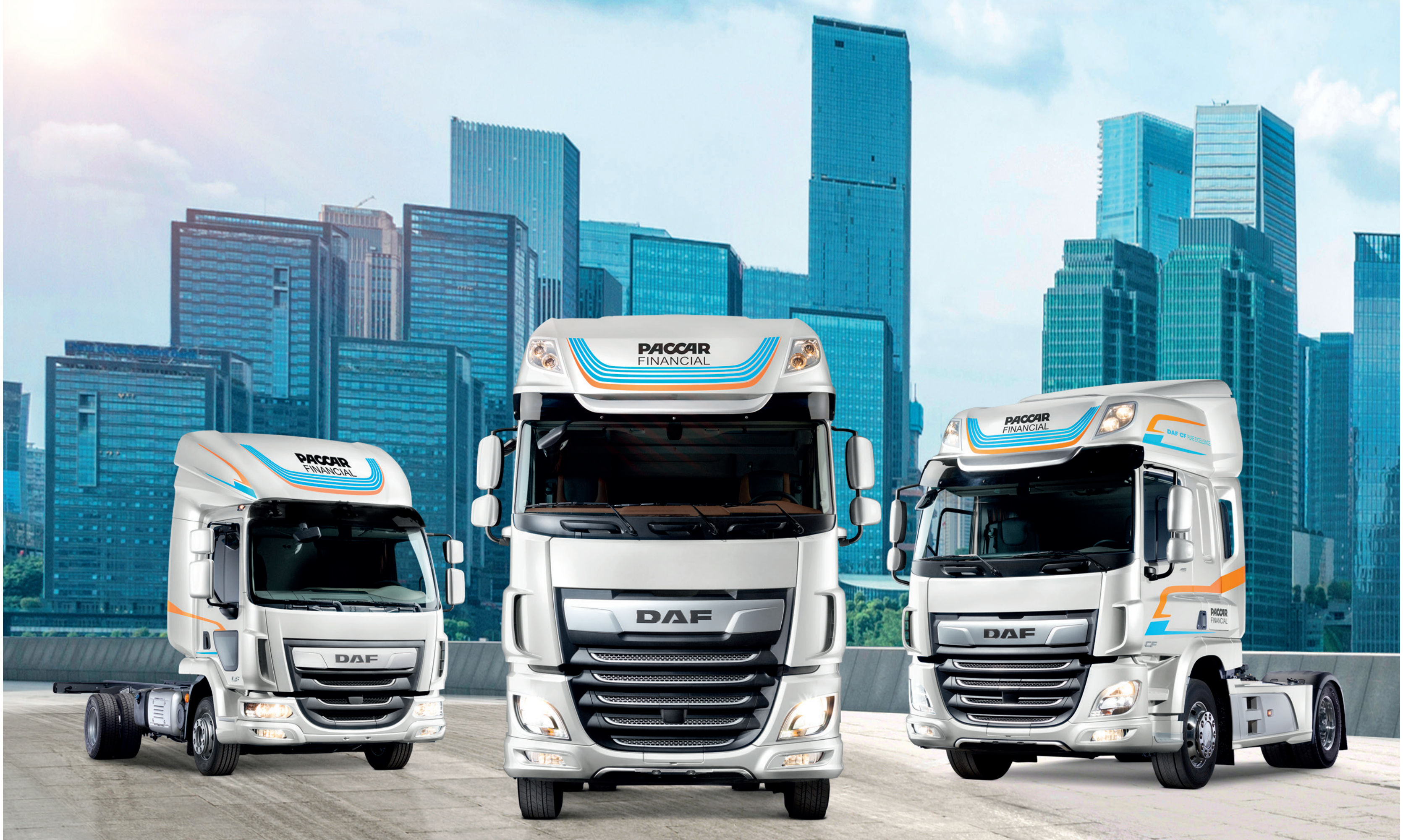
PACCAR Financial Europe
Financial Statements 2019



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5643 TW Eindhoven
The Netherlands

PACCAR FINANCIAL

DAF

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FINANCIAL REVIEW BY MANAGEMENT

General

PACCAR Financial Europe BV ("the Company") is an indirect wholly owned subsidiary of PACCAR Inc ("PACCAR") headquartered in Bellevue, Washington, USA and provides financing of trucks and related equipment manufactured primarily by DAF Trucks NV ("DAF") and principally sold by independent authorized DAF dealers. The Company also finances DAF dealer inventories of new and used DAF trucks. The Company provides short term and long term truck and trailer rental services through its full service lease subsidiary, PACCAR Leasing GmbH (PacLease). Furthermore, the Company is responsible for the remarketing of used trucks returning from its own portfolio as well as the trucks returning under a buy-back guarantee provided by DAF.

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

2019 Group Results compared to 2018

The Western European above 16 ton truck market increased 0.4% to 320,000 registrations (2018: 319,000). The 6-16 ton truck market in Western Europe increased 3% to 53,600 registrations (2018: 51,900).

The Company provided retail financing for 27.2% of DAF trucks registered in all European markets in which the Company operated in 2019 compared to 25.9% in 2018.

The portfolio of finance receivables and equipment on operating leases increased from €2.5 billion to €2.8 billion at December 31, 2019. The higher asset base reflects the strong truck markets in 2019 resulting in portfolio growth in almost all markets where the Company is operating. Dealer wholesale receivables increased to €631 million at December 31, 2019 from €625 million at December 31, 2018 reflecting higher build rates at DAF. Commercial paper, loans and term debt, on which the Company pays interest, increased to €3.0 billion at the end of 2019 from €2.7 billion, consistent with the asset growth.

Company revenue increased by €115.6 million to €558.4 million reflecting higher used truck revenues, higher rental income and higher revenue from financing reflecting the increasing portfolio. The Company reported pre-tax income of €17.1 million for the year ended December 31, 2019, compared to pre-tax income of €47.8 million in 2018. The pre-tax result is impacted by a challending used trucks market. The pre-tax result reflects the increase of cost of sales, higher interest expense, higher depreciation of operating leases, higher impairment and higher selling and administrative expenses partially offset by higher revenue. Despite the decrease in pre-tax result, earnings before interest, tax, depreciation and amortization increased by €11.9 to €240.9.

Net income in 2019 is €12.8 million compared to 2018 net income of €35.7 million. The effective tax rate of 24.9% decreased from 25.3%.

The end of year number of employees increased 9.8% from 379 in 2018 to 416 in 2019.

New Markets

The Company obtained a banking license in Brazil and commenced business in July 2019. In 2019 the Company financed 577 new DAF units in Brazil representing a market share of 32.3%.

Risks and Risk Management

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

Sales of DAF products

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

Competitive risk

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

Foreign currency risk and translation risk

The Company's consolidated financial results are reported in Euro while a significant part of the Companies operations are denominated in GBP. Currency exchange rate fluctuations can affect the Company's assets, liabilities and results of operations through both translation and transaction risk, as reported in the Company's financial statements. The Company uses certain derivative financial instruments to reduce, but not eliminate, the effects of foreign currency exchange rate fluctuations. The Company strives to limit the effects of foreign currency exchange rate fluctuations to net investments in foreign currency entities. Foreign currency risk and financial instruments are further disclosed in notes 19 and 20 of the consolidated financial statements.

Interest rate risk

The Company is subject to interest rate risks, because increases in interest rates can reduce demand for its products, increase borrowing costs and potentially reduce interest margins. The Company uses derivative contracts to match the interest rate and related currency characteristics of its debt to interest rate characteristics of its finance receivables in order to mitigate the risk of changing interest rates. The effectiveness of hedging interest rate risk and other information about interest rate risk and financial instruments are further disclosed in notes 19 and 20 of the consolidated financial statements.

Residual value risk

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

Credit risk

Credit risk is the risk that a counterparty will be unable to repay amounts in full when due. Before financing equipment, the Company evaluates the creditworthiness of customers utilizing both internal and external sources of information. A separate credit department is responsible for establishing guidelines for granting credit to customers. Business origination and the credit department work independently within the Company. Credit policy, procedures and risk analysis methods establish the framework for credit control, in order to provide consistent procedures in risk analysis and credit decisions. Credit risk is further disclosed in note 19 of the consolidated financial statements.

Liquidity risk

Disruptions or volatility in the European financial markets could limit the Company’s sources of liquidity, or the liquidity of customers and dealers. The Company is exposed to liquidity risk from the potential limited market availability of funds at the time of repayment of short-term and long-term debt. The Company’s policies strive to mitigate liquidity risk by overdraft and credit facilities. Debt maturities are managed to reflect the maturity profile of the assets. The Company, including its wholly owned subsidiary in the U.K., PACCAR Financial Plc, funds it’s financing activities through a €2.0 billion Commercial Paper (CP) program, a €2.5 billion Euro Medium Term Note (EMTN) program and loans from other PACCAR group companies. The CP program is rated A-1 and the EMTN program is rated A+ by Standard & Poor’s Rating Services. These programs are supported by a keep-well agreement from PACCAR Inc. A lowering of the Company’s credit ratings could increase the cost of borrowing and adversely affect access to capital markets.

The Company was able to meet its 2019 financing needs through collections on outstanding loans and leases, the issue of commercial paper, Euro Medium Term Notes and loans from other PACCAR group companies.

Back-up liquidity is provided to the Company through overdraft and credit facilities and PACCAR’s consolidated cash. The capital and liquidity policies are further disclosed in notes 19 and 20 to the consolidated financial statements.

In 2020 the Company attracted a new three years A+ rated Euro Medium Term Notes Program amounting to €300 million.

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

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

The Company's reputation and its brand name are valuable assets and claims or regulatory actions, even unsuccessful or without merit, could adversely affect the Company's reputation and the brand image. An extensive compliance program is in place to ensure that employees are aware of applicable rules and regulations. On 31 December 2019, as in the previous year, the company had no special reserves for lawsuits.

Director appointments
H. C. A. M. Schippers was appointed as director of the Company succeeding Mr. R.E. Armstrong who retired.

2020 Outlook
It is estimated that European truck industry sales in the above 16-ton market in 2020 will be in the range of 260,000 - 290,000 vehicles. With a class-leading product range, top quality services and a strong dealer network, DAF is well positioned to grow market share in the coming years.

The Company expects its finance receivables and equipment on operating lease portfolio in 2020 to increase modestly by growing new business in current markets and further entering new markets through cross border leasing. The Company will further continue to expand its used trucks resale locations. Capital Investments in systems will be at the same level as 2019. The Company expects to continue to meet its debt funding needs in 2020 through the public debt market and loans from other PACCAR group companies. Furthermore, the value of the Company's collateral is expected to be comparable to the current levels.

The Company continues to manage its selling and administrative expenses commensurate to economic circumstances. The average number of people working for the Company is expected to grow slightly in 2020 reflecting the increasing business.

Forward Looking Statements

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

Recent Developments

The current Covid-19 outbreak most likely impacts the global economy and the Company's financial position and results. The Covid-19 outbreak has resulted in temporary work stoppages in the DAF factories in Europe. If these stoppages were to be prolonged or expanded in scope, this could impact DAF's ability to deliver trucks to customers on schedule and as a consequence the Company's ability to finance. Furthermore, significant impact will be on the expected credit losses and used trucks results. Currently the Company is monitoring any financial impact attributable to the Covid-19 outbreak.
Given the uncertainties and ongoing development the Company cannot accurately measure the quantitative impact. As the Company has access to additional funding resources, the Company will be able to meet it financing needs in 2020.

