note 16.

## NOTES TO THE CONSOLIDATED STATEMENTS - 2015

### 1. GENERAL NOTES

**Description of the business**
PACCAR Financial Europe BV (the "Company"), Eindhoven, The Netherlands, is an indirect wholly owned subsidiary of PACCAR Inc ("PACCAR") headquartered in Bellevue, Washington, USA. The Company's 100% direct parent is PACCAR Holding BV ("Parent"), Eindhoven, The Netherlands.

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

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

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

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

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:

- IFRIC interpretation 21 – Levies, effective 1 January 2015
- Annual improvements to IFRSs 2011-2013 Cycle, effective 1 January 2016

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

- Annual improvements to IFRSs 2010-2012 Cycle, effective 1 January 2016
- Annual improvements to IFRSs 2012-2014 Cycle, effective 1 January 2016

- Amendments to IAS 1 – Disclosure initiative, effective 1 January 2016
- Amendments to IAS 12 – Recognition of deferred tax assets for unrealised losses, effective 1 January 2017
- Amendments to IAS 16 and IAS 38 – Clarificaton of accountable methods of depreciation and amortization, effective date 1 January 2016
- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer plants, effective 1 January 2016
- Amendments to IAS 27 – Equity method in separate financial statements, effective 1 January 2016
- Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture, endorsement process is postponed, IASB effective date is deferred indefinitely
- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: applying the consolidation exception, effective 1 January 2016
- Amendments to IFRS 11 – Accounting for acquisition of interests in joint operations, effective 1 January 2016

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

- IFRS 15 Revenue from contracts with customers, effective 1 January 2018
- Amendments to IAS 7 – Disclosure initiative, effective 1 January 2017
- Amendments to IAS 19 – Defined benefit plans: Employee Contributions, effective 1 January 2016

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

The Corporate Income Statement has been prepared, taking into account article 2:402 of the Netherlands Civil Code.

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

**Authorization of the financial statements**

On April 7, 2016, the Board of Directors authorized the issuance of the Company’s 2015 financial statements at the shareholder’s meeting.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The financial statements are prepared under the historical cost convention except for the derivative financial instruments and the liabilities that are hedged items in cash flow hedges. These have been measured at fair value. All amounts in the financial statements are stated in €'000 unless stated otherwise. The Statement of Financial Position is presented before appropriation of the current year's net income.

### Consolidation

The consolidated financial statements are comprised of the financial accounts of PACCAR Financial Europe BV and its wholly owned subsidiaries after elimination of all intercompany balances and transactions. Subsidiaries are consolidated as of the date that control is transferred to the group and cease to be consolidated as of the date that control is transferred out of the group. 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.

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 group* |
|---|---|---|---|
| PACCAR Financial Holdings Europe BV | 100% | Netherlands | March 15, 2001 |
| PACCAR Financial Nederland BV | 100% | Netherlands | March 15, 2001 |
| PACCAR Financial Deutschland GmbH | 100% | Germany | May 29, 2001 |
| PACCAR Financial France S.A.S. | 100% | France | May 30, 2001 |
| PACCAR Financial Plc | 100% | United Kingdom | March 29, 2001 |
| PACCAR Financial Belux BVBA | 100% | Belgium | May 28, 2001 |
| PACCAR Financial España S.L. | 100% | Spain | June 5, 2001 |
| PACCAR Financial Italia S.r.l. | 100% | Italy | April 5, 2001 |
| PACCAR Financial Services Europe BV | 100% | Netherlands | December 31, 2003 |
| Commercial Vehicles Contracts Ltd.* | 100% | United Kingdom | April 1, 2005 |
| 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 |

*Commercial Vehicles Contracts Ltd was dissolved in the second quarter of 2015.
No significant restriction exists on the ability of the subsidiaries to transfer funds to the Company.

### Use of estimates

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 could differ from those estimates.

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

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

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

Monetary assets and liabilities denominated in foreign currency are translated into Euros at the year-end spot rate with the resulting gain or loss recorded in the income statement. Other transactions denominated in foreign currency are converted into Euros using the actual foreign exchange transaction rate.

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

| | Dec. 31, 2015 | Average 2015 | Dec. 31, 2014 | Average 2014 |
|---|---|---|---|---|
| GBP/€ | 1.3567 | 1.3759 | 1.2876 | 1.2394 |
| US$/€ | 0.9206 | 0.8990 | 0.8266 | 0.7511 |
| PLN/€ | 0.2347 | 0.2390 | 0.2333 | 0.2391 |
| CZK/€ | 0.0370 | 0.0366 | 0.0362 | 0.0363 |

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

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

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

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

**Classification of contracts**

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

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

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

**Wholesale receivables**

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

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

**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”.

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 the net realizable value. The Company uses discounted estimated future cash flows from the operating lease contracts based on historic operating experience to determine the value in use which is generally higher than the net realizable value of the related equipment. The Company has an impairment allowance on equipment on operating lease.

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

**Finance receivables**

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

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

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

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

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

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

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

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

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

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

**Intangible assets**
Capitalized software is recorded at cost less amortization and accumulated impairment losses and are amortized over their useful life.

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

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

**Other assets and liabilities**
Other assets and liabilities are initially recognized at cost which equals fair value. These assets and liabilities are subsequently measured at amortized cost less, when required, an allowance for impairment. For inventory see note 6. Tangible assets are recorded at cost less accumulated depreciation and any accumulated impairment losses and are amortized over their useful life

**Revenue**

*Operating leases*

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

*Finance leases*

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

*Retail finance fee income*

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

*Interest income wholesale financing*

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

*Used truck sales*

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

*Suspension of revenue*

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

## 3. OPERATING SEGMENTS

The Company's operating segments are finance and rental. These business segments are managed separately. The finance segment includes wholesale and retail finance. Rental relates to full service operating lease (renting) of transportation equipment to end customers. For these combined activities no separate 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, 2015 was as follows:

| In €'000 | Finance | Rental | Elimi-nations | Internal Total | Reported adjustments | IFRS |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Revenue from external customers | 195,737 | 54,860 | - | 250,597 | 134,957 | 385,554 |
| Inter-segment revenue | 1,786 | - | (1,786) | - | - | - |
| Segment revenue | 197,523 | 54,860 | (1,786) | 250,597 | 134,957 | 385,554 |
| | | | | | | |
| Cost of sales used trucks | (56) | - | - | (56) | (136,545) | (136,601) |
| Interest expense | (21,855) | (1,153) | 1,119 | (21,889) | (43) | (21,932) |
| Depreciation and operating expense - operating leases | (106,771) | (20,587) | - | (127,358) | (214) | (127,572) |
| Other operating expense | (21) | (27,236) | - | (27,257) | 7,075 | (20,182) |
| Addition to allowance for impairment losses | (1,298) | (349) | - | (1,647) | (1,769) | (3,416) |
| Selling and administrative expense | (22,775) | (4,686) | 667 | (26,794) | (4,585) | (31,379) |
| Total income before income taxes | 44,747 | 849 | - | 45,596 | (1,124) | 44,472 |

The segment reporting as of and for the year ended December 31, 2014 was as follows:

| In €'000 | Finance | Rental | Elimi-nations | Internal Total | Reported adjustments | IFRS |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Revenue from external customers | 179,945 | 60,389 | - | 240,334 | 100,109 | 340,443 |
| Inter-segment revenue | 2,573 | - | (2,573) | - | - | - |
| Segment revenue | 182,518 | 60,389 | (2,573) | 240,334 | 100,109 | 340,443 |
| | | | | | | |
| Cost of sales used trucks | - | - | - | - | (103,443) | (103,443) |
| Interest expense | (25,397) | (1,557) | 1,496 | (25,458) | 776 | (24,682) |
| Depreciation and operating expense - operating leases | (92,717) | (23,521) | - | (116,238) | 867 | (115,371) |
| Other operating expense | 231 | (32,591) | - | (32,360) | 8,032 | (24,328) |
| Addition to allowance for impairment losses | (3,206) | (821) | - | (4,027) | (1,722) | (5,749) |
| Selling and administrative expense | (21,180) | (4,770) | 1,077 | (24,873) | (5,213) | (30,086) |
| Total income before income taxes | 40,249 | (2,871) | - | 37,378 | (594) | 36,784 |

*Reconciliation to the financial statements*

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

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

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

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

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

*Product information*

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

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

The following table presents the revenue for each product for the year ended December 31, 2014:

| In €’000 | Retail Finance | Rental | Wholesale Finance | Total |
|---|---|---|---|---|
| **Revenue** | | | | |
| Revenue from external customers | 244,768 | 79,628 | 16,047 | 340,443 |

## Geographic information

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

| In €'000 | Domestic | Continent | U.K. | Eliminations | Total |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Revenue from external customers | 41,392 | 269,900 | 74,262 | - | 385,554 |
| Inter-segment revenue | 17,749 | - | - | (17,749) | - |
| Segment revenue | 59,141 | 269,900 | 74,262 | (17,749) | 385,554 |
| | | | | | |
| **Total assets** | | | | | |
| Segment assets | 2,351,737 | 964,535 | 773,146 | - | 4,089,418 |
| Eliminations/unallocated | - | - | - | (1,548,968) | (1,548,968) |
| Total assets | 2,351,737 | 964,535 | 773,146 | (1,548,968) | 2,540,450 |

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 the Netherlands. 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 | Continent | U.K. | Eliminations | Total |
|---|---|---|---|---|---|
| **Total assets** | | | | | |
| Segment assets | 1,858,240 | 1,199,613 | 1,031,565 | - | 4,089,418 |
| Eliminations/unallocated | - | - | - | (1,548,968) | (1,548,968) |
| Total assets | 1,858,240 | 1,199,613 | 1,031,565 | (1,548,968) | 2,540,450 |

