

Iveco Danmark A/S
Erhvervsvej 5, DK-2600 Glostrup
CVR no. 56 57 78 15

Annual report for 2016

Adopted at the annual general meeting
on 27 June 2017

chairman



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Statement by management on the annual report

The Board of Directors and the Executive Board have today discussed and approved the annual report of Iveco Danmark A/S for the financial year 1 January - 31 December 2016.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

Management recommends that the annual report should be approved at the annual general meeting.

Glostrup, 27 June 2017

Executive board


Lars Beck
chief executive officer

Supervisory board


Stig Bigaard
Chairman


Ejørn Gehlert


Lars Beck

Independent auditor's report

To the shareholder of Iveco Danmark A/S

Opinion

We have audited the financial statements of Iveco Danmark A/S for the financial year 1 January – 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. 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 the financial statements.

Independent auditor's report

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain 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.
- Obtain 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements 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 conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's Review

Management is responsible for the Management's Review.

Our opinion on the Financial Statements does not cover the Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the Management's Review and, in doing so, consider whether the Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Independent auditor's report


Moreover, it is our responsibility to consider whether the Management's Review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's Review.

Copenhagen, 27 June 2017

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28


Mogens Andreasen
state authorised public accountant


Dennis Dupont
state authorised public accountant

Company details

The company	Iveco Danmark A/S Erhvervsvej 5 DK-2600 Glostrup CVR no.: 56 57 78 15 Reporting period: 1 January - 31 December Incorporated: 30. January 1976 Domicile: Glostrup
Supervisory board	Stig Bigaard, chairman Bjørn Gehlert Lars Beck
Executive board	Lars Beck, chief executive officer
Ownership control	CNH Industrial N. V.
Auditors	ERNST & YOUNG Godkendt Revisionspartnerselskab c/o Postboks 250, Osvald Helmuths Vej 4 DK-2000 Frederiksberg
Lawyers	Advokatfirma Bech-Bruun Langelinie Allé 35 DK-2100 Copenhagen
Bankers	Danske Bank Holmens Kanal 2 DK-1092 Copenhagen
Consolidated financial statements	The Company is included in the group annual report of CNH Industrial N. V. The group annual report of CNH Industrial N. V. may be obtained at the following address: 25 St. James's Street London SW1A 1HA United Kingdom

Financial highlights

Seen over a 5-year period, the development of the Company may be described by means of the following financial highlights:

	2016	2015	2014	2013	2012
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Revenue	537,509	574,917	609,046	444,048	548,065
Gross profit	122,790	109,132	116,808	120,999	126,944
Profit/loss before financial income and expenses	5,220	6,055	6,262	4,807	8,367
Net financials	-6,644	-8,175	-2,825	-1,042	-1,779
Profit/loss for the year	-17,593	-4,640	-7,291	2,430	5,165
Balance sheet total	534,988	432,510	359,377	370,401	403,124
Investment in property, plant and equipment	184,793	125,432	3,039	23,607	21,751
Equity	67,099	84,692	138,041	145,331	142,901
Number of employees	132	158	182	189	184
Financial ratios					
Gross margin	22.8%	19.0%	19.2%	27.2%	23.2%
Solvency ratio	12.5%	19.6%	38.4%	39.2%	35.4%
Return on equity	-23.2%	-4.2%	-5.1%	1.7%	3.7%

The financial ratios are calculated in accordance with the Danish Finance Society's recommendations and guidelines. For definitions, see the summary of significant accounting policies..

Management's review

Business activities

The primary activity of the Company is sales and services of vans and trucks on the Danish market.

Outlook

The development in IVECO market share has been satisfactory. It is the goal for 2017 to further increase the market shares in the key segment light and in the heavy segment.

Financial review

The Light Market: 3.5 - 7 Tons

IVECO's core market 2016 finished with an increase of 18.0 % in volume compared to 2015. IVECO finished the year with a MS of 19.0 % which was a decrease compared to 2015 of 0.4 %.

The Medium Market: 7.01 - 15.99 Tons

The medium market has been declining for several years but increased in 2016 by 39 % compared to 2015. IVECO finished the year with a MS of 15.8 % which was a decrease compared to 2015 of 9.2 %.

The Heavy Market: + 16 Tons

The heavy market increased by 5.2 % compared to 2015. IVECO achieved a MS 7.0 % which was a decrease compared to 2015 of 0.8 %.