Eindhoven, The Netherlands
April 8, 2020

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

T. R. Hubbard
Directors PACCAR Financial Europe BV

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019
(Before appropriation of net income)

In €’000

ASSETS	**Notes**	**2019**	2018
Cash and cash equivalents	4	66,335	38,398
Wholesale receivables, net	5	631,403	624,722
Inventory	6	129,877	104,320
Prepaid expenses and other current assets	7	33,833	42,471
Equipment on operating lease, net	8	1,187,269	950,285
Finance and other receivables, net	9	1,583,990	1,545,681
Deferred income tax assets	10	22,638	17,220
Other non-current assets	11	26,361	25,223
Intangible assets	12	11,301	8,019
Total Assets		**3,693,007**	**3,356,339**

LIABILITIES & EQUITY			
Liabilities			
Accounts payable, accrued expenses and other	13	77,940	91,069
Commercial paper, bank loans and other short-term debt	14	1,068,888	828,331
Term debt	15	1,958,000	1,886,985
Deferred income tax liabilities	10	291	1,119
Other non-current liabilities	16	26,830	17,806
Total Liabilities		**3,131,949**	**2,825,310**
Shareholder Equity			
Paid-in capital	17	73,000	73,000
Additional paid-in capital	17	224,046	224,046
Foreign currency translation	17	(18,900)	(27,783)
Accumulated fair value changes of financial instruments	17	4,367	(3,975)
Retained earnings previous years		265,741	230,045
Net income		12,804	35,696
Total Shareholder Equity		**561,058**	**531,029**
Total Liabilities and Equity		**3,693,007**	**3,356,339**

CONSOLIDATED INCOME STATEMENT - 2019

In €'000	Notes	Year ended December 31	
		2019	2018
Revenue	21	**558,370**	**442,805**
Cost of sales used trucks	21	250,893	153,519
Interest expense	22	14,962	11,678
Depreciation and operating expense - operating leases	8	208,844	169,594
Other operating expense	23	21,498	22,634
(Release of) / addition to allowance for impairment losses	9	1,051	(1,926)
Selling and administrative expense	24	44,063	39,531
		541,311	**395,030**
Income before income taxes		**17,059**	**47,775**
Income tax expense	25	4,255	12,079
Net income		**12,804**	**35,696**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - 2019

In €'000	Notes	Year ended December 31	
		2019	2018
Net income		**12,804**	**35,696**
Other comprehensive income / (loss)			
Foreign currency translation	17	8,883	(3,181)
Movement on cash flow hedges	17	10,407	2,622
Income tax effect	17	(2,065)	(754)
Net movement on financial instruments		8,342	1,868
Total other comprehensive income to be reclassified to income statement in subsequent periods		17,225	**(1,313)**
Total comprehensive income, net of tax		**30,029**	**34,383**

CONSOLIDATED STATEMENT OF CASH FLOWS – 2019

In €'000	Notes	Year ended December 31	
		2019	2018
Operating activities:			
Net income		**12,804**	**35,696**
Taxes paid		(14,292)	(12,884)
Taxes received		419	629
Acquisition of equipment on operating lease	8	(604,387)	(464,048)
Disposal of equipment on operating lease	8	167,247	136,114
Net decrease / (increase) in wholesale receivables	5	(19,603)	(104,111)
Items included in net income not affecting cash:			
Depreciation and amortization	8,11,12	204,715	166,673
Allowance for impairment	5,9	1,051	(1,051)
Deferred income tax expense	10	(6,321)	(1,481)
Derivative contracts	20	24,258	(69,238)
Net foreign exchange differences		9,320	1,752
Other, net	27	(6,847)	(84,766)
Net cash used in operating activities		**(231,636)**	**(396,715)**
Investing activities:			
Finance and other receivables originated	9	(602,039)	(689,566)
Collections on finance and other receivables	9	565,843	588,200
Acquisition of property, plant & equipment	11	(292)	(279)
Acquisition of software	12	(3,530)	(5,086)
Other, net		40	(441)
Net cash used in investing activities	27	**(39,978)**	**(107,172)**
Financing activities:			
Net proceeds from / (payments on) Commercial Paper	14	236,196	131,525
Net change in short term bank loans	14	3,324	-
Net proceeds from affiliates	13, 14, 15	62,500	393,442
Net (payments on) Medium Term Notes	15	(1,317)	(4,648)
Payment of lease liabilities	18	(1,059)	-
Net cash used in financing activities	27	**299,644**	**520,319**
Net foreign exchange difference on cash		(93)	(110)
Net (decrease) increase in cash and cash equivalents		**27,937**	**16,322**
Cash and cash equivalents at beginning of period	4	38,398	22,076
Cash and cash equivalents at end of period		**66,335**	**38,398**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - 2019

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, 2017	73,000	224,046	(24,600)	(5,843)	197,208	34,534	498,345
Effect of application IFRS 9	-	-	(2)	-	(1,697)	-	(1,699)
Restated as of January 1, 2018	73,000	224,046	(24,602)	(5,843)	195,511	34,534	496,646
Net income	-	-	-	-	-	35,696	35,696
Other comprehensive income	-	-	(3,181)	1,868	-	-	(1,313)
Total comprehensive income	-	-	(3,181)	1,868	-	35,696	34,383
Appropriation of net income	-	-	-	-	34,534	(34,534)	-
As of December 31, 2018	73,000	224,046	(27,783)	(3,975)	230,045	35,696	531,029
Effect of application IFRS 16	-	-	-	-	-	-	-
Restated as of January 1, 2019	73,000	224,046	(27,783)	(3,975)	230,045	35,696	531,029
Net income	-	-	-	-	-	12,804	12,804
Other comprehensive income	-	-	8,883	8,342	-	-	17,225
Total comprehensive income	-	-	8,883	8,342	-	12,804	30,029
Appropriation of net income	-	-	-	-	35,696	(35,696)	-
As of December 31, 2019	73,000	224,046	(18,900)	4,367	265,741	12,804	561,058

* See note 17.

NOTES TO THE CONSOLIDATED STATEMENTS - 2019

1. GENERAL NOTES

Description of the business
PACCAR Financial Europe BV (the "Company"), Eindhoven, The Netherlands (registration number 17133742), is an indirect wholly owned subsidiary of PACCAR Inc ("PACCAR") headquartered in Bellevue, Washington, USA. The Company's 100% direct parent is PACCAR Holding BV ("Parent"), Eindhoven, The Netherlands.

These consolidated financial statements comprise the Company and its subsidiaries (collectively the 'Group' and individually 'Group companies'). The Company provides financing of trucks and related equipment manufactured primarily by DAF Trucks NV ("DAF") and mainly sold by independent authorized DAF dealers. The Company finances dealer inventories of new and used DAF trucks ("wholesale finance"). The finance activities for end users of the equipment, including finance leases and operating leases, are indicated throughout these financial statements as "retail finance". Furthermore, the Company administers residual value guarantees to third parties in the United Kingdom. The risk relating to these residual value guarantees remains with DAF. The Company provides short term and long term truck and trailer rental services through its full service lease subsidiary, PACCAR Leasing GmbH (PacLease). This activity is indicated throughout these financial statements as 'rental'. Furthermore, the Company is responsible for the remarketing of used trucks returning from its own portfolio as well as the trucks returning under a buy-back guarantee provided by DAF. The risk on these trucks remain with DAF. The Company receives a fee for these services.

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

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

Financial reporting period
These financial statements cover the year 2019, which ended at the balance sheet date of 31 December 2019.

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

This is the first set of the Company's annual financial statements in which IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in this note.

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

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

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

- Amendments to IFRS 9 - Prepayment Features with Negative Compensation, effective January 1, 2019
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures, effective January 1, 2019
- IFRS 16 – Leases, effective January 1, 2019
- IFRIC 23 – Uncertainty over Income Tax Treatments
- Annual Improvements to IFRS 2015-2018 Cycle – IFRS 3 Business Combinations - Previously held Interests in a joint operation, effective January 1, 2019
- Annual Improvements to IFRS 2015-2018 Cycle – IFRS 11 Joint Arrangements - Previously held Interests in a joint operation, effective January 1, 2019
- Annual Improvements to IFRS 2015-2018 Cycle – IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity, effective January 1, 2019
- Annual Improvements to IFRS 2015-2018 Cycle – IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation, effective January 1, 2019
- Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement, effective January 1, 2019
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, effective January 1, 2019

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2019.

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

- Amendments to 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
- IFRS 17 – Insurance Contracts, effective January 1, 2021

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

- Amendments to References to the Conceptual Framework in IFRS Standards, effective January 1, 2020
- Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform
- Amendments to IAS 39 Financial Instruments: Recognition and measurement and IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8 – Definition of Material, effective January 1, 2020
- Amendments to IFRS 3 – Definition of a Business, effective January 1, 2020

Authorization of the financial statements

On April 8, 2020, the Board of Directors authorized the issuance of the Company's 2019 financial statements at the shareholder meeting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The financial statements are prepared under the historical cost convention except for the derivative financial instruments. These have been measured at fair value.

Going concern
These financial statements have been prepared on the basis of the going concern assumption. (See Note 29).

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

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

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

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

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted subsidiaries are eliminated against the investment to the extent of the Company's interest in the subsidiary in the company financial statements.

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

Group company	*Share in Capital*	*Country of incorporation*	*Date of transfer of control to The Company*
PACCAR Financial Holdings Europe BV	100%	Netherlands	March 15, 2001
PACCAR Financial Nederland BV	100%	Netherlands	March 15, 2001
PACCAR Financial Deutschland GmbH	100%	Germany	May 29, 2001
PACCAR Financial France S.A.S.	100%	France	May 30, 2001
PACCAR Financial Plc	100%	United Kingdom	March 29, 2001
PACCAR Financial Belux BVBA	100%	Belgium	May 28, 2001
PACCAR Financial España S.L.	100%	Spain	June 5, 2001
PACCAR Financial Italia S.r.l.	100%	Italy	April 5, 2001
PACCAR Financial Services Europe BV	100%	Netherlands	December 31, 2003
PACCAR Leasing GmbH	100%	Germany	May 31, 2007
PACCAR Financial Polska Sp. z o.o.	100%	Poland	August 29, 2008
PACCAR Financial CZ s.r.o.	100%	Czech Republic	October 22, 2013
PACCAR Financial Slovakia s.r.o.	100%	Slovakia	May 30, 2015
PACCAR Participações Ltda	100%	Brazil	January 18, 2018
Banco PACCAR S.A.	100%	Brazil	July 20, 2018
PACCAR Portugal, Unipessoal, Lda	100%	Portugal	August 28, 2018

No significant restriction exists on the ability of the subsidiaries to transfer funds to the Company.

Use of estimates and judgements

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

Assumptions and estimation uncertainties

The most important assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment relate to the collectability of receivables from loan and lease agreements and the residual value of leased equipment. The risk of uncollectability is taken into account in the allowances for impairment. For further details, see the accounting principles on allowances for impairment on wholesale receivables, finance receivables and impairment of equipment on operating lease and notes 5, 8 and 9. Residual values are reviewed periodically and depreciation is adjusted if market conditions warrant. This review includes analysis of actual used trucks market data of the different truck types and by market.

For the assumptions used to determine the fair value of derivatives, see the accounting principles on derivative financial instruments and note 20.

Judgements
Judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the lease classification. The Company uses standard contract types that are classified as either operating lease or finance lease following pre-defined criteria. See the accounting principles on operating lease and finance lease and note 21.

Changes in accounting policies
Except for the changes below, the Company has consistently applied the accounting policies set out in note 2 to all periods presented in these consolidated financial statements. The nature and effect of the changes are explained below.
The Company has applied IFRS 16 from January 1, 2019. A number of other new standards and amendments are also effective from 1 January 2019 but these do not have a material effect on the Group's financial statements. These new standards and amendments are as follows.

IFRS 16 – Leases
The Company has initially applied IFRS 16 Leases from 1 January 2019. The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

A. Definition of a lease
Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease as included in IFRS 16.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee
As a lessee, the Company leases many assets including property, cars and IT equipment. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

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

i. Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at:

– an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Company applied this approach to all leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

– did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
– did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
– excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
– used hindsight when determining the lease term.

C. As a lessor

The Company classified each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Company has no sub-leases. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases.

The Company has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

D. Impact on financial statements

i. Impact on transition

On transition to IFRS 16, the Company recognised additional right-of-use assets, including investment property, and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

In €'000	Impact of adopting IFRS 16 at 1 January
Right of use assets – Land & Buildings	1,758
Right of use assets – Equipment	996
Lease liabilities	(2,732)
Deferred rent – Accounts payable, accrued expenses and other	(22)

Land & Buildings and Equipment are part of the Company's other non-current assets.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 1.43%.

