IVECO GROUP N.V.
COMBINED
FINANCIAL STATEMENTS

For the years ended December 31, 2020, 2019, and 2018

IVECO GROUP N.V.

COMBINED INCOME STATEMENT

For the Years Ended December 31, 2020, 2019, and 2018

	Note	2020	2019	2018
			(€ million)	
Net revenues vs third parties		9,885	11,247	11,244
Net revenues vs CNH Industrial Group post-Demerger		526	701	761
Total Net revenues	(1)	10,411	11,948	12,005
Cost of sales	(2)	9,462	10,298	10,184
Selling, general and administrative costs	(3)	705	755	741
Research and development costs	(4)	436	464	413
Result from investments:	(5)	(43)	(14)	—
Share of the profit/(loss) of investees accounted for using the equity method		(43)	(14)	—
Restructuring costs	(6)	32	40	28
Other income/(expenses)	(7)	(109)	(45)	(94)
Financial income/(expenses)	(8)	(112)	(157)	(235)
PROFIT/(LOSS) BEFORE TAXES		**(488)**	**175**	**310**
Income tax (expense) benefit	(9)	116	(74)	(127)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		**(372)**	**101**	**183**
PROFIT/(LOSS) FOR THE PERIOD		**(372)**	**101**	**183**
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:				
Owners of Iveco Group		(408)	84	166
Non-controlling interests		36	17	17

The accompanying notes are an integral part of the Combined Financial Statements

IVECO GROUP N.V.

COMBINED STATEMENT OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2020, 2019, and 2018

	Note	2020	2019	2018
			(€ million)	
PROFIT/(LOSS) (A)		**(372)**	**101**	**183**
Other comprehensive income/(loss) that will not be reclassified subsequently to profit or loss:				
Gains/(losses) on the remeasurement of defined benefit plans	(21)	(12)	(59)	12
Net change in fair value of equity investments measured at fair value through other comprehensive income	(21)	93	(5)	-
Tax effect of Other comprehensive (loss)/income that will not be reclassified subsequently to profit or loss	(21)	-	10	(2)
Total Other comprehensive income/(loss) that will not be reclassified subsequently to profit or loss, net of tax (B1)		**81**	**(54)**	**10**
Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss:				
Gains/(losses) on cash flow hedging instruments	(21)	18	(12)	(17)
Exchange gains/(losses) on translating foreign operations	(21)	(110)	(97)	19
Share of Other comprehensive income/(loss) of entities accounted for using the equity method	(21)	(2)	1	(1)
Tax effect of Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss	(21)	(5)	4	3
Total Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss, net of tax (B2)		**(99)**	**(104)**	**4**
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX (B) = (B1) + (B2)		**(18)**	**(158)**	**14**
TOTAL COMPREHENSIVE INCOME/(LOSS) (A)+(B)		**(390)**	**(57)**	**197**
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:				
Owners of Iveco Group		(424)	(72)	182
Non-controlling interests		34	15	15

The accompanying notes are an integral part of the Combined Financial Statements

IVECO GROUP N.V.

COMBINED STATEMENT OF FINANCIAL POSITION

At December 31, 2020, 2019, and 2018

	Note	At December 31, 2020	At December 31, 2019	At December 31, 2018
			(€ million)	
ASSETS				
Intangible assets	(12)	1,260	1,315	1,333
Property, plant and equipment	(13)	3,032	3,351	3,554
Investments and other non-current financial assets:	(14)	546	354	262
Investments accounted for using the equity method		209	243	259
Equity investments measured at fair value through other comprehensive income		319	96	-
Other investments and non-current financial assets		18	15	3
Leased assets	(15)	73	42	24
Defined benefit plan assets	(22)	1	—	—
Deferred tax assets	(9)	681	531	512
Total Non-current assets		**5,593**	**5,593**	**5,685**
Inventories	(16)	2,246	2,596	2,507
Trade receivables	(17)	444	371	438
Financial receivables from CNH Industrial Group post-Demerger	(17)	3,543	3,395	3,353
Receivables from financing activities	(17)	2,831	3,136	2,847
Current tax receivables	(17)	73	83	124
Other current receivables and financial assets	(17)	353	246	211
Prepaid expenses and other assets		51	50	74
Derivative assets	(18)	28	8	16
Cash and cash equivalents	(19)	463	417	496
Total Current assets		**10,032**	**10,302**	**10,066**
Assets held for sale	(20)	6	9	9
TOTAL ASSETS		**15,631**	**15,904**	**15,760**
INVESTED EQUITY AND LIABILITIES				
Invested capital and reserves attributable to owners of Iveco Group		2,268	2,680	2,701
Non-controlling interests		68	38	24
Total Invested equity	(21)	**2,336**	**2,718**	**2,725**
Provisions:		1,814	1,728	1,679
Employee benefits	(22)	610	597	579
Other provisions	(23)	1,204	1,131	1,100
Debt:	(24)	5,313	5,147	4,791
Asset-backed financing	(24)	2,031	2,133	1,932
Debt payable to CNH Industrial Group post-Demerger	(24)	2,563	2,059	1,936
Other debt	(24)	719	955	923
Derivative liabilities	(18)	27	39	20
Trade payables	(25)	3,082	3,050	2,924
Tax liabilities	(9)	65	107	116
Deferred tax liabilities	(9)	11	10	3
Other current liabilities	(26)	2,983	3,105	3,502
Total Liabilities		**13,295**	**13,186**	**13,035**
TOTAL INVESTED EQUITY AND LIABILITIES		**15,631**	**15,904**	**15,760**