The geographical segment reporting as of and for the year ended December 31, 2014 was as follows:

| In €'000 | Domestic | Continent | U.K. | Eliminations | Total |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Revenue from external customers | 32,859 | 239,297 | 68,287 | - | 340,443 |
| Inter-segment revenue | 23,010 | - | - | (23,010) | - |
| Segment revenue | 55,869 | 239,297 | 68,287 | (23,010) | 340,443 |
| | | | | | |
| **Total assets** | | | | | |
| Segment assets | 1,967,328 | 877,854 | 642,213 | - | 3,487,395 |
| Eliminations/unallocated | - | - | - | (1,316,569) | (1,316,569) |
| Total assets | 1,967,328 | 877,854 | 642,213 | (1,316,569) | 2,170,826 |

| In €'000 | Domestic | Continent | U.K. | Eliminations | Total |
|---|---|---|---|---|---|
| **Total assets** | | | | | |
| Segment assets | 1,558,247 | 1,115,535 | 813,613 | - | 3,487,395 |
| Eliminations/unallocated | - | - | - | (1,316,569) | (1,316,569) |
| Total assets | 1,558,247 | 1,115,535 | 813,613 | (1,316,569) | 2,170,826 |

## 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 | **2015** | 2014 |
|---|---|---|
| Wholesale receivables, Euro denominated | 313,530 | 288,905 |
| Wholesale receivables, GBP denominated | 260,857 | 173,631 |
| Wholesale receivables gross | 574,387 | 462,536 |
| Allowance for impairment losses wholesale receivables | (2,577) | (3,000) |
| **Wholesale receivables, net** | 571,810 | 459,536 |

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

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

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

The aging of the wholesale receivables is as follows:

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| In €'000 | Individually assessed | Not individually assessed | Total | Individually assessed | Not individually assessed | Total |
| Current | - | 573,536 | 573,536 | - | 458,026 | 458,026 |
| *Past due accounts* | | | | | | |
| 0 - 30 days | 123 | 728 | 851 | - | 2,537 | 2,537 |
| 31 - 60 days | - | - | - | 158 | 329 | 487 |
| 61 - 90 days | - | - | - | 86 | 1,323 | 1,409 |
| Over 90 days | - | - | - | 77 | - | 77 |
| Receivables, gross | 123 | 574,264 | 574,387 | 321 | 462,215 | 462,536 |
| Allowance | (123) | (2,454) | (2,577) | - | (3,000) | (3,000) |
| Receivables, net | - | 571,810 | 571,810 | 321 | 459,215 | 459,536 |

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

| In €'000 | **2015** | 2014 |
|---|---|---|
| Balance as of January 1 | (3,000) | (3,384) |
| Charge off/ Write downs | 285 | 694 |
| Release/ (additions) | 138 | (310) |
| Balance as of December 31 | (2,577) | (3,000) |

The individually assessed part of the allowance for impairment loss is €123 (2014: €-).

## 6. INVENTORY, PREPAID EXPENSES AND OTHER CURRENT ASSETS

| In €'000 | **Notes** | **2015** | 2014 |
|---|---|---|---|
| Used trucks inventory | | 19,681 | 18,348 |
| Short term derivative assets | 19 | 182 | 3,069 |
| Income tax refund | | 3,227 | 3,227 |
| Prepaid expenses and other current assets | | 19,283 | 14,777 |
| **Inventory, prepaid expenses and other current assets** | | 42,373 | 39,421 |

### Used trucks inventory

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

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

| In €'000 | **2015** | 2014 |
|---|---|---|
| Balance as of January 1 | 18,348 | 11,204 |
| Used trucks returned/ repossessed from operating leases | 106,376 | 90,424 |
| Used trucks returned/ repossessed from finance leases | 19,020 | 16,338 |
| Recoveries/ (Write-downs) of inventory | 1,371 | (747) |
| Used trucks sold | (107,323) | (79,914) |
| Used trucks refinanced | (18,150) | (19,000) |
| Foreign currency translation difference | 39 | 43 |
| Balance as of December 31 | 19,681 | 18,348 |

**Income tax**

The income tax receivable related to a carry back receivable for the French subsidiary that can be offset with future income tax payables or will be paid by the tax authorities no later than 2016.

**Prepaid expenses and other current assets**

The prepaid expenses and other current assets mainly relate to prepaid amounts in the course of providing administrative services to customers. These administrative services primarily relate to handling of insurance for leased equipment, repair and maintenance of this equipment and government charges on the use of this equipment. Included in prepaid expenses is an amount of prepaid borrowing cost of €2,300 (2014: €1,948).

## 7. EQUIPMENT ON OPERATING LEASE, NET

| In €'000 | **2015** | 2014 |
|---|---|---|
| Equipment on operating lease | 630,432 | 550,182 |
| Impairment | (3,849) | (4,339) |
| **Equipment on operating lease, net** | 626,583 | 545,843 |

The movement of these items is as follows:

| In €'000 | Equipment on operating lease | Impairment | Total |
|---|---|---|---|
| Book value as of January 1, 2015 | 550,182 | (4,339) | 545,843 |
| Additions | 313,052 | (2,118) | 310,934 |
| Disposal to inventory | (106,376) | - | (106,376) |
| Other movements | (5,850) | - | (5,850) |
| Depreciation | (124,049) | - | (124,049) |
| Impairment from repossession | (372) | 372 | - |
| Impairments | - | 2,236 | 2,236 |
| Foreign currency translation differences | 3,845 | - | 3,845 |
| Book value as of December 31, 2015 | 630,432 | (3,849) | 626,583 |
| Accumulated depreciation | 220,336 | - | 220,336 |
| Gross Cost as of December 31, 2015 | 850,768 | (3,849) | 846,919 |

| In €'000 | Equipment on operating lease | Impairment | Total |
|---|---|---|---|
| Book value as of January 1, 2014 | 522,391 | (5,558) | 516,833 |
| Additions | 219,550 | (3,433) | 216,117 |
| Disposal to inventory | (90,424) | - | (90,424) |
| Other movements | 6,126 | - | 6,126 |
| Depreciation | (111,544) | - | (111,544) |
| Impairment from repossession | (878) | 878 | - |
| Impairments | - | 3,774 | 3,774 |
| Foreign currency translation differences | 4,961 | - | 4,961 |
| Book value as of December 31, 2014 | 550,182 | (4,339) | 545,843 |
| Accumulated depreciation | 222,223 | - | 222,223 |
| Gross Cost as of December 31, 2014 | 772,405 | (4,339) | 768,066 |

The equipment on operating lease includes an amount of €113,013 (2014: €99,285) for the rental fleet. In 2015 the additions to the PacLease rental fleet amounted to €66,108 (2014: €28,806), the depreciation of the rental fleet amounted to €20,581 (2014: €23,988) and the disposals from the rental fleet amounted to €31,680 (2014: €26,746). Other movements relate primarily to restructures, early settlements and movements from inventory.

During 2015, €2,118 (2014: €3,433) was charged to the income statement for impairments of the equipment on operating lease. In 2015, €2,608 (2014: €4,652) was utilized or released to the income statement from impairment provision recorded in previous years and was recorded under "Depreciation and operating expense - operating leases".

The average remaining term of the outstanding operating lease agreements in 2015 is 32 months (2014: 33 months). For PacLease rental agreements the average remaining term is 7 months (2014: 7 months).

The minimum lease payments to be received after December 31, 2015 and 2014 were as follows (amounts in €'000):

| Term | **2015** | 2014 |
|---|---|---|
| < 1 year | 131,886 | 114,314 |
| 2 – 5 years | 145,534 | 134,966 |
| >5 years | 80 | 182 |
| Total | 277,500 | 249,462 |

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 2015 is 43 months (2014: 42 months). The average term of the rental agreements at inception is 22 months (2014: 22 months). The operating lease installments due are recorded in "Trade and other receivables" (Note 8).

The carrying amount of the equipment on operating lease includes the unguaranteed residual values of the equipment at the end of the contract for an amount of €330,000 at December 31, 2015 (2014: €307,000) and guaranteed residual values of €33,000 (2014: €-). 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 | **2015** | 2014 |
|---|---|---|
| Depreciation on equipment on operating lease | 124,049 | 111,544 |
| Net additions to the impairment allowance of equipment on operating lease | 2,118 | 3,433 |
| Operating expense on equipment on operating lease | 1,405 | 394 |
| **Depreciation and operating expense – operating leases** | 127,572 | 115,371 |

In 2015 the Company incurred an average write-off of €4 on 149 customers (2014: €10 on 205 customers) with repossessed operating lease contracts and recovered an average of €5 from 72 customers (2014: €24 from 36 customers).

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

## 8. FINANCE AND OTHER RECEIVABLES, NET

| In €'000 | **2015** | 2014 |
|---|---|---|
| Finance receivables, net | 1,225,787 | 1,064,841 |
| Trade and other receivables | 23,871 | 26,556 |
| Balance as of December 31 | 1,249,658 | 1,091,397 |

**Finance receivables, net**

| In €'000 | **2015** | 2014 |
|---|---|---|
| Retail finance receivables | 1,328,621 | 1,171,310 |
| Unearned interest retail finance receivables | (89,885) | (94,428) |
| Allowance for impairment losses | (12,949) | (12,041) |
| **Finance receivables, net** | 1,225,787 | 1,064,841 |
| Current portion of finance receivables | 424,174 | 381,059 |
| **Non-current portion of finance receivables** | 801,613 | 683,782 |

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, 2015 the carrying amount of receivables under these loans was €361,663 (2014: €287,810).

During 2015 an amount of €595,893 (2014: €523,742) was added to the retail finance receivables.