Foreign currency

Foreign currency transactions

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

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

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

	Dec. 31, 2019	Average 2019	Dec. 31, 2018	Average 2018
GBP/€	1.1823	1.1407	1.1122	1.1303
US$/€	0.8918	0.8933	0.8721	0.8466
PLN/€	0.2350	0.2327	0.2333	0.2349
CZK/€	0.0393	0.0390	0.0388	0.0390
BRL/€	0.2213	0.2268	0.2251	0.2332
AUD/€	0.6261	0.6212	0.6147	0.6330

Financial assets at amortised cost – Derivative financial assets

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

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

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

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

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

Non-derivative financial assets and financial liabilities – recognition and derecognition
The Company initially recognizes financial assets at amortized cost ("loans and receivables") and debt issued on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

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

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

Financial assets at amortized costs – Non derivative financial assets

Classification of contracts

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

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

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

Wholesale receivables

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

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

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

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

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

When a customer voluntarily returns the equipment, the Company repossesses the equipment through legal action or the customer returns the equipment at the end of the lease, the equipment is accounted for as used trucks inventory at the lower of the carrying amount of the equipment on operating lease or its net realizable value. In case of repossession or voluntary return of the equipment during the contract term or return of the equipment at the end of the lease, any excess of the carrying amount over the fair value is recorded as an impairment of equipment on operating lease. This difference is recorded in “Depreciation and operating expense – operating leases”.
On a regular basis, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

iii Presentation of allowance for ECL in the statement of financial position
Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

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

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

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

Deferred income tax liabilities and assets are recognized for temporary differences between the carrying amounts of assets and liabilities in the Statement of Financial Position and their tax bases, which will result in taxable or deductible temporary differences. Deferred income tax benefits, including net operating loss carry-forwards, consider the probability that sufficient taxable income will be available against which these differences can be utilized. When future taxable income is not likely to be earned, the operating loss carry forwards and deferred income tax benefits are not recognized. Deferred income tax assets and liabilities are valued at the current or enacted income tax rates applicable in the year in which the deferred income taxes are expected to reverse into taxable income (see note 10).

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

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

Financial liabilities originated from funding
Euro Medium Term Notes (EMTN), long-term advances from affiliates, commercial paper and short-term advances from affiliates are initially recognized at fair value. Subsequently the effective interest method is used to measure these debt obligations from fair value at inception to the redemption value over the lifetime of the liability. The costs related to the Company's credit facilities (note 19) and the cost to set up and maintain the Euro Medium Term Note program are recognized in the income statement over the credit facility life and the term of the notes issued, respectively.

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

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

Revenue

Operating leases

The operating lease rental income and support income are recognized in the income statement on a straight line basis over the contract term and presented in note 21 as “Rental income”.

Finance leases

The interest income and support income, net of commission expenses on finance leases are recognized in the income statement on a constant rate of return basis and presented in note 21 as “Revenue from financing”.

Retail finance fee income

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

Interest income wholesale financing

Interest from wholesale financing is recognized in the income statement using the effective interest method and is presented in note 21 as “Revenue from financing”.

Used truck sales

When the Company sells its used trucks from inventory that have been held as equipment on operating lease for rental to others or that have been obtained from related parties where the Company acts as principal, the related proceeds from the sale of such trucks is recorded in the line “Revenue from sale of used trucks” in the income statement. The related carrying amount of the used trucks inventory is recorded as cost of sales in the line “Cost of sales used trucks”. Used truck proceeds are recognized in the income statement at the date of transfer of control. Sales of repossessed used trucks previously related to finance lease receivables are recorded net of cost in the “Addition to allowance for impairment losses” line. Fees received for trucks sold on behalf of related parties where the Company acts as agent is recorded in the line “Other revenue” in the income statement.

Suspension of revenue

Operating lease rental income, interest income finance lease, interest income wholesale financing and support income is deferred when it is no longer probable that the economic benefits associated with the contracts will flow to the Company. If a financial asset becomes credit impaired, the effective interest is calculated over the net carrying amount (gross carring amount less loss allowance). This is generally the case when the contract is past due for more than 90 days. Previously recorded revenue is not reversed. Suspended revenue is recorded in the related revenue line of the income statement when the contract becomes current again as a result of a cash payment.
In case a contract becomes current as a result of restructure of the contract, the contract must be current for three consecutive months before suspended income is recorded in the income statement. As from this moment interest will be recognized over the gross carrying amount.

Leases
The Company has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated. The Company has disclosed accounting policies under both IFRS 16 (for the current period) and IAS 17 (for the comparative period presented) in order for users to understand the current period as well as comparative information and changes in significant accounting policies. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.
This policy is applied to contracts entered into, on or after 1 January 2019.

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

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

(ii) As a lessor

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

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

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

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

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

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Policy applicable before 1 January 2019
For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee
In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.
Assets held under other leases were classified as operating leases and were not recognised in the Company’s statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor
When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease. To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

3. OPERATING SEGMENTS

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

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

In €'000	Finance	Rental	Elimi- nations	Internal Total	Reported adjustments	IFRS
Revenue						
Revenue from external customers *	307,778	63,155	-	370,933	187,437	558,370
Inter-segment revenue	648	-	(648)	-	-	-
Segment revenue	**308,426**	**63,155**	**(648)**	**370,933**	**187,437**	**558,370**
Cost of sales used trucks	28,707	-	-	28,707	219,217	247,924
Interest expense	14,435	186	(145)	14,476	486	14,962
Depreciation and operating expense - operating leases	207,854	27,220	-	235,074	(23,261)	211,813
Other operating expense	8	31,577	-	31,585	(10,087)	21,498
Addition to allowance for impairment losses	(1,907)	7	-	(1,900)	2,951	1,051
Selling and administrative expense	36,584	6,263	(503)	42,344	1,719	44,063
Total income before income taxes	**22,745**	**(2,098)**	**-**	**20,647**	**(3,588)**	**17,059**

The segment reporting as of and for the year ended December 31, 2018 was as follows:

In €'000	Finance	Rental	Elimi- nations	Internal Total	Reported adjustments	IFRS
Revenue						
Revenue from external customers *	235,655	64,071	-	299,726	143,079	442,805
Inter-segment revenue	562	-	(562)	-	-	-
Segment revenue	**236,217**	**64,071**	**(562)**	**299,726**	**143,079**	**442,805**
Cost of sales used trucks	-	-	-	-	153,519	153,519
Interest expense	12,164	291	(255)	12,200	(522)	11,678
Depreciation and operating expense - operating leases	151,628	23,103	-	174,731	(5,137)	169,594
Other operating expense	25	31,576	-	31,601	(8,967)	22,634
Addition to allowance for impairment losses	(952)	(3)	-	(955)	(971)	(1,926)
Selling and administrative expense	28,743	4,900	(307)	33,336	6,195	39,531
Total income before income taxes	**44,609**	**4,204**	**-**	**48,813**	**(1,038)**	**47,775**

** Reference is made to Note 21*

Reconciliation to the financial statements

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

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

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

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

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

Product information

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

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

The following table presents the revenue for each product for the year ended December 31, 2018:

In €'000	Retail Finance	Rental	Wholesale Finance	Total
Revenue				
Revenue from external customers	343,390	81,313	18,102	442,805

Geographic information

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

In €'000	Domestic	Other Continent	U.K.	Outside Europe	Eliminations	Total
Revenue						
Revenue from external customers	70,621	400,470	82,642	4,637	-	558,370
Inter-segment revenue	10,903	-	-	-	(10,903)	-
Segment revenue	**81,524**	**400,470**	**82,642**	**4,637**	**(10,903)**	**558,370**

In €'000	Domestic	Other Continent	U.K.	Outside Europe	Eliminations	Total
Total assets						
Segment assets	3,351,647	1,858,007	751,861	226,367	-	6,187,882
Eliminations / unallocated	-	-	-	-	(2,494,875)	(2,494,875)
Total assets	**3,351,647**	**1,858,007**	**751,861**	**226,367**	**(2,494,875)**	**3,693,007**

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

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

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

The geographical segment reporting as of and for the year ended December 31, 2018 was as follows:

In €'000	Domestic	Other Continent	U.K.	Outside Europe	Eliminations	Total
Revenue						
Revenue from external customers	55,944	307,040	78,933	888	-	442,805
Inter-segment revenue	8,607	-	-	-	(8,607)	-
Segment revenue	**64,551**	**307,040**	**78,933**	**888**	**(8,607)**	**442,805**
Total assets						
Segment assets	3,051,792	1,679,243	735,409	28,949	-	5,495,393
Eliminations / unallocated	-	-	-	-	(2,139,054)	(2,139,054)
Total assets	**3,051,792**	**1,679,243**	**735,409**	**28,949**	**(2,139,054)**	**3,356,339**

In €'000	Domestic	Other Continent	U.K.	Outside Europe	Eliminations	Total
Total assets						
Segment assets	2,482,924	2,046,469	937,051	28,949	-	5,495,393
Eliminations / unallocated	-	-	-	-	(2,139,054)	(2,139,054)
Total assets	**2,482,924**	**2,046,469**	**937,051**	**28,949**	**(2,139,054)**	**3,356,339**

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	**2019**	2018
Wholesale receivables, BRL denominated	68,613	-
Wholesale receivables, Euro denominated	291,037	374,377
Wholesale receivables, GBP denominated	272,332	250,521
Wholesale receivables gross	631,982	624,898
Allowance for impairment losses wholesale receivables	(579)	(176)
Wholesale receivables, net	631,403	624,722

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

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

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

The aging of the wholesale receivables is as follows:

		2019			2018	
In €'000	Individually assessed (stage 3)	Not individually assessed (stage 1 and 2)	Total	Individually assessed (stage 3)	Not individually assessed (stage 1 and 2)	Total
Current	5,739	621,893	627,632	41	622,509	622,550
Past due accounts						
0 - 30 days	58	4,292	4,350	99	2,127	2,226
31 - 60 days	-	-	-	-	122	122
61 - 90 days	-	-	-	-	-	-
Over 90 days	-	-	-	-	-	-
Receivables, gross	5,797	626,185	631,982	140	624,758	624,898
Allowance	(58)	(521)	(579)	(140)	(36)	(176)
Receivables, net	5,739	625,664	631,403	-	624,722	624,722

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

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

In €'000	**2019**	2018
Balance as of January 1	(176)	(154)
Charge off / Write downs	155	(68)
(Addition) / Release	(565)	46
Exchange rate differences	7	-
Balance as of December 31	(579)	(176)

The individually assessed part of the allowance for impairment loss is €58 (2018: €140).

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

PD %	**2019**	**2018**
AAA	0.00	0.00
AA	0.01	0.01
A	0.03	0.03
BBB	0.09	0.09
BB	0.33	0.34
B	1.72	1.80
CCC/C	13.32	13.41

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

6. INVENTORY

In €'000	**2019**	2018
Used trucks inventory	129,877	104,320
Inventory	129,877	104,320

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

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

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

In €'000	**2019**	2018
Balance as of January 1	104,320	37,984
Used trucks returned / repossessed from operating leases	142,332	126,455
Used trucks returned / repossessed from finance leases	48,445	28,549
Trucks from related parties and from trade in	139,887	72,636
Recoveries / (write-downs) of inventory	(10,197)	(4,964)
Used trucks sold	(163,783)	(120,118)
Used trucks sold on behalf of related parties / Used Trucks refinanced	(131,318)	(36,182)
Foreign currency translation difference	191	(40)
Balance as of December 31	129,877	104,320

7. PREPAID EXPENSES AND OTHER CURRENT ASSETS

In €'000	**Notes**	**2019**	2018
Short term derivative assets	20	1,929	14,933
Income tax receivable		-	22
Prepaid expenses and other current assets		31,904	27,516
Prepaid expenses and other current assets		33,833	42,471

Prepaid expenses and other current assets

The prepaid expenses and other current assets mainly relate to prepaid amounts in the course of providing administrative services to customers. These administrative services primarily relate to handling of insurance for leased equipment, repair and maintenance of this equipment and government charges on the use of this equipment. Included in prepaid expenses is an amount of prepaid borrowing cost of €1,767 (2018: €1,070).