The accompanying notes are an integral part of the Combined Financial Statements

IVECO GROUP N.V.

COMBINED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2020, 2019, and 2018

	Note	2020	2019	2018
			(€ million)	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	(19)	**417**	**496**	**456**
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES:				
Profit/(loss)		(372)	101	183
Amortization and depreciation (net of vehicles sold under buy-back commitments and operating leases)		580	541	465
(Gains)/losses on disposal of property plant and equipment and intangible assets (net of vehicles sold under buy-back commitments)		(3)	1	—
Other non-cash items	(33)	99	34	(8)
Dividends received		1	2	—
Change in provisions	(33)	107	4	(96)
Change in deferred income taxes		(158)	(11)	36
Change in items due to buy-back commitments[(a)]	(33)	147	(62)	(30)
Change in operating lease items[(b)]	(33)	(29)	(22)	14
Change in working capital	(33)	187	121	(209)
TOTAL		**559**	**709**	**355**
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES:				
Investments in:				
Property, plant and equipment and intangible assets (net of vehicles sold under buy-back commitments and operating leases)		(401)	(492)	(437)
Other investments		(134)	(96)	—
Proceeds from the sale of non-current assets (net of vehicles sold under buy-back commitments)		3	21	1
Net change in receivables from financing activities	(33)	215	(271)	388
Change in other current financial assets		(88)	—	—
Other changes		315	97	(65)
TOTAL		**(90)**	**(754)**	**(213)**
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES:				
Issuance of other medium-term borrowings (net of repayment)		(47)	(216)	53
Net change in debt and derivative assets/liabilities		(352)	188	(107)
Dividends paid		—	(1)	(1)
Purchase of ownership interests in subsidiaries		(8)	—	—
TOTAL		**(407)**	**(29)**	**(55)**
Translation exchange differences		(16)	(5)	(47)
TOTAL CHANGE IN CASH AND CASH EQUIVALENTS		**46**	**(79)**	**40**
CASH AND CASH EQUIVALENTS AT END OF YEAR	(19)	**463**	**417**	**496**

(a) Cash generated from the sale of vehicles under buy-back commitments, net of amounts included in Profit/(loss), is recognized under operating activities in a single line item, which includes changes in working capital, capital expenditure, depreciation and impairment losses. The item also includes gains and losses arising from the sale of vehicles subject to buy-back commitments.

(b) Cash from operating lease is recognized under operating activities in a single line item, which includes capital expenditure, depreciation, write-downs and changes in inventory.

IVECO GROUP N.V.