The retail finance receivables are detailed as follows:

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| In €'000 | Fixed rate | Variable rate | Total | Fixed rate | Variable Rate | Total |
| Euro denominated | 649,913 | - | 649,913 | 531,112 | 59,584 | 590,696 |
| GBP denominated | 625,810 | 52,898 | 678,708 | 550,093 | 30,521 | 580,614 |
| **Total** | 1,275,723 | 52,898 | 1,328,621 | 1,081,205 | 90,105 | 1,171,310 |

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

The split of the retail finance receivables and the net present value of the minimum lease payments to be received after December 31, 2015 and 2014 was as follows (amounts in €'000):

| | **2015** | | 2014 | |
|---|---|---|---|---|
| *Term* | *Retail finance receivables* | *Net present value of the minimum lease payments* | *Retail finance receivables* | *Net present value of the minimum lease payments* |
| < 1 year | 451,890 | 421,201 | 394,070 | 377,384 |
| 2 – 5 years | 856,907 | 679,536 | 754,201 | 591,606 |
| >5 years | 19,824 | 9,694 | 23,039 | 9,771 |
| Total | 1,328,621 | 1,110,431 | 1,171,310 | 978,761 |

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, 2015 and December 31, 2014 respectively taking into account the estimated impairment losses to be incurred.

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

| In €'000 | **2015** | 2014 |
|---|---|---|
| Retail finance receivables, gross | 1,328,621 | 1,171,310 |
| Unguaranteed residual values | (134,560) | (112,567) |
| Present value of unearned interest | (71,163) | (68,267) |
| Present value of expected credit losses | (12,467) | (11,715) |
| **Net present value of minimum lease payments** | 1,110,431 | 978,761 |

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

| In €'000 | **2015** | 2014 |
|---|---|---|
| Balance as of January 1 | (12,041) | (10,727) |
| Additions | (3,205) | (4,618) |
| Credit losses incurred | 2,139 | 2,071 |
| Further write downs | 158 | 1,233 |
| Balance as of December 31 | (12,949) | (12,041) |

The net addition to the allowance for impairment losses on finance receivables was €908 (2014 addition: €1,314).

The individually assessed portion of the allowance for impairment losses is €4,384 (2014: €3,346).

**Addition to allowance for impairment losses in Income Statement**

| In €'000 | **Notes** | **2015** | 2014 |
|---|---|---|---|
| Addition to the impairment retail finance lease receivables | | 3,205 | 4,618 |
| Addition to the impairment on wholesale receivables | 5 | (138) | 310 |
| Addition to the impairment for rental receivables | | 349 | 821 |
| **Allowance for impairment losses** | | 3,416 | 5,749 |

In 2015 the Company incurred an average write-off of €4 on 395 customers (2014: €13 on 594 customers) with repossessed finance lease contracts and recovered an average of €5 from 315 customers (2014: €18 from 73 customers).

The aging of the finance lease receivables at December 31, 2015 and 2014 was as follows:

| In €'000 | **2015** Individually assessed | Not individually assessed | Total | 2014 Individually assessed | Not individually assessed | Total |
|---|---|---|---|---|---|---|
| Current portfolio | 1,833 | 1,317,110 | 1,318,943 | 4,795 | 1,156,179 | 1,160,974 |
| 0 - 30 days | 72 | 1,803 | 1,875 | 104 | 1,883 | 1,987 |
| | 1,905 | 1,318,913 | 1,320,818 | 4,899 | 1,158,062 | 1,162,961 |
| *Past due* | | | | | | |
| 31 - 60 days | 367 | 388 | 755 | 12 | 569 | 581 |
| 61 - 90 days | - | 327 | 327 | - | 480 | 480 |
| over 90 days | 6,576 | 145 | 6,721 | 6,576 | 712 | 7,288 |
| | 6,943 | 860 | 7,803 | 6,588 | 1,761 | 8,349 |
| | 8,848 | 1,319,773 | 1,328,621 | 11,487 | 1,159,823 | 1,171,310 |

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 €29,377 (2014: €28,468). The portfolio amount of the past due accounts that have been individually assessed was €6,943 (2014: €6,577).

Non-performing amounts are generally more than 90 days past the contractual due date. As of December 31, 2015 the total portfolio amount of customer balances that were non-performing was €8,005 (2014: €13,377).

**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 | **2015** | 2014 |
|---|---|---|
| Forborne retail finance receivables | 7,151 | 7,449 |
| Unearned interest forborne retail finance receivables | (10) | (21) |
| **Forborne finance receivables, net** | 7,141 | 7,428 |

The movement of the forborne finance receivables was as follows:

| In €'000 | **2015** | 2014 |
|---|---|---|
| Balance as of January 1 | 7,428 | 8,916 |
| Additions | 29 | 69 |
| Impairments | (47) | (60) |
| Other movements | - | (107) |
| Payments received | (269) | (1,390) |
| Balance as of December 31 | 7,141 | 7,428 |

Other movements relate to receivables that are no longer recognized as forborne receivables because these have been current for twelve consecutive months and the concession granted was not a below market interest rate.

The interest income recognized on forborne finance receivables in the year amounted to €56 (2014: €199).

The aging of the forborne receivables was as follows:

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| In €'000 | Individually assessed | Not individually assessed | Total | Individually assessed | Not individually assessed | Total |
| Current portfolio | 429 | 2 | 431 | 508 | 365 | 873 |
| 0 - 30 days | - | 144 | 144 | - | - | - |
| | 429 | 146 | 575 | 508 | 365 | 873 |
| *Past due* | | | | | | |
| 31 - 60 days | - | - | - | - | - | - |
| 61 - 90 days | - | - | - | - | - | - |
| over 90 days | 6,576 | - | 6,576 | 6,576 | - | 6,576 |
| | 6,576 | - | 6,576 | 6,576 | - | 6,576 |
| Total receivables | 7,005 | 146 | 7,151 | 7,084 | 365 | 7,449 |

Of the €7,005 (2014: €7,084) individually assessed forborne receivables in 2015, €6,576 (2014: €6,576) related to one customer.

**Trade and other receivables**

| In €'000 | Notes | 2015 | 2014 |
|---|---|---|---|
| VAT receivable | | 5,416 | 5,196 |
| Interest and lease receivables, net | | 8,161 | 9,020 |
| Accounts receivable affiliates | 25 | 10,294 | 12,340 |
| **Trade and other receivables** | | 23,871 | 26,556 |

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

*Interest and lease receivables*

| In €'000 | 2015 | 2014 |
|---|---|---|
| Interest and lease receivables | 5,414 | 5,728 |
| Rental receivables | 3,812 | 5,057 |
| Impairment rental receivables | (1,065) | (1,765) |
| **Interest and lease receivables, net** | 8,161 | 9,020 |

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

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| In €'000 | Individually assessed | Not individually assessed | Total | Individually assessed | Not individually assessed | Total |
| 0 - 30 days | 64 | 5,650 | 5,714 | 38 | 6,345 | 6,383 |
| *Past due Accounts* | | | | | | |
| 31 - 60 days | 30 | 747 | 777 | 47 | 899 | 946 |
| 61-90 days | 1 | 225 | 226 | 16 | 201 | 217 |
| Over 90 days | 1,687 | 822 | 2,509 | 1,607 | 1,632 | 3,239 |
| Receivables, gross | 1,782 | 7,444 | 9,226 | 1,708 | 9,077 | 10,785 |
| Impairment | (845) | (220) | (1,065) | (1,633) | (132) | (1,765) |
| Receivables, net | 937 | 7,224 | 8,161 | 75 | 8,945 | 9,020 |

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

| In €'000 | 2015 | 2014 |
|---|---|---|
| Balance as of January 1 | (1,765) | (1,589) |
| Additions | (349) | (821) |
| Charge offs | 1,049 | 645 |
| Balance as of December 31 | (1,065) | (1,765) |

## 9. DEFERRED TAX

Deferred income taxes as of December 31, 2015 and 2014 consist of the following:

| | Statement of Financial Position | | Income Statement | |
|---|---|---|---|---|
| In €'000 | **2015** | 2014 | **2015** | 2014 |
| **Deferred income tax assets** | | | | |
| Impairment on portfolio assets | 3,184 | 3,354 | (170) | 1,165 |
| Lower future depreciation of equipment on operating lease for income tax purposes/ (impairments) | 36 | 154 | (118) | 109 |
| Lease accounting | 5,181 | 4,395 | 785 | 280 |
| Fair value changes of financial instruments used for hedging | 1,625 | 2,156 | - | - |
| Fair value changes of financial instruments through profit and loss | 942 | 400 | 542 | (2,983) |
| Losses available to offset future taxable income | 5,623 | 8,335 | (2,712) | 2,823 |
| Depreciation operating lease | 2,172 | 2,204 | (32) | (287) |
| Acquisition subsidiary | - | - | - | - |
| Other | 3,648 | 3,200 | 448 | 545 |
| Effect of netting with deferred tax liabilities | (5,423) | - | - | - |
| Gross deferred income tax assets | 16,988 | 24,198 | (1,257) | 1,652 |

| In €'000 | **2015** | 2014 | **2015** | 2014 |
|---|---|---|---|---|
| **Deferred income tax liabilities** | | | | |
| Impairment on portfolio assets | - | (439) | 439 | (234) |
| Accelerated depreciation of equipment on operating lease for income tax purposes | (363) | (355) | (8) | (138) |
| Lease accounting | (1,153) | (752) | (400) | 79 |
| Fair value changes financial instruments through profit and loss | (2,271) | (767) | (1,503) | 369 |
| Depreciation operating lease | (1,775) | (3,224) | 1,448 | (397) |
| Other | (627) | (1,743) | 1,115 | (699) |
| Effect of netting with deferred tax assets | 5,423 | - | - | - |
| Gross deferred income tax liabilities | (766) | (7,280) | 1,091 | (1,020) |
| Net deferred income tax | 16,222 | 16,918 | (167) | 632 |

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 €5,623 (2014: €8,335). This arises mainly from operating losses in the past years in France, Germany and Spain. Recognition of deferred income tax assets is based on the Company's expectation that the development of the business in these countries in the foreseeable future and the tax planning measures available to the Company will generate adequate future taxable profits.

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

As income before taxes in Spain improved, “losses available to offset future taxable income” and other temporary tax differences are recognized in 2015 for an amount of €2,604 and €2,769 respectively. For 2014 an amount of €3,963 and €2,826 for respectively “losses available to offset future taxable income” and other temporary differences were recognized for the Spanish subsidiary.