8. EQUIPMENT ON OPERATING LEASE, NET

In €'000	**2019**	2018
Equipment on operating lease	1,192,670	951,159
Impairment	(5,401)	(874)
Equipment on operating lease, net	1,187,269	950,285

The movement of these items is as follows:

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

In €'000	Equipment on operating lease	Impairment	Total
Book value as of January 1, 2018	795,279	(1,771)	793,508
Effect of application IFRS 9	-	967	967
Restated balance of January 1, 2018	795,279	(804)	794,475
Additions	464,922	(874)	464,048
Disposal to inventory	(127,259)	804	(126,455)
Other movements	(14,491)	-	(14,491)
Depreciation	(165,817)	-	(165,817)
Impairment from repossession	(329)	-	(329)
Foreign currency translation differences	(1,146)	-	(1,146)
Book value as of December 31, 2018	951,159	(874)	950,285
Accumulated depreciation	298,747	874	299,621
Gross Cost as of December 31, 2018	1,249,906	-	1,249,906

The equipment on operating lease includes an amount of €139,421 (2018: €152,154) for the rental fleet. In 2019 the additions to the rental fleet amounted to €42,289 (2018: €73,627), the depreciation of the rental fleet amounted to €26,649 (2018: €23,993) and the disposals from the rental fleet amounted to €23,979 (2018: €33,722). Other movements relate primarily to restructures, early settlements and movements from inventory.

The average remaining term of the outstanding operating lease agreements in 2019 is 30 months (2018: 30 months). For rental agreements the average remaining term is 8 months (2018: 9 months).

The minimum lease payments to be received after December 31, 2019 and 2018 were as follows (amounts in €'000):

Term	**2019**	2018
< 1 year	218,256	176,401
2 – 5 years	224,309	187,004
>5 years	272	25
Total	442,837	363,430

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 2019 is 39 months (2018: 40 months). The average term of the rental agreements at inception is 24 months (2018: 22 months). The operating lease installments due are recorded in “Trade and other receivables” (Note 9).

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 €748,029 at December 31, 2019 (2018: €547,976) and guaranteed residual values of €36,277 (2018: €62,136). 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	**2019**	2018
Depreciation on equipment on operating lease	197,705	165,817
Net additions to the impairment allowance of equipment on operating lease	9,379	1,698
Operating expense on equipment on operating lease and other	1,760	2,079
Depreciation and operating expense – operating leases	208,844	169,594

In 2019 the Company incurred an average write-off of €13 on 67 customers (2018: €10 on 56 customers) with repossessed operating lease contracts and recovered an average of €3 from 48 customers (2018: €8 from 59 customers).

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

9. FINANCE AND OTHER RECEIVABLES, NET

In €'000	**2019**	2018
Finance receivables, net	1,523,510	1,479,764
Trade and other receivables	60,480	65,917
Balance as of December 31	1,583,990	1,545,681

Finance receivables, net

In €'000	**2019**	2018
Retail finance receivables	1,625,644	1,576,903
Unearned interest retail finance receivables	(88,434)	(84,759)
Allowance for impairment losses	(13,700)	(12,380)
Finance receivables, net	1,523,510	1,479,764
Current portion of finance receivables	553,083	501,206
Non-current portion of finance receivables	970,427	978,558

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, 2019 the carrying amount of receivables under these loans was €150,568 (2018: €82,958).

During 2019 new business volume of €602,039 (2018: €689,566) was added to the retail finance receivables.

The retail finance receivables are detailed as follows:

	2019			2018		
In €'000	Fixed rate	Variable rate	Total	Fixed rate	Variable Rate	Total
Euro denominated	901,892	-	901,892	949,475	-	949,475
GBP denominated	579,557	96,053	675,610	562,237	65,191	627,428
BRL denominated	48,142	-	48,142	-	-	-
Total	1,529,591	96,053	1,625,644	1,511,712	65,191	1,576,903

The interest rates of the Euro and GBP denominated variable retail finance receivables are generally set monthly based on one-month EURIBOR or one-month LIBOR respectively.
The split of the retail finance receivables and minimum lease payments to be received after December 31, 2019 and 2018 was as follows (amounts in €'000):

	2019		2018	
Term	*Retail finance receivables*	*Minimum lease payments*	*Retail finance receivables*	*Minimum lease payments*
< 1 year	594,090	512,721	539,878	476,517
2 – 5 years	1,009,320	781,259	1,014,407	738,860
>5 years	22,234	753	22,618	2,887
Total	1,625,644	1,294,733	1,576,903	1,218,264

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, 2019 and December 31, 2018 respectively taking into account the estimated impairment losses to be incurred.

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

In €'000	**2019**	2018
Retail finance receivables, gross	1,625,644	1,576,903
Unguaranteed residual values	(252,564)	(279,269)
Unearned interest	(67,530)	(68,464)
Expected credit losses	(10,816)	(10,906)
Minimum lease payments	1,294,734	1,218,264

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

In €'000	**2019**	2018
Balance as of January 1	(12,380)	(16,988)
(Additions charged to) / releases to income statement	(634)	1,950
Credit losses incurred	1,410	3,245
Further write downs / (write ups)	(2,119)	(701)
Foreign currency translation differences	23	114
Balance as of December 31	(13,700)	(12,380)

The net release to the allowance for impairment losses on finance receivables was €1,320 (2018: addition: €4,608).

Provision matrix

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

In %	**2019**	**2018**
Current portfolio	0.69	0.76
10-29 days	3.43	3.63
30-59 days	11.92	12.00
60-90 days	14.38	14.63
90+	29.89	30.84

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

In bps	2019	2018
GDP Growth EU	-8%	-11%
GDP Growth UK	-2%	-3%
Past dues	0%	0%
Reposessions	-3%	-3%
Market size heavy duty truck market	-2%	-2%

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

Addition to allowance for impairment losses in Income Statement

In €'000	Notes	2019	2018
(Release of) / addition to the:			
Impairment retail finance lease receivables		634	(1,950)
Impairment on wholesale receivables	5	410	21
Impairment for rental receivables		7	3
Allowance for impairment losses		1,051	(1,926)

In 2019 the Company incurred an average write-off of €9 on 161 customers (2018: €4 on 156 customers) with repossessed finance lease contracts and recovered an average of €26 from 159 customers (2018: €28 from 193 customers).

The aging of the finance lease receivables at December 31, 2019 and 2018 was as follows:

In €'000	2019	2018
Current portfolio	1,618,220	1,570,093
0 - 30 days	2,172	3,022
	1,620,392	1,573,115
Past due		
31 - 60 days	1,729	591
61 - 90 days	259	69
over 90 days	3,264	3,128
	5,252	3,788
Total receivables	1,625,644	1,576,903

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 €22,892 (2018: €11,030).

Non-performing amounts are generally more than 90 days past the contractual due date. As of December 31, 2019 the total portfolio amount of customer balances that were non-performing was €11,441 (2018: €4,032).

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	**2019**	2018
Forborne retail finance receivables	2,911	2,924
Unearned interest forborne retail finance receivables	(211)	(211)
Forborne finance receivables, net	2,700	2,713

The movement of the forborne finance receivables was as follows:

In €'000	**2019**	2018
Balance as of January 1	2,713	7,620
Write-off	-	(4,745)
Payments received	(13)	(162)
Balance as of December 31	2,700	2,713

The interest income recognized on forborne finance receivables in the year amounted to nil (2018: nil). The aging of the forborne receivables was as follows:

In €'000	**2019** Individually assessed	Not individually assessed	Total	2018 Individually assessed	Not individually assessed	Total
Current portfolio	-	-	-	-	-	-
0 - 30 days	373	-	373	385	-	385
	373	-	373	385	-	385
Past due						
31 - 60 days	-	-	-	-	-	-
61 - 90 days	-	-	-	-	-	-
over 90 days	2,538	-	2,538	2,539	-	2,539
	2,538	-	2,538	2,539	-	2,539
Total receivables	2,911	-	2,911	2,924	-	2,924

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

Trade and other receivables

In €'000	**Notes**	**2019**	2018
VAT receivable		23,148	32,260
Interest and lease receivables, net		13,725	22,560
Accounts receivable affiliates	26	23,607	11,097
Trade and other receivables		60,480	65,917

VAT receivable

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

Interest and lease receivables

In €'000	**2019**	2018
Interest and lease receivables	11,572	19,773
Rental receivables	2,467	3,111
Impairment rental receivables	(314)	(324)
Interest and lease receivables, net	13,725	22,560

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

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

In €'000	**2019**	2018
0 - 30 days	7,492	12,370
Past due Accounts		
31 - 60 days	814	2,943
61-90 days	329	658
Over 90 days	5,404	6,913
Receivables, gross	14,039	22,884
Impairment	(314)	(324)
Receivables, net	13,725	22,560

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

In €'000	**2019**	2018
Balance as of January 1	(324)	(374)
(Additions) / release	(7)	(3)
Write-off	17	53
Balance as of December 31	(314)	(324)

10. DEFERRED TAX

Deferred income taxes as of December 31, 2019 and 2018 consist of the following:

	Statement of Financial Position		Income Statement	
In €'000	**2019**	2018	**2019**	2018
Deferred income tax assets				
Impairment on portfolio assets	2,363	1,750	613	8
Lower future depreciation of equipment on operating lease for income tax purposes	1,290	348	942	16
Lease accounting	13,468	9,351	4,117	4,696
Fair value changes of financial instruments used for hedging (OCI, no income statement impact)	-	835	(835)	(428)
Fair value changes of financial instruments through income statement	448	303	145	(469)
Losses available to offset future taxable income	7,805	4,486	3,319	924
Depreciation operating lease	1,589	1,776	(187)	(368)
Other	5,435	4,357	1,078	(1,133)
Effect of netting with deferred tax liabilities	(9,760)	(5,986)	(3,774)	(2,492)
Gross deferred income tax assets	22,638	17,220	5,418	754

In €'000	**2019**	2018	**2019**	2018
Deferred income tax liabilities				
Impairment on portfolio assets	(324)	(216)	(108)	35
Accelerated depreciation of equipment on operating lease for income tax purposes	(142)	(76)	(66)	(42)
Lease accounting	(427)	(430)	3	(56)
Fair value changes of financial instruments used for hedging (OCI, no income statement impact)	(1,576)	(480)	(1,096)	6
Depreciation operating lease	(6,841)	(5,180)	(1,661)	(2,091)
Other	(741)	(723)	(18)	18
Effect of netting with deferred tax assets	9,760	5,986	3,774	2,492
Gross deferred income tax liabilities	(291)	(1,119)	828	362
Net deferred income tax	22,347	16,101	6,246	1,116

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 €7,805 (2018: €4,486). This arises mainly from operating losses in the past years in France, Germany, Spain and Poland.

Recognition of deferred income tax assets is based on the Company's expectation that the development of the business in these countries in the foreseeable future and the tax planning measures available to the Company will generate adequate future taxable profits.

The effect of netting between deferred tax assets and deferred tax liabilities reflects the reclassification needed to offset the deferred tax position for the respective country and taking into account fiscal unity and tax authority.

Due to uncertainty of realization, in 2019 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 €1,596 (2018: €1,746) and for PACCAR Participações Ltda for an amount of €53 (2018: -). Taxable losses are infinitely deductible with future taxable income except for Poland, Czech Republic and Slovakia where the expiration date of the taxable losses is 2023 at the latest.

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

11. OTHER NON-CURRENT ASSETS

In €'000	Notes	2019	2018
Long term derivative assets	20	18,060	19,626
Fixed assets		8,301	5,597
Other non-current assets		26,361	25,223

Fixed assets

	2019			2018		
In €'000	Land & Buildings	Equipment	Total	Land & Buildings	Equipment	Total
Book value as of January 1	4,979	618	5,597	4,893	511	5,404
Recognition of right-of-use asset on initial application of IFRS 16	1,758	996	2,754	-	-	-
Adjusted balance at January 1	6,737	1,614	8,351	4,893	511	5,404
Additions	117	175	292	226	320	546
Additions right-of-use assets	-	1,521	1,521	-	-	-
Transfer	(186)	186	-	-	-	-
Disposal	(59)	(727)	(786)	-	(26)	(26)
Depreciation	(343)	(728)	(1,071)	(140)	(147)	(287)
Exchange rate differences	-	(6)	(6)	-	(40)	(40)
Book value as of December 31	6,266	2,035	8,301	4,979	618	5,597
Accumulated depreciation	2,068	1,596	3,664	1,725	868	2,593
Gross Cost as of December 31	8,334	3,631	11,965	6,704	1,486	8,190

Fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses. In “Land & Buildings” an amount of €2,385 (2018: €2,385) is included for land. Land is not depreciated. The remaining average depreciation period at December 31, 2019 is 18 years (2018: 20) for Buildings and 2 years (2018: 2) for equipment. Buildings are depreciated in 33 years on a straight line basis and equipment is depreciated on a straight line basis in 5 years. There are no contractual obligations to acquire any fixed assets.