COMBINED STATEMENT OF CHANGES IN INVESTED EQUITY

For the Years Ended December 31, 2020, 2019, and 2018

	Invested capital and retained earnings	Cash flow hedge reserve	Cumulative translation adjustment reserve	Defined benefit plans remeasurement reserve	Equity investments at FVTOCI	Cumulative share of OCI of entities consolidated under the equity method	Non-controlling interests	Total Invested Equity
				(€ million)				
AT JANUARY 1, 2018	**2,625**	**11**	**(72)**	**(142)**	**—**	**55**	**10**	**2,487**
Dividends distributed	—	—	—	—	—	—	(1)	**(1)**
Total comprehensive income/(loss) for the period	166	(14)	21	10	—	(1)	15	**197**
Other changes	42	—	—	—	—	—	—	**42**
AT DECEMBER 31, 2018	**2,833**	**(3)**	**(51)**	**(132)**	**—**	**54**	**24**	**2,725**
Dividends distributed	—	—	—	—	—	—	(1)	**(1)**
Total comprehensive income/(loss) for the period	84	(8)	(97)	(48)	(4)	1	15	**(57)**
Other changes(1)	51	—	—	—	—	—	—	**51**
AT DECEMBER 31, 2019	**2,968**	**(11)**	**(148)**	**(180)**	**(4)**	**55**	**38**	**2,718**
Purchase of ownership interests in subsidiaries from non-controlling interests	(4)	—	—	—	—	—	(4)	**(8)**
Total comprehensive income/(loss) for the period	(408)	13	(108)	(10)	91	(2)	34	**(390)**
Other changes(1)	16	—	—	—	—	—	—	**16**
AT DECEMBER 31, 2020	**2,572**	**2**	**(256)**	**(190)**	**87**	**53**	**68**	**2,336**

(1) Other changes of Earnings reserves include the impact of IAS 29 - *Financial reporting in hyperinflationary economies* applied for subsidiaries that prepare their financial statements in a functional currency of a hyperinflationary economy. In particular, from July 1, 2018, Argentina's economy was considered to be hyperinflationary. This item also includes minor changes related to share-based compensation expense.

The accompanying notes are an integral part of the Combined Financial Statements

BACKGROUND

CNH Industrial N.V. ("CNH Industrial" and, collectively with its subsidiaries, the "CHN Industrial Group") is the company formed as a result of the business combination transaction (the "Merger"), completed on September 29, 2013, between Fiat Industrial S.p.A. and its majority owned subsidiary CNH Global N.V. CNH Industrial is incorporated under the laws of the Netherlands. CNH Industrial N.V. has its corporate seat in Amsterdam, the Netherlands, and its principal office in London, England, United Kingdom. CNH Industrial is a leading company in the capital goods sector that, through its various businesses, designs, produces and sells agricultural equipment, construction equipment, trucks, commercial vehicles, buses and specialty vehicles, in addition to a broad portfolio of powertrain applications. In addition, CNH Industrial's Financial Services segment offers an array of financial products and services, including retail financing for the purchase or lease of new and used CNH Industrial and other manufacturers' products and other retail financing programs and wholesale financing to dealers. CNH Industrial has industrial and financial services companies located in 44 countries and a commercial presence in approximately 180 countries.

At its Capital Markets Day event held on September 3, 2019, CNH Industrial announced its intention to separate its "Iveco Group" (commercial vehicles and powertrain) business and "Off-Highway" (agriculture and construction) business. On May 6, 2020, CNH Industrial announced that, while the intention to separate the Iveco Group business remained unchanged, the original timeline for the implementation was extended due to market conditions resulting from the COVID-19 pandemic. Starting from the end of 2020, CNH Industrial reaffirmed its intention to proceed with the separation.

STRUCTURE OF THE DEMERGER

The separation will occur by way of a statutory demerger (*juridische afsplitsing*), governed by the laws of the Netherlands, of equity investments attributable to the Iveco Group Business operations, and the portion of CNH Industrial N.V.'s financial payables attributable to the Iveco Group Business operations, from CNH Industrial in favor of Iveco Group N.V. ("the Company"), a newly-established company incorporated in the Netherlands. The Demerger is expected to occur after a series of preliminary transactions will have been completed. Such preliminary transactions include the following:

i. The incorporation of the Company, a company that until completion of the Demerger (as defined below) will be wholly owned by CNH Industrial. The Company was incorporated under the laws of the Netherlands on June 16, 2021, and has its corporate seat in Amsterdam, the Netherlands, and its principal office and business address in Turin, Italy. The Company will be the recipient of the interests and equity investments that will be transferred by universal title of succession (*algemene title*) pursuant to the Demerger.

ii. The incorporation of a Financial Services sub-holding, ("Sub-holding"), a newly formed company that until completion of the Demerger will be wholly owned by CNH Industrial. Sub-holding was incorporated under the laws of Italy on June 11, 2021, and has its corporate seat in Turin, Italy. Sub-holding will be the recipient of the 49.9% of CNH Industrial's interest in CNH Industrial Capital Europe S.a.S., a joint venture with the BNP Paribas Group providing financing solutions to customers of the CNH Industrial Group in several European countries. Such 49.9% interest will be transferred into Sub-holding by way of a contribution in kind, governed by the laws of Italy.