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

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

## 10. OTHER NON-CURRENT ASSETS

| In €’000 | **Notes** | **2015** | 2014 |
|---|---|---|---|
| Long term derivative assets | 19 | 9,023 | - |
| Fixed assets | | 5,376 | 5,555 |
| **Other non-current assets** | | 14,399 | 5,555 |

### Fixed assets

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| In €’000 | Land & Buildings | Equipment | Total | Land & Buildings | Equipment | Total |
| Book value as of January 1 | 5,323 | 232 | 5,555 | 5,100 | 277 | 5,377 |
| Additions | - | 40 | 40 | 352 | 41 | 393 |
| Disposal | (3) | (1) | (4) | - | - | - |
| Depreciation | (141) | (74) | (215) | (129) | (86) | (215) |
| Book value as of December 31 | 5,179 | 197 | 5,376 | 5,323 | 232 | 5,555 |
| Accumulated depreciation | 1,335 | 744 | 2,079 | 1,195 | 686 | 1,881 |
| Gross Cost as of December 31 | 6,514 | 941 | 7,455 | 6,518 | 918 | 7,436 |

The fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses. In “Land & Buildings” an amount of €2,385 (2014: €2,385) is included for land. Land is not depreciated. The remaining average depreciation period at December 31, 2015 is 22 years (2014: 24) for Buildings and 1 year (2014: 1) for equipment. The buildings are depreciated in 33 years on a straight line basis and the equipment is depreciated on a straight line basis in 5 years. There are no contractual obligations to acquire any fixed assets.

## 11. INTANGIBLE ASSETS

| In €'000 | **2015** | 2014 |
|---|---|---|
| Software | 485 | 210 |

**Intangible assets**

The movement of the intangible assets is as follows:

| In €'000 | **2015** Soft-Ware | 2014 Soft-Ware |
|---|---|---|
| Book value as of January 1, 2015 | 210 | 278 |
| Additions | 372 | 22 |
| Depreciation | (97) | (90) |
| Book value as of December 31, 2015 | 485 | 210 |
| Accumulated depreciation | 354 | 257 |
| Accumulated impairments | 311 | 311 |
| Gross Cost as of December 31, 2015 | 1,150 | 778 |

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

## 12. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER

| In €'000 | **Notes** | **2015** | 2014 |
|---|---|---|---|
| Accounts payable affiliates | 25 | 35,076 | 51,086 |
| Accounts payable | | 9,118 | 7,741 |
| Income tax payable | | 6,727 | 2,945 |
| Derivative contracts | 19 | 22,750 | 8,736 |
| Accrued expenses | | 15,914 | 14,657 |
| Deferred income | | 5,780 | 5,341 |
| Other current liabilities | | 4,522 | 6,886 |
| **Accounts payable, accrued expenses and other** | | 99,887 | 97,392 |

*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 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 €1,702 (2014: €1,846). Customer deposits relate to amounts received from customers as collateral for the outstanding lease receivables. These customer deposits have to be repaid to the customers when the customers have fulfilled all their obligations under the lease agreements. Also included in other current liabilities are “Other taxes”.

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

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

| In €'000 | **2015** | 2014 |
|---|---|---|
| Commercial paper | 791,101 | 448,865 |
| **Commercial paper, bank loans and other short-term debt** | 791,101 | 448,865 |

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

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

As of December 31, 2015 and 2014, the carrying amounts of the outstanding notes under the commercial paper program were as follows:

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| *Currency* | *Amount (in €'000)* | *Effective interest rate* | *Weighted average number of days to repayment in 2016* | *Amount (in €'000)* | *Effective interest rate* | *Weighted average number of days to repayment in 2015* |
| Euro denominated | 281,100 | (0.07)% | 30 | 214,489 | 0.04% | 32 |
| GBP denominated | 463,969 | 0.52% | 23 | 193,048 | 0.43% | 37 |
| USD denominated | 46,032 | 0.28% | 9 | 41,328 | 0.17% | 9 |
| Total | 791,101 | 0.30% | 25 | 448,865 | 0.22% | 32 |

The effective interest rates are the weighted average interest rates as of December 31, 2015 and December 31, 2014, respectively.

## 14. TERM DEBT

| In €'000 | **Notes** | **2015** | 2014 |
|---|---|---|---|
| Long term advances | 25 | - | 103,323 |
| Euro Medium Term Notes | | 1,231,037 | 1,133,501 |
| **Term debt** | | 1,231,037 | 1,236,824 |

### Euro Medium Term Notes

Since September 10, 2004, PACCAR Financial Europe BV has maintained a Euro Medium Term Note program. All notes outstanding as of December 31, 2015 are listed on the London Stock Exchange and SIX Swiss Stock exchange.

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, 2015 and 2014, the carrying amounts of the outstanding notes under the Euro Medium Term Notes program were as follows:

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| *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 | 800,000 | 0.27% | 16 | 1,050,369 | 0.77% | 18 |
| GBP denominated | 339,166 | 1.51% | 29 | - | - | - |
| CHF denominated | 91,871 | 1.13% | 14 | 83,132 | 1.13% | 26 |
| Due within one year | 300,000 | | | 400,369 | | |
| Due after one year | 931,037 | | | 733,132 | | |

The effective interest rates are the weighted average interest rates including the effect of hedging instruments as of December 31, 2015 and December 31, 2014, respectively.

Included in the Euro denominated debt at December 31, 2014 is a fixed rate debt with a notional amount of €300 million (2015: €- million). At inception, €240 million was designated as a hedged item in a fair value hedge. These hedges were discontinued. The remaining unamortized ineffectiveness for hedges discontinued in 2012 as per December 31, 2014 amounts was €369 (2015: €-) (see notes 19 and 21).

## 15. OTHER NON-CURRENT LIABILITIES

| In €'000 | **Notes** | **2015** | 2014 |
|---|---|---|---|
| Accounts payable affiliates | 25 | 1,616 | 4,185 |
| Deferred income | 12 | 8,063 | 6,773 |
| Derivative contracts | 19 | 17,811 | 22,460 |
| Other non-current liabilities | 12 | 1,640 | 1,819 |
| **Other non-current liabilities** | | 29,130 | 35,237 |

## 16. SHAREHOLDER'S EQUITY

### Paid-in capital

As of December 31, 2015 and 2014, 130,000 ordinary shares at €100 nominal value were authorized, issued and outstanding. In 2015 no changes in the available-to-issue capital occurred.

### Additional paid-in capital

No additional paid in capital has been paid in cash in 2015 and 2014.

### Foreign currency translation

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

**Accumulated fair value changes of financial instruments**
The 2015 addition to the cash flow hedges through equity is €(627) (2014: €1,632) and the release is €1,645 (2014: €675). The release is recorded in the interest expense line in the income statement.

As of December 31, 2015, the fair value changes of financial instruments were net of deferred income tax for an amount of €1,447 (2014: €2,158). The loss in 2015 on cash flow hedges, recognized to equity were net of deferred income tax of €711 (2014 gain: €196).

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

## 17. LEASES

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

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

| Term | **2015** | 2014 |
|---|---|---|
| < 1 year | 674 | 572 |
| 2 – 5 years | 770 | 557 |
| Total | 1.444 | 1,129 |

There are no restrictions placed upon the Company by entering into these leases and there are no purchase or renewal obligations included in these leases. The amount of lease payments that are recognized as an expense for 2015 is €1,066 (2014: €1,126).

## 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

| | **2015** | | 2014 | |
|---|---|---|---|---|
| In €'000 | 100 bps increase | 100 bps decrease | 100 bps increase | 100 bps decrease |
| **Assets** | | | | |
| Retail finance & wholesale receivables | (25,773) | 26,933 | (21,678) | 22,635 |
| Derivatives | (2,328) | 2,399 | (8) | 8 |
| **Liabilities** | | | | |
| Debt | 8,919 | (9,301) | 3,469 | (3,519) |
| Derivatives | 13,066 | (13,371) | 14,526 | (14,944) |
| | (6,116) | 6,660 | (3,691) | 4,180 |

The effect on shareholder's equity of a 100 bps increase across the yield curve is an increase of €13,313 (2014: €14,221) and the effect on the income statement is an expense of €2,575 (2014: €296). The effect on shareholder's equity of a 100 bps decrease is a decrease of €(13,633) (2014: €(14,635)) and the effect on the income statement is a profit of €2,661 (2014: €301). 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, 2015* <br> *(in €'000)* | Within <br> 1 year | 1-5 <br> years | > 5 <br> years | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Fixed rate finance lease | 394,287 | 773,371 | 18,636 | 1,186,294 |
| Fixed rate operating lease | 242,105 | 378,004 | 10,324 | 630,433 |
| Variable rate finance lease | 52,443 | - | - | 52,443 |
| Wholesale receivables | 574,387 | - | - | 574,387 |
| Cash and cash equivalents | 18,154 | - | - | 18,154 |
| Total of interest earning assets | 1,281,376 | 1,151,375 | 28,960 | 2,461,711 |
| | | | | |
| **Liabilities** | | | | |
| Term debt | (800,000) | (431,037) | - | (1,231,037) |
| Commercial paper | (791,101) | - | - | (791,101) |
| Total of interest bearing liabilities | (1,591,101) | (431,037) | - | (2,022,138) |
| Gross gap | (309,725) | 720,338 | 28,960 | 439,573 |
| Effect of derivative contracts | 390,454 | (369,963) | (20,491) | - |
| Net gap | 80,729 | 350,375 | 8,469 | 439,573 |

| *As of December 31, 2014* <br> *(in €'000)* | Within <br> 1 year | 1-5 <br> years | > 5 <br> years | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Fixed rate finance lease | 340,903 | 684,521 | 22,274 | 1,047,698 |
| Fixed rate operating lease | 238,658 | 310,747 | 777 | 550,182 |
| Variable rate finance lease | 29,183 | - | - | 29,183 |
| Wholesale receivables | 462,536 | - | - | 462,536 |
| Cash and cash equivalents | 4,666 | - | - | 4,666 |
| Total of interest earning assets | 1,075,946 | 995,268 | 23,051 | 2,094,265 |
| | | | | |
| **Liabilities** | | | | |
| Term debt | (1,050,000) | (83,132) | - | (1,133,132) |
| Commercial paper | (448,865) | - | - | (448,865) |
| Long term loans affiliates | (103,323) | - | - | (103,323) |
| Total of interest bearing liabilities | (1,602,188) | (83,132) | - | (1,685,320) |
| Gross gap | (526,242) | 912,136 | 23,051 | 408,945 |
| Effect of derivative contracts | 654,338 | (625,925) | (28,413) | - |
| Net gap | 128,096 | 286,211 | (5,362) | 408,945 |