Aftersales Market

Aftersales market reflects the higher activity level in the market. Spare part sales and Services increased by 5.6 % compared to 2015. The increased competition from suppliers and unauthorized aftermarket services remain to be a challenge despite the increased sales.

Conclusion

The Company has posted a loss for 2016 of 17.593 mill. DKK (vs. -4.6 mill. DKK in 2015). The Equity in the Company decreased from 85 mill. DKK (2015) to 67 mill. DKK (2016), due to the result of the year.

Impact on external environment and measures of preventing, reducing or mitigating damage

The Company observes all regulations related to influencing the external environment. The corporate sustainability report is available on the homepage of CNH Industrial (http://www.cnhindustrial.com/en-us/sustainability/corporate_sustainability_reports/Pages/default.aspx).

Management's review

Knowledge resources

The Company is solely engaged in sales and service. Intellectual capital resources within research and development are placed within the parent company, but available for the subsidiaries of IVECO, and will as such influence the development of the Company within this area.

Special risks apart from generally occurring risks in industry Statutory report on corporate social responsibility

Iveco Danmark A/S as being part of CNH Industrial Group is committed to be an integral part of the Group, permeating every process, organizational level and sector of activity. The corporate sustainability report is available on the homepage of CNH Industrial (http://www.cnhindustrial.com/en-us/sustainability/corporate_sustainability_reports/Pages/default.aspx).

Human resource

Organization

We will continue the focus on the need for a more agile workforce structure to meet changing business needs in order to ensure organizational performance. A core staff component will remain essential to ensure continuity of key functions for which technical and specialized knowledge are required. Iveco Danmark A/S will continue to help young people with their education by keeping apprentices.

Health

Iveco Danmark A/S would like to emphasize the health of the employees, to the benefit of the Company and the employees themselves. This is done by having constant focus on a safe work environment, and by offering free health insurance and no smoking classes. Iveco Danmark A/S does not have a local CSR policy, among other for human rights and climate effects. The Company is subsidiary to CHN Industrial GROUP. The corporate sustainability report is available on the homepage of CNH Industrial (http://www.cnhindustrial.com/en-us/sustainability/corporate_sustainability_reports/Pages/default.aspx).

Management's review

Statutory report on the underrepresented gender

Iveco Denmark strives to recruit the most suitable Supervisory Board members, managers and employees regardless of gender, race or religion. Our recruiting and personal policy reflects this practice. The supervisory board has set a target of the underrepresented gender to be 20 % of the board. It is the aim of the supervisory board to achieve this target before end of 2017. Currently the underrepresented gender is 0 % of the board. There has not been new election of board members in 2016.

Iveco Denmark A/S has a non-discrimination equal rights policy focusing on competencies in relation to job profiles on all managerial levels. Men and women have equal opportunities within the Company. The policy sets the framework for the individual career development and guidelines of recruiting and retention of managers. Specifically this relates to:

Support of individual career plans

Mentor and sparring opportunities

Employee policy that promotes equal career opportunities for both genders

Hiring policy and procedure that contributes to ensure the same recruitment opportunities for both genders

The share of the underrepresented Gender on the managerial level has increased in 2016 and is currently 14 %. The share is expected to increase in the coming years.

Significant events occurring after end of reporting period

In January 2017 Iveco has sold the branch Iveco Vejle to I. M. Jensen & Bache. This sale is expected to increase the revenue in the area for Iveco, due to the fact that I. M. Jensen & Bache is a well-known and trusted partner of Iveco. I. M. Jensen & Bache is currently running two authorized Iveco dealerships in the Padborg and Aarhus area, north and south of the area in Vejle. Following this transaction Iveco is left with one branch in Denmark, placed in Odense.

Income statement 1 January - 31 December

	Note	2016 TDKK	2015 TDKK
Revenue	2	537,509	574,917
Other operating income	3	24,683	25,297
Raw materials and consumables		-382,624	-436,567
Other external costs		-56,778	-54,515
Gross profit		122,790	109,132
Staff costs	4	-78,637	-86,470
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-38,933	-16,607
Profit/loss from ordinary operating activities before gains/losses from fair value adjustments		5,220	6,055
Financial income	5	787	522
Financial costs	6	-7,431	-8,697
Profit/loss before tax		-1,424	-2,120
Tax on profit/loss for the year	7	-16,169	-2,520
Net profit/loss for the year		-17,593	-4,640
Distribution of profit	8		