12. INTANGIBLE ASSETS

In €'000	**2019**	2018
Software	11,301	8,019

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

In €'000	**2019**	2018
Book value as of January 1,	8,019	2,958
Additions	3,530	5,292
Amortization	(207)	(100)
Exchange rate differences	(41)	(131)
Book value as of December 31,	11,301	8,019
Accumulated amortization	1,434	719
Accumulated impairments	311	311
Gross Cost as of December 31,	13,046	9,049

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

The Company started projects to the replace the back office system in Europe and implement a back office system in Brazil. As these back offices systems became partially operational in Europe and fully operational in Brazil, amortization has been recognized for the operational parts as from the financial year 2019. These assets are depreciated on a straight line basis over the estimated time of 20 years. The costs incurred up to 31 December 2019 for the not yet operational part amounted to €7,121 (2018: €7,827) are capitalized.

13. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER

In €'000	**Notes**	**2019**	2018
Accounts payable affiliates	26	27,993	37,231
Accounts payable		10,745	8,901
Lease liability	18	750	-
Income tax payable		6,585	10,109
Derivative contracts	20	2,231	8,508
Accrued expenses		13,267	14,401
Deferred income		7,279	8,695
Other current liabilities		9,090	3,224
Accounts payable, accrued expenses and other		77,940	91,069

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

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

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

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

Other current liabilities
Other current liabilities include customer deposits and guarantor deposits for an amount of €1,901 (2018: €2,027). 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.

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

In €’000	**2019**	2018
Commercial paper	1,065,564	828,331
Short term debt	3,324	-
Commercial paper, bank loans and other short-term debt	1,068,888	828,331

Commercial paper
Since 2001, the Company has maintained a commercial paper program. In 2009, PACCAR Financial Plc was named as an issuer under the program.
The main terms of the program are:
- Tenors of 1 to 183 days; Interest rates are based on money market rates prevailing at the issue date for the specific term of the note;
- Investment rating of P-1 by Moody’s Investors Services, Inc. and A-1 by Standard & Poor’s rating Services;
- A keep-well agreement from PACCAR Inc.

As of December 31, 2019 and 2018, the carrying amounts of the outstanding notes under the commercial paper program were as follows:

	2019			2018		
Currency	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of days to repayment in 2020*	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of days to repayment in 2019*
Euro denominated	441,217	(0.45)%	23	265,966	(0.37)%	26
GBP denominated	446,154	0.76%	19	475,243	0.78%	23
USD denominated	178,193	1.85%	20	87,122	2.53%	15
Total	1,065,564	0.44%	21	828,331	0.60%	23

The effective interest rates are the weighted average interest rates as of December 31, 2019 and December 31, 2018, respectively.

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

15. TERM DEBT

In €'000	Notes	2019	2018
Long term advances	26	809,654	737,323
Euro Medium Term Notes		1,148,346	1,149,662
Term debt		**1,958,000**	**1,886,985**

Euro Medium Term Notes
Since September 10, 2004, the Company has maintained a Euro Medium Term Note program. All notes outstanding as of December 31, 2019 are listed on the London Stock Exchange (PSM). The Professional Securities Market is not a regulated market, and consequently, the Company is not a Dutch public interest entity (Organisatie van Openbaar Belang).
Terms of the Euro Medium Term Note program include:

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

As of December 31, 2019 and 2018, the carrying amounts of the outstanding notes under the Euro Medium Term Notes program were as follows:

	2019			2018		
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	1,148,346	0.15%	13	1,149,662	0.18%	18
GBP denominated	-			-		
Due within one year	548,346			299,662		
Due after one year	600,000			850,000		

The effective interest rates are the weighted average interest rates including the effect of hedging instruments as of December 31, 2019 and December 31, 2018, respectively.

16. OTHER NON-CURRENT LIABILITIES

In €'000	**Notes**	**2019**	2018
Deferred income	13	9,993	7,982
Lease liabilities	18	1,972	-
Derivative contracts	20	11,818	5,455
Other non-current liabilities	13	3,047	4,369
Other non-current liabilities		26,830	17,806

Lease liabilities can be specified as follows:

In €'000	Lease payments
Less than 1 year	750
Between 1 and 5 years	1,972
More than 5 years	-
	2,722

17. SHAREHOLDER EQUITY

Paid-in capital
As of December 31, 2019, 730,000 ordinary shares at €100 nominal value were authorized and issued.

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

No additional paid in capital has been paid in cash in financial year 2019 and financial year 2018.

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

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

The 2019 valuation increase of cash flow hedges through equity is €6,483 (2018: €1,703) and the release is €1,373 (2018: €165). The release is recorded in the interest expense line in the income statement.

As of December 31, 2019, the gross fair value changes of financial instruments were €10,407 (2018: €2,622). The profit in 2019 on cash flow hedges, recognized in OCI were net of deferred income tax of €8,342 (2018: €1,868).

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

18. LEASES

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

The warehouse and factory leases were entered into many years ago as combined leases of land and buildings. Previously, these leases were classified as operating leases under IAS 17.

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

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

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

In €'000	Land & Buildings	Equipment	Total
Book value as of January 1	1,758	996	2,754
Additions to right-of-use assets	-	1,521	1,521
Derecognition of right-of-use assets	(59)	(727)	(786)
Depreciation	(196)	(552)	(748)
Book Value as of December 31	1,503	1,238	2,741

Lease liabilities are disclosed in the corresponding notes in the consolidated financial statements.

Amounts recognised in profit or loss

In €'000	Total
Interest on lease liabilities	50
Income from sub-leasing right-of-use assets presented in 'other revenue'	-
Expenses relating to short-term leases	-
	50

Amounts recognised in consolidated statement of cash flows

In €'000	Total
Total cash outflow for leases	1,059

Amounts recognised in profit or loss

2019 – Operating Leases under IFRS 16

In €'000	Total
Interest on lease liabilities	50
Income from sub-leasing right-of-use assets presented in 'other revenue'	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	748
Expenses relating to short-term leases	46
	844

2018 – Operating Leases under IAS 17

In €'000	Total
Lease expense	986
Contingent rent expense	-
Sub-lease income presented in 'other revenue'	-
	986

Extension options

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

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Interest rate risk

The Company is exposed to changes in interest rates. The Company uses derivative contracts, where needed, to match the interest conditions of funding with the interest conditions of receivables arising from the retail and wholesale finance business. See note 20 for information on hedging activities.

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

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

	2019		2018	
In €'000	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
Assets				
Retail finance & wholesale receivables	(29,358)	30,635	(30,230)	31,574
Derivatives	(3,563)	2,525	(6,438)	6,665
Liabilities				
Debt	8,025	(8,193)	8,010	(8,183)
Derivatives	(4,597)	3,968	4,682	(8,436)
	(29,493)	28,935	(23,976)	21,620

The effect on shareholder equity of a 100 bps increase across the yield curve is a increase of (€8,206) (2018: increase of €1,010) and the effect on the income statement is a profit of €46 (2018: loss of €746). The effect on shareholder equity of a 100 bps decrease is an increase of €6,540 (2018: decrease of €2,541) and the effect on the income statement is a loss of €47 (2018: €771 profit). 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, 2019 *(in €'000)*	Within 1 year	1-5 years	> 5 years	Total
Assets				
Fixed rate finance lease	523,789	893,016	21,740	1,438,545
Fixed rate operating lease	401,093	790,940	623	1,192,656
Variable rate finance lease	98,665	-	-	98,665
Wholesale receivables	631,982	-	-	631,982
Cash and cash equivalents	66,335	-	-	66,335
Total of interest earning assets	1,721,864	1,683,956	22,363	3,428,183
Liabilities				
Term debt	(548,346)	(600,000)	-	(1,148,346)
Commercial paper	(1,065,564)	-	-	(1,065,564)
Long term loans affiliates	-	(809,654)	-	(809,654)
Bank loans	(3,324)	-	-	(3,324)
Total of interest bearing liabilities	(1,617,234)	(1,409,654)	-	(3,026,888)
Gross gap	104,630	274,302	22,363	401,295
Effect of derivative contracts	79,022	(79,022)	-	-
Net gap	183,652	195,280	22,363	401,295

As of December 31, 2018 *(in €'000)*	Within 1 year	1-5 years	> 5 years	Total
Assets				
Fixed rate finance lease	481,933	923,198	21,412	1,426,543
Fixed rate operating lease	357,962	581,765	11,432	951,159
Variable rate finance lease	65,601	-	-	65,601
Wholesale receivables	624,898	-	-	624,898
Cash and cash equivalents	38,398	-	-	38,398
Total of interest earning assets	1,568,792	1,504,963	32,844	3,106,599
Liabilities				
Term debt	(299,662)	(850,000)	-	(1,149,662)
Commercial paper	(828,331)	-	-	(828,331)
Long term loans affiliates	(218,017)	(519,306)	-	(737,323)
Total of interest bearing liabilities	(1,346,010)	(1,369,306)	-	(2,715,316)
Gross gap	222,782	136,657	32,844	391,283
Effect of derivative contracts	263,525	(263,525)	-	-
Net gap	486,307	(127,868)	32,844	391,283

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

Foreign currency risk
The Company is exposed to changes in foreign currency rates on the cash flows of its assets and debt in non-functional currency. The Company uses derivative contracts to convert the currency used in funding into the functional currency (see note 20). The following table summarizes the impact on the Company balance sheet of a 10% strengthening of GBP, PLN, CZK and BRL exchange rates on the measurement of assets and liabilities at year-end which are denominated in these currencies.
The risk of exchange rate changes on assets and liabilities denominated in USD has been fully hedged.

As of December 31, 2019 and 2018 (in €'000)	**2019**	2018
Assets in foreign currency	190,518	154,884
Liabilities in foreign currency	(151,822)	(139,894)
	38,696	14,990
Foreign currency translation – equity	(43,185)	(17,774)
Effect on income before income taxes	(4,489)	(2,784)

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

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

The Company funds its financing activities through a €2.0 billion Commercial Paper (CP) program, a €2.5 billion Euro Medium Term Note Program (EMTN) and loans from other PACCAR group companies.

The Company is exposed to liquidity risk from the potential limited market availability of funds at the time of repayment of short-term and long-term debt. This risk is mitigated by overdraft and credit facilities. The Company participates with other PACCAR affiliates in $3 billion of credit facilities, composed of a 364-day facility and a four year and five year facility. The Company did not use these credit facilities for the years ended December 31, 2019 and December 31, 2018. 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, 2019 (in €'000)	Within 1 year	within 1 to 5 years	> 5 Years	Total Undiscounted 2019	Carrying amount 2019
Non derivative financial liabilities					
Accounts payable, accrued expenses and other	47,536	-	-	47,536	47,536
Commercial paper, bank loans and other short term debt	1,065,787	-	-	1,065,787	1,065,564
Term debt	550,773	600,501	-	1,151,274	1,148,346
Loans from affiliates	52,230	837,123	-	889,353	837,647
Other non-current liabilities	-	16,429	-	16,429	16,429
	1,716,326	1,454,053	-	3,170,379	3,115,522
Derivative financial assets and liabilities					
Derivatives	(14,853)	(21,831)	-	(36,684)	(5,940)
	1,701,473	1,432,222	-	3,133,695	3,109,582

As of December 31, 2018 (in €'000)	Within 1 year	within 1 to 5 years	> 5 Years	Total Undiscounted 2018	Carrying amount 2018
Non derivative financial liabilities					
Accounts payable, accrued expenses and other	45,330	-	-	45,330	45,330
Commercial paper, bank loans and other short term debt	828,583	-	-	828,583	828,331
Term debt	301,245	850,810	-	1,152,055	1,149,662
Loans from affiliates	272,744	548,503	-	821,247	774,554
Other non-current liabilities	-	13,470	-	13,470	13,470
	1,447,902	1,412,783	-	2,860,685	2,811,347
Derivative financial assets and liabilities					
Derivatives	(10,539)	(16,668)	-	(27,207)	(20,596)
	1,437,363	1,396,115	-	2,833,478	2,790,751

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

As of December 31, 2018 (in €'000)	Within 1 year	within 1 to 5 years	> 5 Years	Total Undiscounted
Inflows	20,724	28,904	-	49,628
Outflows	(10,185)	(12,236)	-	(22,421)
Net	10,539	16,668	-	27,207

Credit risk

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

Management of credit risk

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

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

Concentrations of risks

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

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

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

Retail finance receivables

The maximum credit exposure for retail receivables before taking into account collateral at December 31, 2019 was €1,799 million (2018: €1,645 million).