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

***Foreign currency risk***

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

| *As of December 31, 2015 and 2014 (in €'000)* | **2015** | 2014 |
|---|---|---|
| Assets in foreign currency | 131,228 | 91,517 |
| Liabilities in foreign currency | (115,788) | (78,368) |
| | 15,440 | 13,149 |
| Foreign currency translation – equity | (15,609) | (12,466) |
| Effect on income before income taxes | (169) | 683 |

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

The Company funds its financing activities through a €1.25 billion Commercial Paper (CP) program, a €1.5 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 USD 3 billion of credit facilities, composed of a 364-day facility and two five-year facilities. The Company did not use these credit facilities for the years ended December 31, 2015 and December 31, 2014. 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, 2015 (in €'000)* | Within 1 year | within 1 to 5 years | > 5 Years | Total Undiscounted 2015 | Carrying amount 2015 |
|---|---|---|---|---|---|
| **Non derivative financial liabilities** | | | | | |
| Accounts payable, accrued expenses and other | 42,257 | - | - | 42,257 | 42,062 |
| Commercial paper, bank loans and other short term debt | 791,247 | - | - | 791,247 | 791,101 |
| Term debt | 308,543 | 936,452 | - | 1,244,995 | 1,231,037 |
| Loans from affiliates | 35,076 | 2,290 | - | 37,366 | 36,692 |
| Other non-current liabilities | - | 10,469 | - | 10,469 | 15,472 |
| | 1,177,123 | 949,211 | - | 2,126,334 | 2,116,364 |
| **Derivative financial assets and liabilities** | | | | | |
| Derivatives | 5,868 | 3,100 | 84 | 9,052 | 31,355 |
| | 1,182,991 | 952,311 | 84 | 2,215,386 | 2,147,719 |

| *As of December 31, 2014 (in €'000)* | Within 1 year | within 1 to 5 years | > 5 Years | Total Undiscounted 2014 | Carrying amount 2014 |
|---|---|---|---|---|---|
| **Non derivative financial liabilities** | | | | | |
| Accounts payable, accrued expenses and other | 37,764 | - | - | 37,764 | 37,569 |
| Commercial paper, bank loans and other short term debt | 448,961 | - | - | 448,961 | 448,865 |
| Term debt | 409,652 | 737,194 | - | 1,146,846 | 1,133,501 |
| Loans from affiliates | 155,633 | 4,185 | - | 159,818 | 158,594 |
| Other non-current liabilities | - | 15,873 | - | 15,873 | 15,873 |
| | 1,052,010 | 757,252 | - | 1,809,262 | 1,794,402 |
| **Derivative financial assets and liabilities** | | | | | |
| Derivatives | 13,225 | 15,994 | 378 | 29,597 | 28,127 |
| | 1,065,235 | 773,246 | 378 | 1,838,859 | 1,822,529 |

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

| *As of December 31, 2014 (in €'000)* | Within 1 year | within 1 to 5 years | > 5 Years | Total Undiscounted |
|---|---|---|---|---|
| Inflows | 11,351 | 13,136 | 196 | 24,683 |
| Outflows | (24,576) | (29,130) | (574) | (54,280) |
| Net | (13,225) | (15,994) | (378) | (29,597) |

***Credit risk***

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

*Management of credit risk*

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

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

*Concentrations of risks*

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

Financing is done generally based on the retention of legal ownership of the underlying assets until the contractual obligations are completely fulfilled by the dealer or customer. This significantly protects the Company from a full loss on unpaid balances as the realizable value of the assets reduces the credit risk.

However a risk remains that the value of the underlying equipment will not be sufficient to recover the amounts owed to the Company resulting in credit losses. The company includes credit enhancement instruments such as personal or company guarantees issued by the customer or 3rd parties in evaluating the credit risk. There are no significant risks or counterparty concentrations within the credit enhancements accepted.

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

Retail finance receivables

The maximum credit exposure for retail receivables before taking account of collateral at December 31, 2015 was €1,449 million (2014: €1,299 million).

For retail finance receivables 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, 2015 the top ten customers represented 11.4% (2014: 10.6%) of the total portfolio with no single customer representing more than 2.0% (2014: 2.1%) 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 receivables is measured in percentages per risk category as per the table below:

| | **2015** | 2014 |
|---|---|---|
| Risk Category | Portfolio at year-end | Portfolio at year-end |
| Lower than Average Risk | 22% | 28% |
| Average Risk | 71% | 64% |
| Higher than Average Risk | 7% | 8% |

Wholesale receivables

The maximum credit exposure for wholesale receivables before taking into account collateral was €574,387 (2014: €462,536).

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. The average number of days for outstanding receivables is 63 days (2014: 48 days).

*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.

| | **2015** | 2014 |
|---|---|---|
| Risk Category | Portfolio at year-end | Portfolio at year-end |
| Lower than Average Risk | 18% | 11% |
| Average Risk | 67% | 71% |
| Higher than Average Risk | 16% | 17% |

***Residual value risks***

The Company is exposed to residual value risk. If residual values in the entire operating lease portfolio decrease by 10%, the immediate effect on financial results is an expense of €4,134 (2014: €5,480). Furthermore the future depreciation of equipment on operating lease over the total remaining life of the portfolio would be €25,381 (2014: €21,360) higher. If residual values in the entire operating lease portfolio increase by 10%, the immediate effect on financial results is an income of €396 (2014: €1,113).

## 19. FINANCIAL INSTRUMENTS

***Fair values***

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

| | **2015** | | 2014 | |
|---|---|---|---|---|
| In €'000 | Carrying amount | Fair Value | Carrying amount | Fair Value |
| *Financial assets* | | | | |
| Finance receivables, net | 1,225,787 | 1,234,138 | 1,064,841 | 1,074,855 |
| *Financial liabilities* | | | | |
| Euro Medium Term Notes | 1,231,037 | 1,233,006 | 1,133,501 | 1,138,405 |

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, 2015 and December 31, 2014 respectively which are classified as level 3 under IFRS 13.81 - 85, “Fair value measurements” also taking into account the estimated impairment losses to be incurred. The fair value of the liabilities is the market rate of the Euro Medium Term Notes listed on the London Stock Exchange which classifies as level 2 under IFRS 13.81 - 85, “Fair value measurements” due to low trading volume. Information on the interest rate risks of the company and the sensitivity analysis is included in note 18.

***Hedging activities***

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

As of December 31, 2015, 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 | 160 | - | 3,567 | 1,100 |
| Cross currency swaps | 8,547 | - | 4,947 | - |
| **At fair value through profit and loss - level 2** | | | | |
| Cross currency swaps | 316 | - | 9,297 | 20,782 |
| Currency forward contracts | - | 182 | - | 868 |
| Total | 9,023 | 182 | 17,811 | 22,750 |

As of December 31, 2014, 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 | - | - | 4,960 | 2,263 |
| Cross currency swaps | - | 1,908 | 1,195 | - |
| **At fair value through profit and loss - level 2** | | | | |
| Cross currency swaps | - | - | 16,305 | 6,473 |
| Currency forward contracts | - | 1,161 | - | - |
| Total | - | 3,069 | 22,460 | 8,736 |

*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, 2015, 21 (2014: 27) Euro interest rate swap contracts were outstanding with a notional amount of €635.5 million (2014: €787.4 million), an average remaining term of 17 months (2014: 21) and average fixed Euro interest to be paid of 0.75% (2014: 1.10%). Furthermore as of December 31, 2015, 10 (2014: 9) GBP interest rate swap contracts were outstanding with a notional amount of €107.9 million (2014: €71.3 million), an average remaining term of 40 months (2014: 31 months) and fixed GBP interest to be paid of 1.42% (2014: 1.99%). 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, 2015 the Company had the following cross currency swaps:

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

As of December 31, 2014 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 | 420,000 | 2.22% | €/£0.82 | 17 |
| CHF/EUR | 82,871 | 2.43% | CHF/€0.83 | 26 |
| USD/EUR | 55,000 | 0.53% | $/€0.80 | 5 |
| USD/GBP | 46,839 | 1.27% | $/£0.65 | 5 |

*Fair value hedges*

At December 31, 2015 and 2014 the Company has no interest rate swap agreements in place to convert the fixed rate interest on term debt into floating interest. The remaining unamortized ineffectiveness for hedges discontinued in 2012 as per December 31, 2015 amounts to zero (2014: €369).

*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, 2015 the Company had the following currency forwards:

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

As of December 31, 2014 the Company had the following currency forwards:

| Currency | Number of contracts | Notional amount in '000 | Remaining life time (days) | Exchange rate (€) |
|---|---|---|---|---|
| PLN | 1 | PLN 14,500 | 15 | 0.24 |
| USD | 2 | USD 50,000 | 9 | 0.81 |
| CZK | 3 | CZK 19,200 | 15 | 0.036 |

## 20. REVENUE

| In €'000 | **2015** | 2014 |
|---|---|---|
| Revenue from financing | 72,807 | 69,820 |
| Rental income | 175,341 | 165,203 |
| Revenue from sales of used trucks | 135,301 | 102,433 |
| Other revenue | 2,105 | 2,987 |
| **Total Revenue** | 385,554 | 340,443 |

Included in revenue from financing is interest revenue from affiliates is €10,602 (2014: €8,442). In 2015 and 2014 no interest income on individually assessed finance lease receivables is included in revenue from financing.