Balance sheet 31 December

	Note	2016 TDKK	2015 TDKK
Assets			
Land and buildings		24,372	24,557
Plant and machinery		294,023	152,245
Other fixtures and fittings, tools and equipment		706	949
Leasehold improvements		1,560	1,578
Tangible assets	9	<u>320,661</u>	<u>179,329</u>
Deposits		2,776	2,757
Fixed asset investments		<u>2,776</u>	<u>2,757</u>
Fixed assets total		<u>323,437</u>	<u>182,086</u>
Finished goods and goods for resale		118,986	141,066
Stocks		<u>118,986</u>	<u>141,066</u>
Trade receivables		5,663	13,657
Receivables from subsidiaries		74,061	78,270
Other receivables		2,988	397
Deferred tax asset	12	6,447	14,069
Prepayments	10	3,386	2,924
Receivables		<u>92,545</u>	<u>109,317</u>
Cash at bank and in hand		<u>20</u>	<u>41</u>
Current assets total		<u>211,551</u>	<u>250,424</u>
Assets total		<u>534,988</u>	<u>432,510</u>

Balance sheet 31 December

	Note	2016 TDKK	2015 TDKK
Liabilities and equity			
Share capital		501	501
Retained earnings		66,598	84,191
Equity	11	67,099	84,692
Other provisions	13	68,003	53,263
Provisions total		68,003	53,263
Other payables		222,794	100,862
Long-term debt	14	222,794	100,862
Short-term part of long-term debt	14	70,993	62,320
Trade payables		25,047	33,537
Payables to subsidiaries		686	40,639
Corporation tax		6,724	654
Other payables	15	32,996	39,494
Deferred income		40,646	17,049
Short-term debt		177,092	193,693
Debt total		399,886	294,555
Liabilities and equity total		534,988	432,510
Uncertainty in the recognition and measurement	1		
Subsequent events	16		
Contingent assets, liabilities and other financial obligations	17		
Charges and securities	18		
Related parties and ownership	19		
Fee to auditors appointed at the general meeting	20		

**Statement of changes in
equity**

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
Equity at 1 January 2016	501	84,191	84,692
Net profit/loss for the year	0	-17,593	-17,593
Equity at 31 December 2016	501	66,598	67,099

Cash flow statement 1 January - 31 December

	Note	2016 TDKK	2015 TDKK
Net profit/loss for the year		-17,593	-4,640
Adjustments	21	45,577	24,781
Change in working capital	22	-11,783	37,173
Cash flows from operating activities before financial income and expenses		16,201	57,314
Interest income and similar income		787	522
Interest expenses and similar charges		-7,431	-8,697
Cash flows from ordinary activities		9,557	49,139
Change in short term assets and liabilities		173,082	121,304
Corporation tax paid		-2,376	-465
Cash flows from operating activities		180,263	169,978
Deposit		-19	-2
Purchase of property, plant and equipment		-184,793	-125,432
Sale of property, plant and equipment		30,977	15,249
Paid regarding extraordinary items		-26,449	-11,403
Cash flows from investing activities		-180,284	-121,588
Dividend paid		0	-48,709
Cash flows from financing activities		0	-48,709
Change in cash and cash equivalents		-21	-319
Cash and cash equivalents, beginning of year		41	360
Cash and cash equivalents, end of year		20	41
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		20	41
Cash and cash equivalents, end of year		20	41

Notes

1 Uncertainty in the recognition and measurement

There is uncertainty associated with buy-back obligations on trucks. The uncertainty refers to the guaranteed repurchase price and the assessment of the market value of the trucks at the time of repurchase. Expected buy-back values are continuously assessed throughout the lifetime of the contracts. The company's repair and service contracts run for a number of years, where the risk factor is related to loss on these contracts. An ongoing assessment of the expected cost level is done compared to the actual cost development of the contracts.

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
2 Revenue		
Business segmentation of revenue:		
New vehicles	314,053	356,434
Used vehicles	55,594	53,617
Spare parts	120,082	111,824
Workshops	18,531	27,851
Service contracts	18,789	15,483
Other services	10,460	9,708
Total revenue	<u>537,509</u>	<u>574,917</u>

The Company only has activity in one business area and in one geographical market as mentioned in the section "Business activities" in the Management's review.

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
3 Other operating income		
Gain/loss on sale of assets on buy-back	1,068	1,127
Reinvoiced Group costs	16,910	17,424
Other	6,705	6,746
	<u>24,683</u>	<u>25,297</u>

Notes

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
4 Staff costs		
Wages and salaries	65,540	75,006
Pensions	5,992	6,907
Other staff costs	7,105	4,557
	<u>78,637</u>	<u>86,470</u>
Average number of employees	<u>132</u>	<u>158</u>

According to section 98 B(3) of the Danish Financial Statements Act, remuneration to the Executive Board has not been disclosed.