The Demerger will entail the transfer by universal title of succession, from CNH Industrial to the Company, of the following: (a) all interests owned in the industrial legal entities attributable to the Iveco Group operations; (b) all interests owned in the Financial Services legal entities included in the Iveco Group perimeter, such as (1) the 100% interest in CNH Industrial Financial Services S.A. (a financial institution wholly owned by CNH Industrial) and (2) the 49% interest in Transolver Finance Establecimiento Financiero de Credito S.A. (a joint venture with Santander providing financing solutions to customers in Spain); (c) the 50% interest in Sub-holding, (owning 49.9% CNH Industrial Capital Europe S.a.S.), and (d) the portion of CNH Industrial N.V. financial payables attributable to Iveco Group operations. The Demerger will become effective on the Effective Date.

All other assets, liabilities and interests not transferred to the Company upon Demerger will remain with CNH Industrial.

Universal title succession means that the legal title to the assets and liabilities concerned transfers to the receiving company by operation of law by virtue of the legal demerger: no separate transfer deeds or other actions are required for the transfer of title other than the notarial deed of demerger. Generally, third party consents do not need to be obtained. There is a one-month opposition period following the filing of the demerger proposal during which creditors, and parties to a legal relationship with CNH Industrial or the Company, who believe that their position is jeopardised by the Demerger, may object and may require security to be given to them if their position deteriorates as a result of the Demerger (see also below). The same applies to counterparties to contracts who believe that their contracts are not properly transferred. Contractual relationships may only be transferred in their entirety.

The Demerger will also entail the allotment of common and Special Voting Shares of the Company to all CNH Industrial's shareholders proportionally to their holding of each type of common and Special Voting Shares in CNH Industrial in accordance with the Exchange Ratio. The allotment of shares pursuant to the Demerger does not require a separate deed or action: the allotment is accomplished by operation of law pursuant to the execution of the notarial deed of demerger.

Following the Demerger, the Company will operate as an independent, publicly listed company.

BASIS OF PREPARATION

These combined financial statements (the "Combined Financial Statements") have been prepared in connection with the Demerger and have been derived from the consolidated financial statements and accounting records of CNH Industrial. These Combined Financial Statements have been prepared to represent the combined historical results of operations, financial position and cash flows of the Iveco Group business structure that will be controlled by the Company following the Demerger (together the "Group" or the "Iveco Group"). The Combined Financial Statements are presented as if the entities controlled directly or indirectly by CNH Industrial until the Demerger and that will be controlled by the Company afterwards, together with other assets and liabilities, had been combined for all periods presented.

As the Demerger is considered a "business combination involving entities or businesses under common control", it is outside the scope of application of IFRS 3 – *Business Combinations* and IFRIC 17 - *Distributions of Non-cash Assets to Owners*. Accordingly, assets and liabilities are accounted for at the carrying value in the accounting records of the transferring entity (i.e. CNH Industrial). The Combined Financial Statements are therefore prepared under the historical cost convention, modified as required for the measurement of financial instruments, as well as on a going concern basis. Despite operating in a continuously difficult economic and financial environment negatively impacted by the continuing spread of the COVID-19 pandemic, the Group's assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1) exist about its ability to continue as a going concern, in view also of the measures already undertaken by the Group to preserve cash and contain costs, and to preserve its industrial and financial flexibility. As of December 31, 2020, the Company had approximately €0.5 billion cash and cash equivalents, and €1.0 billion net financial receivables from CNH Industrial post-Demerger consisting in cash deposited in the central treasury of CNH Industrial post-Demerger.

EU-IFRS do not provide principles for the preparation of combined and/or carved-out financial statements, accordingly, in preparing these combined financial statements, accounting and allocation conventions commonly used in practice for the preparation of combined and/or carved-out financial statements were applied.