***Sales of used trucks***

In 2015 the Company remarketed 3,870 trucks and trailers (2014: 2,849 trucks and trailers).

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

| In €'000 | **2015** | 2014 |
|---|---|---|
| Revenue from sales of used trucks | 106,185 | 78,745 |
| Revenue from units early settled | 29,116 | 23,688 |
| **Total Revenue** | 135,301 | 102,433 |

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

| In €'000 | **2015** | 2014 |
|---|---|---|
| Cost of used trucks sold | 107,323 | 79,914 |
| Cost of units early settled | 29,024 | 23,279 |
| Used trucks transaction costs | 254 | 250 |
| **Total Revenue** | 136,601 | 103,443 |

## 21. INTEREST EXPENSE

| In €'000 | **2015** | 2014 |
|---|---|---|
| Interest expense commercial paper and term debt | 10,971 | 14,040 |
| Interest expense affiliated PACCAR company debt | 746 | 1,130 |
| Interest expense interest rate derivative contracts | 8,313 | 9,070 |
| Result on derivatives for hedging | (327) | (2,217) |
| Other, net | 2,228 | 2,659 |
| **Interest expense** | 21,931 | 24,682 |

Interest expense includes an amount of €4 (2014: €21) relating to exchange rate differences.
The result from amortization of cumulative fair value adjustments on hedged items in discontinued fair value hedges is zero (2014: €(369)). Included in "Other, net" are the expenses incurred for credit facilities (see note 18) as well as the amortization of costs of setting up and maintaining the Euro Medium Term Note program.

## 22. OTHER OPERATING EXPENSES

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

| In €'000 | **2015** | 2014 |
|---|---|---|
| Leasing expenses rental fleet | 246 | 244 |
| Other vehicle expenses | 19,936 | 24,084 |
| **Other operating expenses** | 20,182 | 24,328 |

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

## 23. SELLING AND ADMINISTRATIVE EXPENSE

| In €'000 | **Notes** | **2015** | 2014 |
|---|---|---|---|
| Salaries | | 8,467 | 7,877 |
| Pension costs | 27 | 549 | 1,152 |
| Social security costs | | 1,108 | 870 |
| Other personnel costs | | 463 | 422 |
| Depreciation on other assets | 10, 11 | 312 | 305 |
| Expenses cross charged by affiliated PACCAR companies | 25 | 14,052 | 13,049 |
| Other expenses | | 6,428 | 6,411 |
| **Selling and administrative expense** | | 31,379 | 30,086 |

At year end, 303 people were working for the Company (2014: 296) of which 83 were located in the Netherlands (2014: 76).

## 24. INCOME TAX EXPENSE

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

| In €'000 | **2015** | 2014 |
|---|---|---|
| Total income before taxes | 44,472 | 36,784 |
| | | |
| Income tax expense at statutory income tax rate | 11,118 | 9,196 |
| Effect of various tax rates in foreign operations | (119) | 32 |
| Effect of permanent differences | (1,234) | (840) |
| Benefit arising from a previously unrecognized tax loss that is used to reduce current tax expense | - | (2,335) |
| Benefit arising from a previously unrecognized tax loss that is used to reduce deferred tax expense | - | (6,789) |
| Deferred tax expense from de-recognition of deferred tax asset | 56 | 3,241 |
| Prior year adjustments | (695) | 772 |
| Income tax expense due to deferred income tax rate changes | 468 | 1,356 |
| Income tax expense at effective income tax rate of 21.6% (2014: 12.6%) | 9,594 | 4,633 |

The effective tax rate of 21.6% is higher than the 2014 effective tax rate of 12.6% mainly reflecting the recognition of the deferred tax assets position in Spain in 2014. The permanent differences mainly reflect a tax benefit for silent trucks in the Netherlands and the notional interest deduction in Belgium. The prior year adjustments relate to differences between income tax filings and the estimations of those differences in prior years.

*Deferred tax*

The current part of the taxation is €9,761 (2014: €4,001) and the deferred part of the taxation is €(167) (2014: €632). The movement of the deferred tax assets and liabilities through the income statement is disclosed in the note 9.

## 25. RELATED PARTY TRANSACTIONS

Related parties of the Company are:

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

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

***PACCAR Holding BV***

PACCAR Holding BV is the sole shareholder of the Company.

***PACCAR Inc***

PACCAR Inc is the ultimate parent company of the Company. PACCAR Inc has issued keep-well agreements on behalf of the Company's commercial paper and the Euro Medium Term Note programs. PACCAR Inc is the employer of some key managers of the Company (see below). PACCAR Inc charged €260 (2014: €437) 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.

***PACCAR Financial Corp.***

PACCAR Financial Corp. is the captive finance and lease company of PACCAR Inc in the U.S.A. It provides funding to the Company on both a short-term and medium-term basis when market conditions warrant. For both funding programs, the Company has entered into a loan agreement with PACCAR Financial Corp. The interest and other conditions are determined on an arm's length basis. In 2015 the company repaid the outstanding amount of €103,323. The company paid €572 interest expense in 2015 to PACCAR Financial Corp. (2014: €1,119). The company paid €1,168 (2014: €1,152) to PACCAR Financial Corp. relating to the maintenance of the term debt programs and the overdraft credit facilities (note 18).

***DAF Trucks NV and its subsidiaries***

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

<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 2015, DAF Trucks NV and its subsidiaries have assigned receivables for an amount of €3,122,496 (2014: €2,471,000) to the Company. At December 31, 2015 an amount of €16,870 (2014: €41,683) owed to DAF was outstanding. During 2015 interest income of €10,573 (2014: €8,394) was charged to DAF Trucks NV or its subsidiaries related to the wholesale financing. At December 31, 2015 a receivable of €7,921 (2014: €11,449) 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 2015 an amount of €80,163 (2014: €67,072) of trucks were purchased from DAF Trucks NV or its subsidiaries, to be leased out.

Used trucks remarketing

The Company sells certain trucks that have returned at the end of leases or that have been repossessed to the used trucks organization of DAF Trucks NV. During 2015 used trucks have been sold to DAF Trucks NV for remarketing for an amount of €5,028 (2014: €5,010). Selling price is principally based on market value.

Personnel and services

The people working for the PACCAR Financial Europe group are primarily employed by DAF Trucks NV or its subsidiaries. DAF Trucks NV and its subsidiaries provide general services, including shared office facilities for the PACCAR Financial Europe group. DAF Trucks NV and its subsidiaries charged €13,949 to the Company in 2015 (2014: €12,781) for the employees and services provided.

Taxes

The Company paid €369 income taxes to DAF Trucks NV (2014: €2,377). The Company forms a fiscal unity with DAF Trucks NV for income taxes. The company pays income tax to DAF Trucks NV as if it is independently liable for income tax.

***Leyland Trucks Ltd.***

During 2015 the Company paid Leyland Trucks Ltd €24 (2014: €6) for received services.

***Key management personnel of the Company***

Two members of the Board of Directors of the Company are employees of PACCAR Inc. For these members of the Board of Directors no remuneration costs were charged. The charge of the third member of the Board of Directors is included in the cross charge of DAF Trucks NV.

## 26. CASH FLOW STATEMENT

The net cash provided by operating, investing and financing activities includes interest paid for €20,758 (2014: €29,797) and interest received for €75,156 (2014: €68,105). The net cash provided by operating activities includes income tax paid for €9,453 (2014: €9,095) and income tax received for €4.566 (2014: €927).

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

| In €’000 | **2015** | 2014 |
|---|---|---|
| Inventory | (1,320) | (7,168) |
| Payables and other | 2,109 | 6,601 |
| Other, net | 789 | (567) |

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

## 27. POST EMPLOYMENT BENEFITS AND CONTINGENT LIABILITIES

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

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

The post-employment benefits are as follows:

***Belgium***

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

The pension liabilities are insured with an insurance company. A defined benefit asset of €175 (2014: €198) has been recognized as of December 31, 2015. In 2015 contributions of €48 (2014: €54) were recognized in “Selling and administrative expense” in the income statement.

***Italy***

PACCAR Financial Italia S.r.l. employee’s pensions are covered by the Italian State. The type of employee benefits depends on the number of years of contribution to the state pension plan. Depending on the employees’ situation, the pension can be based on the average salary, on the contributions paid or on the combination of these two bases. The Company has no other obligations than the payment of the contribution. In 2015 contributions of €201 (2014: €193) were recognized in “Selling and administrative expense” in the income statement.

***France***

PACCAR Financial France S.A.S. employee's pensions are covered by the French State. The Company has no other obligation than the payment of a contribution. In 2015 contributions of €80 (2014: €75) 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 2015 contributions of €37 (2014: €35) 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 2015 an amount of €183 (2014: €183) was paid to the Spanish State for social security and health assistance which was recognized in "Selling and administrative expense" in the income statement.

***Germany – PACCAR Financial Deutschland GmbH***

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

The pension liabilities are insured with an insurance company. A defined benefit liability of €334 (2014: €483) has been recognized as of December 31, 2015. In 2015 contributions of €0 (2014: €613) were recognized in "Selling and administrative expense" in the income statement.

## 28. EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period that relate to conditions that existed at the end of the reporting period have been included in these financial statements.