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
5 Financial income		
Other financial income	224	45
Exchange adjustments	263	142
Other interest income	300	335
	<u>787</u>	<u>522</u>

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
6 Financial costs		
Financial costs, group entities	7,135	8,077
Exchange adjustments costs	170	270
Other interest costs	126	350
	<u>7,431</u>	<u>8,697</u>

Notes

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
7 Tax on profit/loss for the year		
Current tax for the year	7,660	126
Deferred tax for the year	7,622	2,394
Adjustment of tax concerning previous years	<u>887</u>	<u>0</u>
	<u>16,169</u>	<u>2,520</u>
	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
8 Distribution of profit		
Extraordinary dividend for the year	0	48,709
Retained earnings	<u>-17,593</u>	<u>-53,349</u>
	<u>-17,593</u>	<u>-4,640</u>

Notes

9 Tangible assets

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvement s	Total
Cost at 1 January 2016	35,000	187,646	22,415	3,721	248,782
Additions for the year	558	184,027	114	94	184,793
Disposals for the year	0	-23,495	-7,482	0	-30,977
Cost at 31 December 2016	<u>35,558</u>	<u>348,178</u>	<u>15,047</u>	<u>3,815</u>	<u>402,598</u>
Impairment losses and depreciation at 1 January 2016	10,443	35,401	21,466	2,143	69,453
Impairment losses for the year	0	7,390	0	0	7,390
Depreciation for the year	743	30,403	285	112	31,543
Reversal of impairment and depreciation of sold assets	0	-19,039	-7,410	0	-26,449
Impairment losses and depreciation at 31 December 2016	<u>11,186</u>	<u>54,155</u>	<u>14,341</u>	<u>2,255</u>	<u>81,937</u>
Carrying amount at 31 December 2016	<u>24,372</u>	<u>294,023</u>	<u>706</u>	<u>1,560</u>	<u>320,661</u>

10 Prepayments

Prepayments recognised under 'Assets' comprise prepaid costs regarding subsequent financial reporting years.

11 Equity

The share capital consists of the following:

- 1 share of DKK 500,000.00 (2015: DKK 500,000.00)
- 1 share DKK 1,000.00 (2015: DKK 1,000.00)

All shares rank equally.

The Company's share capital has remained TDKK 501 over the past 5 years.

Notes

	<u>2016</u> TDKK	<u>2015</u> TDKK
12 Deferred tax asset		
Provision for deferred tax at 1 January 2016	-14,069	-16,464
Adjustment in the year	<u>7,622</u>	<u>2,395</u>
Provision for deferred tax at 31 December 2016	<u>-6,447</u>	<u>-14,069</u>

Deferred tax asset

Calculated tax asset	<u>6,447</u>	<u>14,069</u>
Carrying amount	<u>6,447</u>	<u>14,069</u>

	<u>2016</u> TDKK	<u>2015</u> TDKK
13 Other provisions		
Balance at beginning of year at 1 January 2016	53,263	44,381
Provision in year	20,023	15,777
Applied in the year	<u>-5,283</u>	<u>-6,895</u>
Balance at 31 December 2016	<u>68,003</u>	<u>53,263</u>

Other provisions comprise provisions for warranty commitments, TDKK 42,472 (2015: TDKK 29,902), buy-back obligations, TDKK 179 (2015: TDKK 2,943), and repair and maintenance provisions, TDKK 25,352 (2015: TDKK 20,418).

14 Long term debt

	<u>Debt at 1 January 2016</u>	<u>Debt at 31 December 2016</u>	<u>Payment within 1 year</u>	<u>Debt after 5 years</u>
Other payables	100,862	222,794	70,993	159
	<u>100,862</u>	<u>222,794</u>	<u>70,993</u>	<u>159</u>

Notes

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
15 Other payables		
VAT and other indirect taxes	6,957	11,465
Wages/salaries, salary taxes, social security contributions, etc.	1,634	1,898
Compensated absence	6,931	9,078
Other accrued expenses	<u>17,474</u>	<u>17,053</u>
	<u>32,996</u>	<u>39,494</u>

16 Subsequent events

In January 2017 Iveco has sold the branch Iveco Vejle to I.M. Jensen & Bache. This sale should increase the position in the area for Iveco, because I.M. Jensen & Bache is a well-known and trusted partner of Iveco in this area. Which means that Iveco only have one branch in Denmark, placed in Odense.