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

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

The Company is not significantly exposed to any customer concentration in the retail finance portfolio. As of December 31, 2019 the top ten customers represented 13.0% (2018: 11.4%) of the total portfolio with no single customer representing more than 2.6% (2018: 2.7%) of the retail portfolio.

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

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

	2019	2018
Risk Category	Portfolio at year-end	Portfolio at year-end
Lower than Average Risk	32%	26%
Average Risk	64%	70%
Higher than Average Risk	4%	4%

<u>Wholesale receivables</u>
The maximum credit exposure for wholesale receivables before taking into account collateral was €631,982 (2018: €624,898).

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

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

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

Risk Category	**2019** Portfolio at year-end	2018 Portfolio at year-end
Lower than Average Risk	12%	11%
Average Risk	78%	76%
Higher than Average Risk	10%	13%

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 €9,028 (2018: €9,086). Furthermore the future depreciation of equipment on operating lease over the total remaining life of the portfolio would be €55,519 (2018: €44,220) higher. If residual values in the entire operating lease portfolio increase by 10%, the immediate effect on financial results is an income of €5,829 (2018: €295).

20. FINANCIAL INSTRUMENTS

Fair values

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

In €'000	**2019** Carrying amount	**2019** Fair Value	2018 Carrying amount	2018 Fair Value
Financial assets				
Finance receivables, net	1,523,510	1,523,213	1,479,764	1,478,631
Financial liabilities				
Euro Medium Term Notes	1,148,346	1,153,794	1,149,662	1,151,709

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, 2019 and December 31, 2018 respectively which are classified as level 3 under IFRS 13, "Fair value measurements" also taking into account the estimated impairment losses to be incurred. The fair value of the liabilities is the market rate of the Euro Medium Term Notes listed on the London Stock Exchange (PSM) which classifies as level 2 under IFRS 13, "Fair value measurements" due to low trading volume. Information on the interest rate risks of the company and the sensitivity analysis is included in note 19.

Hedging activities

The fair value of hedging instruments is determined using a valuation model based on the discounted cash flow method. The input for the model consists of market-observable data like EURIBOR and LIBOR yield curves and exchange rates. The trade date is used in accounting for derivatives. All the derivative financial instruments are classified as level 2 under IFRS 13, "Financial Instruments disclosures, fair value measurements".

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

As of December 31, 2018, 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	117	8	1,601	55
Cross currency swaps	3,459	-	3,854	7,653
At fair value through income statement - level 2				
Cross currency swaps	16,050	14,522	-	-
Currency forward contracts	-	403	-	800
Total	19,626	14,933	5,455	8,508

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, 2019, 7 (2018: 10) Euro interest rate swap contracts were outstanding with a notional amount of €130.9 million (2018: €245.6 million), an average remaining term of 17 months (2018: 23) and average fixed Euro interest to be paid of 0.29% (2018: 0.30%). Furthermore as of December 31, 2019, 6 (2018: 9) GBP interest rate swap contracts were outstanding with a notional amount of €31.0 million (2018: €57.4 million), an average remaining term of 16 months (2018: 19 months) and fixed GBP interest to be paid of 1.44% (2018: 1.32%). 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, 2019 the Company had the following cross currency swaps:

Nature of swap	Notional Amount in €'000	Average interest pay side	average FX rate	average remaining term in months
EUR/GBP	216,900	1.81%	€/£0.85	13
AUD/EUR	92,784	0.74%	AU$/€0.62	35
USD/EUR	490,390	0.32%	$/€0.89	27
USD/GBP	205,532	1.65%	$/£0.76	24
AUD/GBP	16,439	1.94%	AU$/£0.56	41

As of December 31, 2018 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	288,500	1.76%	€/£0.83	15
AUD/EUR	61,728	0.87%	AU$/€0.62	44
USD/EUR	504,438	0.11%	$/€0.88	21
USD/GBP	169,218	1.55%	$/£0.75	29

Currency forwards

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

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

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

As of December 31, 2018 the Company had the following currency forwards:

Currency	Number of contracts	Notional amount in '000	Remaining life time (days)	Exchange rate (€)
GBP	8	GBP 93,000	19	1.11
PLN	3	PLN 64,800	14	0.23
USD	3	USD 100,000	15	0.88
CZK	2	CZK 63,500	14	0.04

21. REVENUE

In €'000	**2019**	2018
Revenue from financing	72,856	65,606
Rental income	257,074	225,344
Revenue from sales of used trucks	221,678	145,998
Other revenue	6,762	5,857
Total Revenue	558,370	442,805

Included in revenue from financing is interest revenue from affiliates of €14,036 (2018: €11,410). In 2019 no interest income on individually assessed finance lease receivables is included in revenue from financing (2018: €-). Revenue from financing interest and rental income is recorded in accordance with IFRS 16.

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

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

Sales of used trucks

In 2019 the Company sold 8,487 leased trucks and trailers (2018: 4,023 trucks and trailers).

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

In €'000	**2019**	2018
Revenue from sales of used trucks	137,482	112,384
Revenue from units early settled	8,052	5,351
Revenue from sales of used trucks on behalf of related parties	76,144	28,263
Total Revenue	221,678	145,998

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

In €'000	**2019**	2018
Cost of used trucks sold	166,752	120,118
Cost of units early settled	7,997	5,138
Cost of used trucks sold on behalf of related parties	76,144	28,263
Total Cost of sales	250,893	153,519

22. INTEREST EXPENSE

In €'000	**2019**	2018
Interest expense commercial paper and term debt	5,481	5,963
Interest expense affiliated PACCAR company debt	20,876	11,721
Interest expense interest rate derivative contracts	(15,077)	(8,085)
Result on derivatives for hedging	963	(518)
Other, net	2,719	2,597
Interest expense	14,962	11,678

Interest expense includes a profit of €41 (2018: €127 profit) relating to exchange rate differences. Included in "Other, net" are the expenses incurred for credit facilities (see note 19) as well as the amortization of costs of setting up and maintaining the Euro Medium Term Note program.

23. OTHER OPERATING EXPENSES

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

In €'000	**2019**	2018
Leasing expenses rental fleet	6	16
Other vehicle expenses	21,492	22,618
Other operating expenses	21,498	22,634

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

24. SELLING AND ADMINISTRATIVE EXPENSE

In €'000	**Notes**	**2019**	2018
Salaries		11,518	9,423
Pension costs	28	1,730	948
Social security costs		2,425	1,368
Other personnel costs		627	1,442
Depreciation on other assets	11, 12, 18	1,278	387
Expenses cross charged by affiliated PACCAR companies	26	18,946	17,946
Other expenses		7,539	8,017
Selling and administrative expense		44,063	39,531

At year end, 418 people were working for the Company (2018: 379) of which 108 were located in the Netherlands (2018: 104).

25. INCOME TAX EXPENSE

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

In €'000	**2019**	2018
Total income before taxes	17,059	47,775
Income tax expense at statutory income tax rate	4,265	11,944
Effect of various tax rates in foreign operations	231	(480)
Effect of permanent differences	697	(1,093)
Deferred tax expense / (deferred tax income) from de-recognition / recognition of deferred tax asset	(705)	942
Prior year adjustments	(245)	669
Income tax expense due to deferred income tax rate changes	12	97
Income tax expense at effective income tax rate of 24.9% (2018: 25.3%)	4,255	12,079

The effective tax rate of 24.9% is lower than the 2018 effective tax rate of 25.3% reflecting favorable prior year adjustments, lower de-recognition in deferred tax mainly in Czech Republic and Brazil partly offset by unfavorable effect on permanent differences mainly reflecting exchange rate differences in Poland and Czech Republic partially offset by notional interest deduction in Italy.

There are no uncertain tax positions to report.

Deferred tax

The current part of the taxation is €12,434 (2018: €13,176) and the deferred part of the taxation is €(8,179) (2018: €(1,097)). The movement of the deferred tax assets and liabilities through the income statement is disclosed in the note 10.

26. RELATED PARTY TRANSACTIONS

Related parties of the Company are:

- PACCAR Holding BV
- PACCAR Inc
- PACCAR Financial Corp.
- PACCAR Financial Pty Ltd.
- DAF Trucks NV and its subsidiaries
- Leyland Trucks Ltd.
- 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 €564 (2018: €472) to the Company for information technology and other services incurred on behalf of the Company. These expenses are recognized in the "Selling and administrative expense" in the income statement. Further the Company has entered in 2017 into a loan agreement with PACCAR Inc. The interest and other conditions are determined on an arm's length basis. There is a long term amount outstanding at December 31, 2019 of €276,574 (2018: €276,071). The effective interest rate in 2019 is 3.21% (2018: 1.77%) and the average weighted number of months to repay is 18 months (2018: 15 months). The company paid €3,285 interest expense in 2019 (2018: €3,120) to PACCAR Inc.

PACCAR Financial Corp.
PACCAR Financial Corp. is the captive finance and lease company of PACCAR Inc in the U.S. It provides funding to the Company on both a short-term and medium-term basis when market conditions warrant. For both funding programs, the Company has entered into a loan agreement with PACCAR Financial Corp. The interest and other conditions are determined on an arm's length basis. There is a long term amount outstanding at December 31, 2019 of €423,506 (2018: €399,781). The effective interest rate in 2019 is 2.40% (2018: 3.09%) and the average weighted number of months to repay is 39 months (2018: 34 months). The company paid €12,929 interest expense in 2019 (2018: €6,447) to PACCAR Financial Corp.

The company paid €1,273 (2018: €1,381) to PACCAR Financial Corp. relating to the maintenance of the term debt programs and the overdraft credit facilities (note 19).

PACCAR Financial Pty Ltd
PACCAR Financial Pty Ltd is the captive finance and lease company of PACCAR Australia. The Company entered into a loan agreement with PACCAR Financial Pty Ltd. The interest and other conditions are determined on an arm's length basis. There is a long term amount outstanding at December 31, 2019 of €109,573 (2018: €61,472). The effective interest rate in 2019 is 3.071% (2018: 3.375%) and the average weighted number of months to repay is 59 months (2018: 44). The company paid €2,682 interest expense in 2019 (2018: €628) to PACCAR Financial Pty Ltd.

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

Wholesale financing
The wholesale financing program is mainly based on the payment terms that DAF Trucks NV extends with its dealers. The main condition is that the first 30 days of interest is paid by DAF. During 2019, DAF Trucks NV and its subsidiaries have assigned receivables for an amount of €3,583,651 (2018: €3,807,388) to the Company. At December 31, 2019 an amount of €7,648 (2018: €6,546) owed to DAF was outstanding. During 2019 interest income of €11,752 (2018: €11,435) was charged to DAF Trucks NV or its subsidiaries related to the wholesale financing. At December 31, 2019 a receivable of €12,142 (2018: €9,226) 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 2019 an amount of €255,682 (2018: €230,988) of trucks were purchased from DAF Trucks NV or its subsidiaries, to be leased or rented out.

Used trucks remarketing
The Company sells certain trucks that have been returned to DAF Trucks NV on behalf of DAF Trucks NV and most of its subsidiaries as principal and for some subsidiaries as agent. During 2019 used trucks have been sold on behalf of DAF Trucks NV as principal for an amount of €76,144 (2018: €28,263). The Company received a fee for Used Truck sales of €2,495 (2018: €1,670).