Signed:

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

R. A. Bengston
Directors PACCAR Financial Europe BV

April 7, 2016

**CORPORATE BALANCE SHEET AS OF DECEMBER 31, 2015**

(before appropriation of net result)

| In €'000<br>ASSETS | Notes | 2015 | 2014 |
|---|---|---|---|
| **Non-current assets** | | | |
| Financial fixed assets | 3 | 1,170,004 | 1,213,865 |
| **Current assets** | | | |
| Other current assets | 4 | 1,146,680 | 778.669 |
| Cash and cash equivalents | | 3,322 | - |
| **Total Assets** | | **2,320,006** | **1,992,534** |

| EQUITY AND LIABILITIES | | | |
|---|---|---|---|
| **Shareholder's equity** | | | |
| Paid-in capital | 5 | 13,000 | 13,000 |
| Additional paid-in capital | 5 | 224,046 | 224,046 |
| Foreign currency translation | 5 | (12) | (6,163) |
| Accumulated fair value changes of financial instruments | 5 | (4,495) | (6,767) |
| Retained earnings previous years | 5 | 121,112 | 88,961 |
| Net income | 5 | 34,878 | 32,151 |
| **Total Equity** | | **388,529** | **345,228** |
| | | | |
| Long-term debt and other non-current liabilities | 6 | 1,238,799 | 1,139,566 |
| Short-term debt | 7 | 692,678 | 507.740 |
| **Total Liabilities** | | **1,931,477** | **1,647,306** |
| **Total Equity and Liabilities** | | **2,320,006** | **1,992,534** |

## CORPORATE INCOME STATEMENT - 2015

| **In €'000** | **Year ended December 31** | |
|---|---|---|
| | **2015** | 2014 |
| Net income after income taxes from investments in consolidated group companies | 33,635 | 32,780 |
| Other income and expenses after income taxes | 1,243 | (629) |
| **Net income** | **34,878** | **32,151** |

**NOTES TO THE CORPORATE BALANCE SHEET AND CORPORATE INCOME STATEMENT - 2015**
(in thousands of Euros)

## 1. GENERAL NOTES

The corporate financial statements of PACCAR Financial Europe BV have been prepared in accordance with Part 9 Chapter 2 of the Netherlands Civil Code applying in its corporate financial statements the accounting principles as adopted in the consolidated financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements were prepared in accordance with Dutch statutory provisions and regulations. The financial statements are presented in accordance with the provisions of Section 362(8) of Part 9 of Book 2 of the Dutch Civil Code, which stipulates the application of consistent accounting policies in the company and consolidated financial statements except for the accounting policies stated below. The summary of the significant accounting policies refer to note 2 of the consolidated financial statements.

**Investments in group companies**
The investments in group companies only refer to the investment in PACCAR Financial Holdings Europe BV. The investment in PACCAR Financial Holdings Europe BV is accounted for at net asset value. The list of group companies can be found in note 2 of the consolidated financial statements.

**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) | **2015** | 2014 |
|---|---|---|
| Investments in group companies | 272,337 | 231,917 |
| Long-term advances to group companies | 888,868 | 980,018 |
| Deferred income tax assets non-current | 250 | 1,930 |
| Derivatives | 8,549 | - |
| **Financial fixed assets** | 1,170,004 | 1,213,865 |

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

| In €'000 | **2015** | 2014 |
|---|---|---|
| Book value as of January 1 | 231,917 | 193,461 |
| Foreign currency translation differences | 6,151 | 7,195 |
| Accumulated fair value changes financial instruments | 634 | (1,519) |
| Income on investments in group companies | 33,635 | 32,780 |
| Book value as of December 31 | 272,337 | 231,917 |

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

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

Long-term advances to group companies

| In €'000 | **2015** | 2014 |
|---|---|---|
| Book value as of January 1 | 980,018 | 849,564 |
| Increases | 1,020,768 | 386,650 |
| Redemptions | (1,111,918) | (256,197) |
| Book value as of December 31 | 888,868 | 980,018 |

The long term advances to group companies in 2015 and 2014 were Euro denominated. At December 31, 2015, 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, 2015 the average interest rate was 1.77% (2014: 1.99%).

Deferred income tax assets

| In €'000 | **2015** | 2014 |
|---|---|---|
| Book value as of January 1 | 1,930 | 4,167 |
| Increases / (Decreases) | (1,680) | (2,237) |
| Book value as of December 31 | 250 | 1,930 |

**Derivative contracts**

As of December 31, 2015, there was 1 (2014: -) interest rate swap outstanding with a notional amount of €5,200 (2014: €-) and an average term of 65.3 months and 2 (2014: 2) CHF cross currency swaps with a notional amount of €82,871 (2014: €82,871) and a remaining term of 14.2 months (2014: 26.2 months).

## 4. OTHER CURRENT ASSETS

| As of December 31 (in €'000) | **2015** | 2014 |
|---|---|---|
| Short term advances to group companies | 1,144,047 | 770,662 |
| Short term advances to affiliates | 164 | 3,000 |
| Derivatives | 182 | 3,069 |
| Prepaid expenses and other | 2,287 | 1,938 |
| Book value as of December 31 | 1,146,680 | 778,669 |

The short-term advances to group companies include advances denominated in GBP 264,752 (2014: GBP 124,646), advances in PLN 17,676 (2014: PLN 14,229) and advances in CZK 11,665. The advances to group companies are interest bearing with a monthly floating interest rate. At December 31, 2015, all short-term advances to group companies had a remaining term shorter than one year.

**Derivative contracts**

As of December 31, 2015, there were no cross currency contracts. As of December 31, 2014 one USD cross currency swap contract with a notional amount of € 55,000 and a remaining term of 5.1 months.
As of December 31, 2015 the Company had the following currency forwards:

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

As of December 31, 2014 the Company had the following currency forwards:

| Currency | Number of contracts | Notional amount in '000 | Remaining life time (days) | Exchange rate (€) |
|---|---|---|---|---|
| PLN | 1 | PLN 14,500 | 15 | 0.24 |
| USD | 2 | USD 50,000 | 9 | 0.81 |
| CZK | 3 | CZK 19,200 | 15 | 0.036 |

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

Short-term advances to group companies

| In €'000 | **2015** | 2014 |
|---|---|---|
| Book value as of January 1 | 770,662 | 926,283 |
| Increases | 2,368,342 | 1,699,122 |
| Redemptions | (2,019,384) | (1,885,666) |
| Interest | 19,228 | 19,729 |
| Foreign currency translation differences | 5,199 | 11,194 |
| Book value as of December 31 | 1,144,047 | 770,662 |

## 5. EQUITY

**Issued capital**

As of December 31, 2015 and 2014 130,000 ordinary shares at €100 nominal value were authorized, issued and outstanding. The movement in the components of equity is as follows:

| In €'000 | Paid-in capital* | Additional paid-in capital | Foreign currency trans-lation | Accumu-lated fair value changes financial instruments | Retained earnings previous years | Net income | **Total** |
|---|---|---|---|---|---|---|---|
| As of December 31, 2013 | 13,000 | 224,046 | (13,358) | (5,810) | 64,182 | 24,779 | 306,839 |
| Currency translation differences | | | 7,195 | | | | 7,195 |
| Loss on cash flow hedges recognized directly into equity, net | | | | (957) | | | (957) |
| Total income/ (loss) recognized directly into equity | | | 7,195 | (957) | | | 6,238 |
| Net income for the year | | | | | | 32,151 | 32,151 |
| Total income/ (loss) | | | 7,195 | (957) | | 32,151 | 38,389 |
| Appropriation of net income | | | | | 24,779 | (24,779) | |
| As of December 31, 2014 | 13,000 | 224,046 | (6,163) | (6,767) | 88,961 | 32,151 | 345,228 |
| Currency translation differences | | | 6,151 | | | | 6,151 |
| Loss on cash flow hedges recognized directly into equity, net | | | | 2,272 | | | 2,272 |
| Total incomerecognized directly into equity | | | 6,151 | 2,272 | | | 8,840 |
| Net income for the year | | | | | | 34,878 | 34,878 |
| Total income | | | 6,151 | 2,272 | | 34,878 | 43,301 |
| Appropriation of net income | | | | | 32,151 | (32,151) | |
| As of December 31, 2015 | 13,000 | 224,046 | (12) | (4,495) | 121,112 | 34,878 | 388,529 |

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.

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

| As of December 31 (in €'000) | **2015** | 2014 |
|---|---|---|
| Term debt | 1,231,037 | 1,133,501 |
| Derivative contracts | 7,762 | 5,297 |
| Deferred tax liabilities | - | 768 |
| **Long-term debt and other non-current liabilities** | 1,238,799 | 1,139,566 |

**Euro Medium Term Notes**

Since September 10, 2004, PACCAR Financial Europe BV has maintained a Euro Medium Term Note program. All notes outstanding as of December 31, 2015 are listed on the London Stock Exchange and SIX Swiss Stock exchange.

Terms of the Medium term note program include:

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

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

As of December 31, 2015 and 2014, the carrying amounts of the outstanding notes under the Euro Medium Term Notes program were as follows:

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| *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 | 800,000 | 0.27% | 16 | 1,050,369 | 0.77% | 18 |
| GBP denominated | 339,166 | 1.51% | 29 | | | |
| CHF denominated | 91,871 | 1.13% | 14 | 83,132 | 1.13% | 26 |
| Due within one year | 300,000 | | | 400,369 | | |
| Due after one year | 931,037 | | | 733,132 | | |

The effective interest rates are the weighted average interest rates including the effect of hedging instruments as of December 31, 2015 and December 31, 2014, respectively.

Included in the Euro denominated debt at December 31, 2015 is a fixed rate debt with a notional amount of €- million (2014: €300 million). At inception €240 million was designated as a hedged item in a fair value hedge. These hedges were discontinued. The remaining unamortized ineffectiveness for hedges discontinued in 2012 as per December 31, 2015 amounts was zero (2014: €369) (see notes 19 and 21).

**Derivative contracts**

As of December 31, 2015, there were 12 (2014: 18) interest rate swap contracts outstanding with a notional amount of €277,400 (2014: €550,300) and an average term of 28.5 months (2014: 25.6 months) and 4 (2014: -) GBP cross currency swap contract with a notional amount of €241,379 and a remaining term of 28.9 months.