Notes

17 Contingent assets, liabilities and other financial obligations

Other contingent liabilities

As management company, the Company is jointly taxed with other Danish group entities and is jointly and severally liable with other jointly taxed group entities for payment of income taxes for the income year 2013 onwards as well as withholding taxes on interest, royalties and dividends falling due for payment on or after 1 July 2012.

Other financial obligations

Other rent and lease liabilities include a rent and lease obligation totalling TDKK 21,229 (2015: TDKK 15,167).

18 Charges and securities

The Company has provided security for third parties including group enterprises of TDKK 1,800 (2015: TDKK 1,800).

19 Related parties and ownership

Controlling interest

CNH Industrial N.V.
25 St. James's Street
London
SW1A 1HA
United Kingdom

Transactions

Iveco Denmark A/S had the following transactions with related parties in TDKK:

Sale of goods to parent company	2,556 (2015: 1,422)
Purchase of goods from parent company	314,017 (2015: 334,589)
Sale of good to group companies	36,859 (2015: 32,827)
Purchase of goods from group companies	63,854 (2015: 62,293)
Cost of management fee to parent company	2,364 (2015: 3,814)
Receivables from parent company	1,817 (2015: 1,113)
Payables to parent company	9,359 (2015: 14,799)
Receivables from group companies	72,244 (2015: 77,322)
Payables to group companies	10,045 (2015: 25,840)

Apart from the above, there have been no transactions with the Supervisory Board, the Executive Board, senior officers, significant shareholders, group enterprises or other related parties, except for intercompany transactions and normal management remuneration.

Notes

19 Related parties and ownership (continued)

Ownership

According to the Company's register of shareholders, the following shareholders hold a minimum of 5% of the voting rights or a minimum of 5% of the share capital:

CNH Industrial N.V.

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
20 Fee to auditors appointed at the general meeting		
ERNST & YOUNG:		
Audit fee	136	120
Other assistance	0	6
Tax advisory services	<u>344</u>	<u>270</u>
	<u>480</u>	<u>396</u>
21 Cash flow statement - adjustments		
Financial costs	7,431	8,697
Depreciation, amortisation and impairment losses	38,933	16,606
Tax on profit/loss for the year	<u>-787</u>	<u>-522</u>
	<u>45,577</u>	<u>24,781</u>
22 Cash flow statement - change in working capital		
Change in inventories	22,080	-18,881
Change in receivables	14,579	49,933
Change in trade payables, etc.	<u>-48,442</u>	<u>6,121</u>
	<u>-11,783</u>	<u>37,173</u>

Accounting policies

The annual report of Iveco Danmark A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

Effective 1 January 2016, the company has adopted act no. 738 of 1 June 2015. This implies changes in the recognition and measurement in the following areas:

Yearly reassessment of residual values of property, plant and equipment.

In future, residual values of property, plant and equipment are subject to annual reassessment. The company has no significant residual values relating to property, plant and equipment other than those relating to the company's land. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions with future effect only as a change in accounting estimates with no impact on equity.

None of the above changes affects the income statement or the balance sheet for 2016 or the comparative figures.

Apart from the above changes as well as new and changed presentation and disclosure requirements, which follow from act. no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

The annual report for 2016 is presented in Danish kroner.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the Company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

Accounting policies

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Income statement

Segment information

Segment information is provided on business segments and geographical markets. The segment information is based on the Company's internal financial management.

Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received.

Revenue is measured at fair value of the agreed consideration ex. VAT and taxes charged on behalf of third parties. Revenue is net of all types of discounts granted.

Raw materials and consumables

Expenses for raw materials and consumables include the raw materials and consumables used in generating the year's revenue.

Other operating income

Other operating income comprises items of a secondary nature relative to the Company's activities, including rental income and gains or losses on the sale of non-current assets.

Other external costs

Other external costs include expenses related to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees. The item is net of refunds made by public authorities.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise the year's amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Accounting policies

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit/loss for the year

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

The entity and its Danish group entities are taxed on a joint basis. The Danish income tax charge is allocated between profit-making and loss-making Danish entities in proportion to their taxable income (full allocation method).

Jointly taxed companies entitled to a tax refund are, as a minimum, reimbursed by the management company according to the current rates applicable to interest allowances, and jointly taxed companies having paid too little tax pay, as a minimum, a surcharge according to the current rates applicable to interest surcharges to the management company.