Personnel and services
The people working for the PACCAR Financial Europe group in the Netherlands and the UK are primarily employed by DAF Trucks NV or its subsidiaries. DAF Trucks NV and its subsidiaries provide general services, including shared office facilities for the PACCAR Financial Europe group. DAF Trucks NV and its subsidiaries charged €18,946 to the Company in 2019 (2018: €17,946) for the employees and services provided.

Taxes
The Company paid €5,637 income taxes to DAF Trucks NV (2018: €5,117). The Company forms a fiscal unity with DAF Trucks NV for income taxes for the Dutch legal entities. The company pays income tax to DAF Trucks NV as if it is independently liable for income tax.

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

DAF Truck Brasil and its subsidiaries
DAF Truck Brasil and its subsidiaries is involved with the following aspects of the Company's business.

Wholesale financing
The wholesale financing program is mainly based on the payment terms that DAF Truck Brasil extends with its dealers. The main condition is that the first 30 days of interest is paid by DAF Truck Brasil. During 2019, DAF Brazil assigned receivables for an amount of €171,750 (2018: € nil) to the Company. At December 31, 2019 an amount of €696 (2018: € nil) owed to DAF Brasil was outstanding. During 2019 interest income of €2,713 (2018: € nil) was charged to DAF Brasil related to the wholesale financing.

Services
DAF Truck Brasil provides general services for the PACCAR Financial Europe group and charged €130 to the Company in 2019 (2018: €629) for the services provided.

Key Management Personnel
The emoluments, including pension costs charged in the financial year to the company, its subsidiaries and consolidated other companies amounted to €1,824 (2018: €1,983) for key management personnel. The base salary amounts to €905 for 2019, (2018: €1,065), others amounts to €919 (2018: €918). These costs were cross charged by DAF Trucks NV to PACCAR Financial Holdings Europe BV.

27. CASH FLOW STATEMENT

The net cash provided by operating, investing and financing activities includes interest paid for €14,328 (2018: €13,091) and interest received for €70,782 (2018: €69,070).

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

The movements in the line "Other, net" in the Operating activities relate to working capital movements can be specified as follows:

In €'000	**2019**	2018
Inventory	(28,529)	(72,495)
Payables and other	21,682	(12,271)
Other, net	(6,847)	(84,766)

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

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

28. POST EMPLOYMENT BENEFITS AND CONTINGENT LIABILITIES

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

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

The post-employment benefits are as follows:

Belgium

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

The pension liabilities are insured with an insurance company. A defined benefit liability of €129 has been recognized as of December 31, 2019 (defined benefit asset 2018: €89). In 2019 contributions of €245 (2018: €55) 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. A defined benefit liability of €227 (2018: €228) has been recognized as of December 31, 2019. In 2019 contributions of €247 (2018: €243) 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 2019 contributions of €128 (2018: €112) 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 2019 contributions of €55 (2018: €49) 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 2019 an amount of €222 (2018: €203) was paid to the Spanish State for social security and health assistance which was recognized in "Selling and administrative expense" in the income statement.

Germany – PACCAR Financial Deutschland GmbH

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

The pension liabilities are insured with an insurance company. A defined benefit liability of €1,231 (2018: €503) has been recognized as of December 31, 2019. In 2019 contribution of €840 (2018: €295) were recognized in "Selling and administrative expense" in the income statement.

29. EVENTS AFTER THE REPORTING PERIOD

Covid-19

The current Covid-19 outbreak most likely impacts the global economy and the Company's financial position and results. The Covid-19 outbreak has resulted in temporary work stoppages in the DAF factories in Europe. If these stoppages were to be prolonged or expanded in scope, this could impact DAF's ability to deliver trucks to customers on schedule and as a consequence the Company's ability to finance. Furthermore, significant impact will be on the expected credit losses and used trucks results. Currently the Company is monitoring any financial impact attributable to the Covid-19 outbreak. Given the uncertainties and ongoing development the Company cannot accurately measure the quantitative impact. As the Company has access to additional funding resources, the Company will be able to meet it financing needs in 2020.

Signed:

G. J. B. Bas

H. C. A. M. Schippers

T. R. Hubbard

Directors PACCAR Financial Europe BV

April 8, 2020

COMPANY BALANCE SHEET AS OF DECEMBER 31, 2019
(Before appropriation of net result)

In €'000

ASSETS	**Notes**	**2019**	2018
Non-current assets			
Financial fixed assets	3	1,914,502	1,689,185
Current assets			
Other current assets	4	1,404,735	1,343,897
Cash and cash equivalents		26,262	-
Total Assets		**3,345,499**	**3,033,082**

EQUITY AND LIABILITIES			
Shareholder equity			
Paid-in capital	5	73,000	73,000
Additional paid-in capital	5	224,046	224,046
Foreign currency translation	5	(18,900)	(27,783)
Accumulated fair value changes of financial instruments	5	4,367	(3,975)
Retained earnings previous years	5	265,741	230,045
Net income	5	12,804	35,696
Total Shareholder Equity		**561,058**	**531,029**
Long-term debt and other non-current liabilities	6	1,742,254	1,715,177
Short-term debt	7	1,042,187	786,876
Total Liabilities		**2,784,441**	**2,502,053**
Total Equity and Liabilities		**3,345,499**	**3,033,082**

COMPANY INCOME STATEMENT - 2019

In €'000	**Year ended December 31**	
	2019	2018
Net income after income taxes from investments in consolidated group companies	10,336	33,676
Other income and expenses after income taxes	2,468	2,020
Net income	**12,804**	**35,696**

NOTES TO THE COMPANY BALANCE SHEET AND COMPANY INCOME STATEMENT - 2019

(in thousands of Euros)

1. GENERAL NOTES

The company financial statements are part of the 2019 financial statements of PACCAR Financial Europe (the ‘Company’).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Investments in group companies

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

Result of participating interests

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

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

Accounts receivable group companies and other

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

3. FINANCIAL FIXED ASSETS

As of December 31 (in €'000)	**2019**	2018
Investments in group companies	485,993	375,850
Long-term advances to group companies	1,413,750	1,309,150
Deferred income tax assets non-current	-	727
Derivatives	14,759	3,458
Financial fixed assets	1,914,502	1,689,185

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

In €'000	**2019**	2018
Book value as of January 1	375,850	329,548
Adjustment openings balance IFRS 9 adoption		(1,699)
Adjusted book value as of January 1	375,850	327,849
Investment in subsidiary	89,293	16,608
Foreign currency translation differences	8,884	(3,183)
Accumulated fair value changes financial instruments	1,631	900
Income on investments in group companies	10,336	33,676
Book value as of December 31	485,993	375,850

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	**2019**	2018
Book value as of January 1	1,309,150	1,102,872
Increases	571,800	792,967
Redemptions	(467,200)	(586,689)
Book value as of December 31	1,413,750	1,309,150

The long term advances to group companies in 2019 and 2018 were Euro denominated. At December 31, 2019, 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, 2019 the average interest rate was 0.77% (2018: 0.72%).

Deferred income tax assets

In €'000	**2019**	2018
Book value as of January 1	727	1,263
Increase / (Decrease)	(727)	(536)
Book value as of December 31	-	727

Derivative contracts

In €'000	**2019**	2018
Book value as of January 1	3,458	10
Change in fair value	11,301	3,458
Redemptions	-	-
Short term / reclassification	-	(10)
Book value as of December 31	14,759	3,458

As of December 31, 2019, there were 13 (2018: 5) interest rate swaps outstanding with a notional amount of €417,757 (2018: €264,126) and an average term of 28.9 months (2018: 30.4 months).

4. OTHER CURRENT ASSETS

As of December 31 (in €'000)	**2019**	2018
Short term advances to group companies	1,398,940	1,337,959
Derivatives	-	403
Prepaid expenses and other	5,795	5,535
Book value as of December 31	1,404,735	1,343,897

The short-term advances to group companies include advances denominated in GBP 346,846 (2018: GBP 281,973), advances in PLN 46,209 (2018: PLN 52,288) and advances in CZK 25,472 (2018: CZK 16,294). The advances to group companies are interest bearing with a monthly floating interest rate. At December 31, 2019, all short-term advances to group companies had a remaining term shorter than one year.

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

In €'000	**2019**	2018
Book value as of January 1	1,337,959	1,142,881
Increases	2,563,363	2,257,644
Redemptions	(2,536,770)	(2,064,488)
Interest	10,780	8,669
Foreign currency translation differences	23,608	(6,747)
Book value as of December 31	1,398,940	1,337,959

Derivative contracts

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

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

As of December 31, 2018 the Company had the following currency forwards:

Currency	Number of contracts	Notional amount in '000	Remaining life time (days)	Exchange rate (€)
GBP	8	GBP 93,000	19	1.11
PLN	3	PLN 64,800	14	0.23
USD	3	USD 100,000	15	0.88
CZK	2	CZK 63,500	14	0.04

5. EQUITY

Issued capital
As of December 31, 2019 730,000 (2018: 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, 2017	73,000	224,046	(24,600)	(5,843)	197,208	34,534	498,345
Effect of application IFRS 9	-	-	(2)	-	(1,697)	-	(1,699)
Restated as of January 1, 2018	73,000	224,046	(24,602)	(5,843)	195,511	34,534	496,646
Net income	-	-	-	-	-	35,696	35,696
Other comprehensive income	-	-	(3,181)	1,868	-	-	(1,313)
Total comprehensive income	-	-	(3,181)	1,868	-	35,696	34,383
Appropriation of net income	-	-	-	-	34,534	(34,534)	-
As of December 31, 2018	73,000	224,046	(27,783)	(3,975)	230,045	35,696	531,029
Effect of application IFRS 16	-	-	-	-	-	-	-
Restated as of January 1, 2019	73,000	224,046	(27,783)	(3,975)	230,045	35,696	531,029
Net income	-	-	-	-	-	12,804	12,804
Other comprehensive income	-	-	8,883	8,342	-	-	17,225
Total comprehensive income	-	-	8,883	8,342	-	12,804	30,029
Appropriation of net income	-	-	-	-	35,696	(35,696)	-
As of December 31, 2019	73,000	224,046	(18,900)	4,367	265,741	12,804	561,058

* See note 17.

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

Net income appropriation 2019
The proposal to the shareholder meeting is to add the net income for the period ended December 31, 2019 to the retained earnings of previous years.

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

As of December 31 (in €'000)	**2019**	2018
Euro Medium Term Notes	1,148,345	1,149,662
Long term advances to group companies	589,774	560,293
Deferred tax liability	971	-
Derivative contracts	3,164	5,222
Long-term debt and other non-current liabilities	1,742,254	1,715,177

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

In €'000	**2019**
Principal amount	1,149,662
Repaid up to 31 December 2018	-
Outstanding principal amount at 1 January 2019	1,149,662
2019 Euro Medium Term Notes program	298,683
Repayments in 2019	(300,000)
Outstanding principal amount at 31 December 2019	1,148,345
Current portion at 31 December 2019	548,345
Non-current portion at 31 December 2019	600,000

Since September 10, 2004, the Company has maintained a Euro Medium Term Note program. All notes outstanding as of December 31, 2019 are listed on the London Stock Exchange (PSM). The Professional Securities Market is not a regulated market, and consequently, the company is not a Dutch public interest entity (Organisatie van Openbaar Belang).

Terms of the Euro Medium Term Note program include:

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

As of December 31, 2019 and 2018, the carrying amounts of the outstanding notes under the Euro Medium Term Notes program were as follows:

	2019			2018		
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	1,148,345	0.15%	13	1,149,662	0.18%	18
Due within one year	548,345			299,662		
Due after one year	600,000			850,000		

The effective interest rates are the weighted average interest rates including the effect of hedging instruments as of December 31, 2019 and December 31, 2018, respectively.

Long term advances to group companies

In 2019 PACCAR Financial Europe acquired loans from PACCAR Inc. for an amount of $212,000 and repaid an amount of $228,000. In addition a loan from PACCAR Financial Australia, amounting to A$50,000, has been received in 2019.

Derivative contracts

As of December 31, 2019, there were 3 (2018: 8) interest rate swap contracts outstanding with a notional amount of €34,800 (2018: €235,900) and an average term of 14.8 months (2018: 24.1 months), 5 (2018: 3) USD cross currency swap contracts with a notional amount of €200,417 (2018: €66,417) and a remaining term of 29.4 months (2018: 29.0 months) and 0 (2018: 2) AUD cross currency swap contracts with a notional amount of €0 (2018: €30,864) and a remaining term of 0 months (2018: 44.4 months).