## 7. SHORT-TERM DEBT

| As of December 31 (in €'000) | **2015** | 2014 |
|---|---|---|
| Commercial paper | 686,582 | 365,230 |
| Short-term payables to group companies | 789 | 78,707 |
| Short term payables | 33 | 56,827 |
| Accounts payable affiliates | 44 | 51 |
| Derivative contracts | 1,968 | 2,054 |
| Accrued interest | 3,262 | 4,775 |
| Other | - | 96 |
| **Short-term debt** | 692,678 | 507,740 |

**Commercial paper**

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

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

As of December 31, 2015 and 2014, the carrying amounts of the outstanding notes under the commercial paper program were as follows:

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| *Currency* | *Amount (in €'000)* | *Effective interest rate* | *Weighted average number of days to repayment in 2015* | *Amount (in €'000)* | *Effective interest rate* | *Weighted average number of days to repayment in 2014* |
| Euro denominated | 281,100 | (0.07)% | 30 | 214,489 | 0.04% | 32 |
| GBP denominated | 359,450 | 0.52% | 16 | 109,413 | 0.43% | 37 |
| USD denominated | 46,032 | 0.28% | 9 | 41,328 | 0,17% | 9 |
| Total | 686,582 | 0.26% | 21 | 365,230 | 0.22% | 31 |

The effective interest rates are the weighted average interest rates as of December 31, 2015 and December 31, 2014, respectively.

**Derivative contracts**
As of December 31, 2015, there were 8 EUR interest rate swap contracts outstanding with a notional amount of €352,900 and a remaining term of 8.0 months (2014: nine contracts with a notional amount of €237,100 and remaining term of 9.5 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 severable responsible.

## 9. OTHER DISCLOSURES

**Employees**
The Company has no employees.

**Remuneration directors**
No remuneration has been paid in 2015 to current or former directors.

**Events after the reporting period**
Events after the reporting period that relate to conditions that existed at the end of the reporting period have been included in these financial statements.

**Auditor's fees**
In 2015 an amount of €430 (2014: €423) was recorded for auditor's fees relating to Ernst & Young Accountants LLP. Of these amounts €410 (2014: €396) relates to audit services and €20 (2014: €27) relates to audit-related services.

**List of capital investments**

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

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

Signed

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

R. A. Bengston
Directors PACCAR Financial Europe BV

April 7, 2016

**INFORMATION SUPPLEMENTING THE FINANCIAL STATEMENTS**

**Articles-of-association rules concerning result appropriation**

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

**Net income appropriation 2015**

The proposal to the shareholder's meeting is to add the net income for the period ended December 31, 2015 to the retained earnings of previous years.

**Independent auditor's report**

To: Assembly of Shareholders of PACCAR Financial Europe B.V.

**Report on the Audit of the Financial Statements 2015**

***Our Opinion***

We have audited the financial statements 2015 of PACCAR Financial Europe B.V., based in Eindhoven, the Netherlands. The financial statements include the consolidated financial statements and the corporate financial statements.

In our opinion:

- The consolidated financial statements give a true and fair view of the financial position of PACCAR Financial Europe B.V. as at 31 December 2015, and of its result and its cash flows for 2015 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 corporate financial statements give a true and fair view of the financial position of PACCAR Financial Europe BV as at 31 December 2015, and of its result for 2015 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position as at 31 December 2015.
2. The following statements for 2015:
   The consolidated statements of comprehensive income, changes in equity and cash flows; and
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The corporate financial statements comprise:

1. The corporate balance sheet as at 31 December 2015;
2. The corporate profit and loss account for 2015; and
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

***Basis for 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 B.V. in accordance with the Regulation regarding the independence of accountants in the case of assurance engagements (Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten or ViO) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Regulation code of conduct and professional practice accountants (Verordening gedrags- en beroepsregels accountants or VGBA).

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

**Materiality**

| | |
|---|---|
| Materiality | € 2 million |
| Benchmark used | 5% of income before income taxes |
| Additional explanation | We believe that income before income taxes to be the financial statement measure most important to users of the financial statements. |

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

***Scope of our group audit***

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

The Group has structured its activities in 14 legal entity components, of which four are located in the Netherlands and 10 in other European countries. The foreign components mainly contain the equipment on operating lease and other finance receivables of the Group in each respective country.

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

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

We have performed audit procedures ourselves at the group entities located in the Netherlands and used the work of other auditors (who are all members of the EY network) when auditing the group entities in Belgium, Germany, the United Kingdom, France, Spain, Italy and Poland. In aggregate these components represent 99% of Total Assets; 99% of Revenue and 99% of Income before income taxes.
The components located in the Czech Republic (PACCAR Financial CZ s.r.o.) and in Slovakia (PACCAR Financial Slovakia s.r.o.) were not in scope due to their limited size and assessed risks.

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

***Our Key Audit Matters***

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

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

| Risk | Our audit response |
|---|---|
| *Impairment of Finance and other receivables* | |
| We focused on this area because of the significance of finance and other receivables in the financial statements, and because it involves complex and highly subjective estimates regarding the size, timing and recognition of impairment losses caused by credit defaults. Management uses a combination of individual assessments and collective assessments on a portfolio level to determine the overall credit loss provision.<br><br>In particular we focused on the main assumptions used in management's calculations, the methodology applied in the models used to make these calculations, and any adjustments to the results of these models.<br><br>We refer to the Summary of significant accounting policies (Note 2) and Notes 8 and 18 of the financial statements. | We tested the design and operating effectiveness of the controls governing the credit loss process, which included controls regarding the monitoring of the loan and lease portfolio and management's periodical assessment of the adequacy of the credit loss provision.<br><br>For individually calculated impairments, we tested a sample of items and assessed the timely identification of loss events, future cash flow forecasts and management's assumptions regarding, for instance, collateral valuation. This includes forborne (finance) receivables.<br><br>For collectively calculated impairments, we verified the correctness of the input data used in the models, and challenged management's main assumptions using loss history data and our own experience regarding such variables as default rates, collateral valuation and discount rates. We assessed the methodology of the models and their operation, as well as any adjustments made to the results of the calculations. |
| *Revenue Recognition* | |
| We particularly focused on the following aspects of revenue recognition: | We tested the design and operating effectiveness of the controls governing the leasing processes, which included controls regarding the authorization, recording and classification of lease contracts and the administrative split into revenues from financing and |

| Risk | Our audit response |
|---|---|
| **Lease classification**<br>We focused on this area because of the importance of correct classification of lease contracts as either operating lease or finance lease in the financial statements, given that incorrect classification can have a large impact on the timing of income recognition. Management uses standard contract types that are classified as either operating lease or finance lease following pre-defined criteria, such as the estimated residual value of the lease object at the end of the contract.<br><br>**Agent/principal**<br>We focused on this area as the Group typically offers administrative services in relation to financing or operating lease contracts, such as repair and maintenance, insurance, road tax, etc. Although the Group is represented in the contracts, generally only credit risks are borne by the Group as all contracts are fully backed by suppliers (mostly DAF Trucks N.V. and insurance companies).<br>As the Group deals as an agent rather than as a principal in these instances, no revenues are recorded for these services, other than fees (margin) and interest.<br><br>**Application of IAS 16.68A**<br>The Group routinely sells trucks from inventory that have been held as equipment on operating lease for rental to others. The proceeds from the sale of such trucks shall be recognized as revenue in accordance with IAS 18 *Revenue.*<br><br>We refer to the Summary of significant accounting policies (Note 2) and Note 20 of the financial statements. | rental contracts and fees from administrative services.<br><br>In particular we focused on the criteria used by management to govern correct lease classification, and on the timeliness of the resulting revenue recognition as well as the fair market value split of total invoiced amounts in financing and rental contracts and fees for repair and maintenance, insurance, etc.<br><br>We assessed the correctness of management's classification criteria for new contract types, challenging management's assumptions regarding residual value determination, economic life, fair value and other variables. Furthermore we examined the effect of renegotiated contracts causing possible reclassifications, and (the absence from) any subsequent adjustments made to lease classification by management.<br><br>We tested the design and operating effectiveness of the controls governing the sales of used trucks. In particular, we focused on the administrative split between revenues of trucks sold that were used for rental to others and all other trucks sold. |
| *Residual value estimation* | |
| We focused on this area because of the pervasiveness of residual value estimates in many areas of accounting for operating leases, such as impairments and the timeliness of revenue recognition. Estimates of residual value are performed at inception of each operating lease contract to determine the monthly lease term and depreciation expense, and each quarter for all active | We tested the design and operating effectiveness of the controls governing the leasing and impairment processes, which included controls regarding the determination of residual value upon inception of a lease contract and management's assessment of the need to recognize impairment losses on the active operating lease portfolio. We also tested the design of |

| Risk | Our audit response |
| --- | --- |
| operating lease contracts in the Group's portfolio to assess the need for accelerated depreciation and/or impairments on the underlying lease objects. Management exercises judgment in the estimation of these residual values, and makes use of complex models and external pricing data to make these estimates as accurately as possible for each individual asset under operating lease.<br><br>In particular we focused on the main assumptions used in the models, such as return rates and expected price increases for second hand trucks, and on the operation of the models.<br><br>We refer to the Summary of significant accounting policies (Note 2) and Notes 7 and 18 of the financial statements. | the controls included in the asset management process.<br><br>We examined the correct operation of management's model for asset impairments on the active portfolio, and challenged assumptions regarding return rates, subsequent price changes and other variables using external data and our own experience. We assessed the plausibility of management's assumptions regarding the pricing of individual lease objects based on their particular technical specifications. Furthermore we tested the accuracy of management's past residual value estimates, for instance by analyzing the results of the sale of off-lease objects. |

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

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

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

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

***Our Responsibilities for the audit of the Financial Statements***

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

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

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

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

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

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

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

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

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

***Report on other legal and regulatory requirements***

Report on the Financial Review by Management and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the management board report and other information):

- We have no deficiencies to report as a result of our examination whether the Financial Review by Management, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the Financial Review by Management, to the extent we can assess, is consistent with the financial statements.

***Engagement***

We were engaged by the General Meeting of Shareholders as independent auditor of PACCAR Financial Europe B.V. 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.

Amsterdam, 7 April 2016

Ernst & Young Accountants LLP

signed by P.J.A.J. Nijssen