Balance sheet

Tangible assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

Vehicles sold with a buy-back obligation are considered operating leases and are recognised in the balance sheet as property, plant and equipment.

For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

Straight-line depreciation is provided on the basis of the following estimated useful lives of the assets:

Buildings	33-40 years
Other fixtures and fittings, tools and equipment	4-8 years

Accounting policies

Leasehold improvements 5-8 years

Land is not depreciated.

The basis of depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In case of changes in the amortisation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Gains or losses are made up as the difference between the selling price less selling costs and the carrying amount of the date of the disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating costs.

Leases

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the company are classified as operational leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The company's aggregate liabilities relating to operating leases and other leases are disclosed under contingencies.

Impairment of fixed assets

Every year, intangible assets and property, plant and equipment are reviewed for impairment. Where there is indication of impairment, an impairment test is made for each individual asset or group of assets, respectively, generating independent cash flows. The assets are written down to the higher of the value in use and the net selling price of the asset or group of assets (recoverable amount) if it is lower than the carrying amount. Where an impairment loss is recognised on a group of assets, a loss must first be allocated to goodwill and then to the other assets on a pro rata basis.

Stocks

Stocks are measured using the weighted average method. Where the net realisable value is lower than the cost, inventories are recognised at this lower value.

The net realisable value of stocks is calculated as the selling price less costs of completion and expenses incurred to effect the sale. The net realisable value is determined taking into account marketability, obsolescence and expected selling price movements.

Goods for resale are measured at cost, which comprises the cost of acquisition plus delivery costs as well as other costs directly attributable to the acquisition.

Accounting policies

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable is impaired, an impairment loss for that individual asset is recognised.

Receivables for which there is no objective indication of individual impairment are reviewed for impairment on a portfolio basis. The portfolios are primarily composed on the basis of debtors' domicile and credit ratings in accordance with the Company's credit risk management policy. The objective indicators used for portfolios are determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received, using the effective interest rate of individual receivables or portfolios of receivables as discount rate.

Prepayments

Prepayments recognised under 'Assets' comprise prepaid costs regarding subsequent financial reporting years.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term securities whose remaining life is less than three months and which are readily convertible into cash and which are subject only to insignificant risks of changes in value.

Equity

Dividend

Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability at the date of declaration by the annual general meeting.

Provisions

Provisions comprise expected expenses relating to warranty, repair and maintenance, etc. Provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date.

Provisions are measured at net realisable value or at fair value if the obligation concerned is expected to be settled far into the future.

Warranty commitments include expected costs of repairs within the guarantee period and are recognised based on previous experience with work performed under guarantees.

Accounting policies

Repair and maintenance include anticipated costs of service repair and maintenance and similar provisions.

Income tax and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of the assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss allowed for carry forward are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Liabilities

Liabilities, which include trade payables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Other payables in 'long-term liabilities' include buy-back obligations. Vehicles sold with buy-back obligations are considered operating leases and the operating leases and the related obligation is recognised in the balance sheet under liabilities other than provisions at amortised cost.

Deferred income

Deferred income comprises payments received concerning income in subsequent reporting years.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign-exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses. If foreign currency transactions are considered cash flow hedges, the value adjustments are taken directly to equity.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Accounting policies

Fixed assets acquired in foreign currencies are measured at the exchange rate at the transaction date.

Cash flow statement

The cash flow statement shows the company's cash flows for the year, broken down under cash flows from operating, investing and financing activities, the year's changes in cash and cash equivalents and the company's cash and cash equivalents at the beginning and at the end of the year.

Cash flows from operating activities

Cash flows from operating activities are stated as the profit or loss for the year, adjusted for non-cash operating items, changes in working capital and paid income taxes.

Cash flows from investing activities

Cash flows from investing activities comprise payments related to the acquisition and sale of entities and activities, intangible assets, property, plant and equipment and investments.

Cash flows from financing activities

Cash flows from financing activities comprise changes in the size or composition of the share capital and related costs, as well as the raising of loans, repayment of interest-bearing debt and payment of dividends to shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term securities whose remaining life is less than three months and which are readily convertible into cash and which are subject only to insignificant risks of changes in value.

Financial Highlights

Definitions of financial ratios.

Gross margin ratio	$\frac{\text{Gross Profit} \times 100}{\text{Revenue}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets}}$
Return on equity	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$