7. SHORT-TERM DEBT

As of December 31 (in €'000)	**2019**	2018
Commercial paper	1,033,086	770,018
Short-term payables to group companies	-	1,025
Short term payables	1,363	1,932
Accounts payable affiliates	5,609	5,446
Derivative contracts	2,129	8,455
Short-term debt	1,042,187	786,876

Commercial paper

Since 2001 the Company has maintained a commercial paper program. The main terms of the program are:

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

As of December 31, 2019 and 2018, the carrying amounts of the outstanding notes under the commercial paper program were as follows:

	2019			2018		
Currency	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of days to repayment in 2020*	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of days to repayment in 2019*
Euro denominated	441,217	(0.45)%	23	265,966	(0.37)%	26
GBP denominated	413,676	0.99%	17	416,930	0.91%	18
USD denominated	178,193	1.85%	20	87,122	2.53%	15
Total	1,033, 086	0.53%	20	770,018	0.65%	20

The effective interest rates are the weighted average interest rates as of December 31, 2019 and December 31, 2018, respectively.

Derivative contracts

As of December 31, 2019, there were 2 (2018: 2) EUR interest rate swap contracts outstanding with a notional amount of €61,100 (2018: €9,700) a remaining term of 4.3 months (2018: 5.0 months) and 0 (2018: 4) USD cross currency swap contracts with a notional amount of €0 (2018: €204,760) and a remaining term of 0 (2018: 7.4 months.)

8. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

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

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

9. OTHER DISCLOSURES

Employees
The Company has no employees.

Remuneration directors
The remuneration of the directors is €406 (2018: €440).

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

Auditor's fees

The following fees were charged by EY to the company.

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

(in €'000)	Ernst & Young Accountants LLP 2018	Other EY network 2018	Total EY 2018
Audit of the financial statements	410	399	809
Other audit engagements	21	-	21
Tax-related advisory services	-	16	16
Other non-audit services	-	-	-
Total	431	415	846

The fees mentioned in the table for the audit of the financial statements 2019 (2018) relate to the total fees for the audit of the financial statements 2019 (2018), irrespective of whether the activities have been performed during the financial year 2019 (2018).

List of capital investments

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

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

Signed

G. J. B. Bas — H. C. A. M. Schippers

T. R. Hubbard
Directors PACCAR Financial Europe BV

April 8, 2020

INFORMATION SUPPLEMENTING THE FINANCIAL STATEMENTS

Articles-of-association rules concerning result appropriation

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

Independent auditor's report

To: the shareholder of PACCAR Financial Europe BV

Report on the Audit of the Financial Statements 2019

Our Opinion

We have audited the financial statements 2019 of PACCAR Financial Europe BV, based in Eindhoven, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of PACCAR Financial Europe BV as at 31 December 2019, and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying company financial statements give a true and fair view of the financial position of PACCAR Financial Europe BV as at 31 December 2019, and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2019
- The following statements for 2019: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2019
- The company income statement for 2019
- The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

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

We are independent of PACCAR Financial Europe BV ('PFE' or 'the Company') in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	€ 4.6 million
Benchmark applied	2% of Earnings before interest, tax, depreciation and amortization (EBITDA)
Explanation	Based on our professional judgment, we believe EBITDA to be the financial statement measure most important to users of the financial statements. In our planning phase we have set the initial planning materiality at € 4.2 million. We reassessed the materiality, based on the 2019 EBITDA and concluded the initial planning materiality to be appropriate for the purpose of the audit of the 2019 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 management that misstatements in excess of € 230,000, which are identified during the audit, would be reported to management, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of our group audit

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

The Group has structured its activities in 17 legal entity components, of which 4 are located in the Netherlands, 11 in other European countries and 2 in Brazil. The foreign components mainly contain the equipment on operating lease and other finance receivables of the Group in each respective country.

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

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

We have performed full scope audit procedures ourselves at the group entities located in the Netherlands. The group entities in Belgium, Germany, the United Kingdom, France, Spain, Italy and Poland, with a full scope audit, were audited by other auditors within the EY network. In aggregate these full scope audit procedures represent approximately 93% of Total Assets, 94% of Revenue and 94% of EBITDA. As of 2019 we performed specific scope procedures on the component Czech Republic (PACCAR Financial CZ s.r.o.), which represents 3% of Total Assets, 5% of Revenue and 5% of EBITDA. Slovakia (PACCAR Financial Slovakia s.r.o.), Portugal (PACCAR Portugal, Unipessoal, Lda), and Brazil (PACCAR Participações Ltda and PACCAR Representações S.A.) were not in scope due to their limited size and assessed risks.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the Group's financial information to provide an opinion about the 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 management. The key audit matters are not a comprehensive reflection of all matters discussed. In comparison with previous year, we split the key audit matter for the estimation uncertainty with respect to the residual value of equipment on operating lease and the net realizable value of the used trucks inventory in two separate KAMs to better reflect the differences in the estimation process, the risk and our audit approach to respond to those risks.

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

Estimation uncertainty with respect to the allowance for expected credit losses on Wholesale receivables and Finance and other receivables	
Risk	At 31 December 2019, the allowance for impairment losses on Wholesale receivables and Finance and other receivables amounts to € 14.3 million (2018: € 12.6 million). The Company recognizes impairments based on expected credit losses. Expected credit loss is a probability-weighted estimate of credit losses over the expected life of a financial asset using all reasonable and supportable information available about past events and current conditions supplemented by forecasts of future economic conditions. Since the impairment approach for Wholesale receivables and Finance and other receivables involves complex calculations and estimation uncertainty and judgment regarding historical loss experiences and forecasts of future economic conditions, we consider this a key audit matter. The related disclosures regarding the allowance for impairment losses are included in Note 2 Summary of significant accounting policies, Note 5 Wholesale receivables, net, Note 9 Finance and other receivables, net and Note 19 Financial risk management objectives and policies of the financial statements.
Our audit approach	We have gained an understanding of the estimation process of determining the allowance for impairment losses on Wholesale receivables and Finance and other receivables. We tested the design and operating effectiveness of the controls governing the allowance for impairment losses process, which includes controls regarding monitoring of the loan and lease portfolio and management assessment of the credit loss history. Furthermore, we verified the correctness of the input data, and challenged management's key assumptions used in credit loss history data and forecasts of future economic conditions, also based on our own assessment. We tested the completeness and accuracy of historic credit losses, including the frequency and severity loss percentages and verified the arithmetical accuracy of the credit loss calculations. Finally, we assessed whether the disclosures are in compliance with the EU-IFRS requirements.

Key observations	We consider management's key assumptions and estimates, used in the estimation process and in the expected credit loss model regarding the Wholesale receivables and Finance and other receivables to be within an acceptable range. The disclosures are in accordance with the requirements under EU-IFRS.

Estimation uncertainty with respect to the net realizable value of the used trucktrucks inventory	
Risk	At 31 December 2019, the equipment on operating lease amounts to € 1.187 million (31 December 2018: € 950 million), including depreciation and impairment expenses for the year of €207 million (2018: € 168 million). On a quarterly basis management reassesses the residual values of operating lease trucks to determine the trigger for (accelerated) depreciation or impairment, by comparing the residual values to the fair value. A decline in used trucks sales prices is regarded as an impairment indicator. Management exercises judgment in the estimation of the residual values, and makes use of complex models (including country specific return rates) and market information to make these estimates as accurate as possible. The fair values used to reassess the residual values are derived from recent transaction prices, from the Company itself, external parties as published on online vehicle marketplaces and, trade leaflets and approved by the pricing committee of the Company. Since the determination of the residual value on equipment on operating lease requires management judgment, the use of complex models and market information, we consider this a key audit matter. The related disclosures regarding the residual value of equipment on operating lease are included in Note 2 Summary of significant accounting policies, Note 8 equipment on operating lease, net, and Note 19 Financial risk management objectives and policies of the financial statements.
Our audit approach	We have gained an understanding of the estimation process with respect to the determination of residual values for equipment on operating lease. We have attended management meetings where the overall developments in the used trucks markets and adjustments to the residual values were being discussed. We also evaluated and challenged assumptions made by management in determining the portfolio valuation model and the quarterly residual value price matrix, including the country specific return rate used in the impairment model. In addition, on a sample base, we recalculated the applied residual values, used by management in the impairment model, based on underlying input such as truck options and truck specifics. We considered sales of used trucks in the first few months of 2020 for evidence about residual values as at 31 December 2019. Finally, we assessed whether the disclosures are in compliance with the EU-IFRS requirements.

Key observations	We consider management's key assumptions and estimates, used in the estimation process and in the impairment model, to be within an acceptable range. In establishing the residual value at year-end 2019 management was responsive to the market circumstances at year-end 2019 and took into consideration the expected wholesale values for 2020. The disclosures are in accordance with the requirements under EU-IFRS.

Estimation uncertainty with respect to the net realizable value of the used trucks inventory	
Risk	At 31 December 2019, used trucks inventory amounts to €130 million (2018: €104 million). The net realizable value is reassessed periodically and, when deemed necessary, the carrying amount is decreased to net realizable value. Compared to last year the Company sold an increased number of used trucks at a loss. The overall used trucks losses increased during 2019 and were significantly higher compared to 2018. Estimates of net realizable value must be based on the most reliable evidence available and take into account fluctuations of price or cost after the end of the reporting period if this is evidence of conditions existing at the end of the reporting period. On a quarterly basis management reassesses the net realizable value of used trucks by comparing recent sales prices to the used trucks pricing matrix that forms the basis for determining whether the carrying amount of used trucks inventory should be lowered to reflect net realizable value. The used trucks pricing matrix is derived from recent transaction prices from the Company itself, external parties as published on online vehicle marketplaces and trade leaflets and is eventually approved by the Company's executive pricing committee. If needed the carrying amount of used trucks inventory is lowered to reflect the net realizable value. Since the determination of the net realizable value requires management judgment and a mix of internal and external market information, we consider this a key audit matter. The related disclosures regarding the used trucks inventory are included in Note 2 Summary of significant accounting policies, Note 6 Inventory, and Note 21 revenue.
Our audit approach	We have gained an understanding of the estimation process with respect to the determination of the net realizable value. We inquired management about the developments in the market and have attended management meetings where the overall developments in the used trucks markets and adjustments to the used trucks pricing matrix were discussed. We evaluated and challenged assumptions made by management in determining these values. In order to test the valuation of the used trucks inventory as of year-end 2019, we specifically considered sales of used trucks in the first few months of 2020 for evidence about the net realizable values as at 31 December 2019. Finally, we assessed whether the disclosures are in compliance with the EU-IFRS requirements.

Key observations	We consider management's key assumptions and estimates, used in the assessment of the net realizable value of the used trucks inventory to be within an acceptable range. In establishing the net realizable value at year-end 2019 management was responsive to the market circumstances in 2019 and took into consideration the used trucks sales in 2020 that provided evidence of conditions existing at the end of 2019. The disclosures are in accordance with the requirements under EU-IFRS.

Emphasis of matter relating to uncertainty about Corona

The developments surrounding the Corona (Covid-19) virus have a profound impact on people's health and on our society as a whole, as well as on the operational and financial performance of organizations and the assessment of the ability to continue as a going concern. The financial statements and our auditor's report thereon reflect the conditions at the time of preparation. The situation changes on a daily basis giving rise to inherent uncertainty.

PACCAR Financial Europe B.V. is confronted with this uncertainty as well, that is disclosed in the Management report on page 8, and the disclosure about events after the reporting period on page 69. We draw attention to these disclosures.

Our opinion is not modified in respect of this matter.

Report on other information included in the annual report

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

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

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

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

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

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

Report on other legal and regulatory requirements

Engagement

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

Description of responsibilities for the financial statements

Responsibilities of Management for the Financial Statements

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

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

Our Responsibilities for the audit of the Financial Statements

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

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

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

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

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

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

We communicate with management 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 management 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 management, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, April 8, 2020

Ernst & Young Accountants LLP

signed by P.J.A.J. Nijssen