The following paragraphs describe the significant estimates and assumptions applied by management in the preparation of these Combined Financial Statements:

- Where they do not correspond to a separate legal entity, assets and liabilities attributable to the Group's operations have been identified and recognized in the combined financial statements by adjusting equity.
- Income and expenses attributable to operations have been allocated on a basis consistent with the allocation of the assets and liabilities that generated them or the legal entities to which they relate. In particular, corporate general and administrative functions costs in the areas of corporate governance, including senior management, corporate responsibility and other corporate functions, such as tax, legal, investor relations, treasury, communication functions, were not charged or allocated to the Iveco Group business in the past. These Combined Financial Statements include a reasonable allocation of these corporate general and administrative functions costs, primarily based on headcount.
- All the items resulting from transactions between entities remaining in the CNH Industrial Group post-Demerger and entities being transferred to Iveco Group are included in these Combined Financial Statements as items relating to third parties, except for net revenues from the sale of goods and services, and receivables and payables of a financial nature (meaning those resulting from transactions with the treasury entities and financial service entities

of the CNH Industrial Group post-Demerger) which have been stated in specific line items of the income statement and statement of financial position, respectively, given their size.

- Income tax expense or benefit, deferred income tax assets and liabilities and income tax receivables and liabilities attributable to Iveco Group were determined based on actual taxation. In certain cases, entities being transferred to the Iveco Group business have historically been included in consolidated tax filing groups with other entities that will not be transferred to the Iveco Group business. In these instances, the current and deferred taxes presented in the Combined Financial Statements for 2020, 2019, and 2018 have generally been calculated considering the effects resulting from these entities participating in their respective group tax filings.
- Dividends and other equity transactions between Iveco Group and CNH Industrial Group post-Demerger were recognized directly to retained earnings in the Invested capital and reserves attributable to owners of Iveco Group.

The Group believes that the assumptions above described underlying the Combined Financial Statements, including recharges of expenses from CNH Industrial Group, are reasonable. Nevertheless, the Combined Financial Statements may not include all of the actual expenses that would have been incurred by Iveco Group and may not reflect the combined results of operations, financial position and cash flows had Iveco Group been a stand-alone group during the periods presented. Actual costs that would have been incurred if Iveco Group had been a stand-alone group would depend on multiple factors, including organizational structure and strategic decisions made in various areas.

These Combined Financial Statements are prepared using the euro as presentation currency.

Authorization of the Combined Financial Statements and compliance with International Financial Reporting Standards

These Combined Financial Statements together with the notes thereto of Iveco Group at December 31, 2020, 2019, and 2018 were authorized for issuance by the Board of Directors of Iveco Group N.V. on October 29, 2021 and have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU-IFRS. The designation “IFRS” also includes International Accounting Standards (“IAS”), as well as all interpretations of the IFRS Interpretations Committee (“IFRIC”).

SIGNIFICANT ACCOUNTING POLICIES

COVID-19 effects, actions, and use of accounting estimates and management’s assumptions

COVID-19 pandemic affected Iveco Group’s results, statement of financial position and cash flows presented in these Combined Financial Statements.

The main impacts of the pandemic on significant accounting matters are disclosed below.

The preparation of the Combined Financial Statements requires management to make estimates and assumptions that affect the reported amounts of income, expenses, assets, liabilities, accumulated other comprehensive income and disclosure of contingent assets and contingent liabilities, as further described in the following paragraph "Use of estimates".

Due to the currently unforeseeable global consequences of the COVID-19 pandemic, these estimates and assumptions are subject to increased uncertainty. Actual results could differ materially from the estimates and assumptions used in preparation of the financial statements. If in the future such estimates and assumptions, which are based on management’s best judgment at the date of the Combined Financial Statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

These Combined Financial Statements include all updates of estimates and assumptions considered necessary by management to fairly state the Group’s results of operations, financial position and cash flows. In particular, updates to incorporate the expected consequences of the COVID-19 pandemic were included in the analysis of the recoverability of tangible and intangible assets, resulting in the recognition of €6 million impairment charges in the second quarter of 2020. In addition, new actions were identified to realize the asset portfolio of vehicles sold under buy-back commitments, as a result of the significant deterioration of the used vehicle markets in which the Commercial and Specialty Vehicles segment operates and the consequent impact on truck residual values, resulting in the recognition of €247 million charges in the second quarter of 2020. Updated estimates and assumptions to incorporate the expected consequences of the

COVID-19 pandemic were also included in the analysis of the recoverability and collectability of financial assets, especially of receivables from financing activities. Finally, with regard to hedge accounting, estimates were updated concerning whether forecast transactions can still be assumed to be highly likely to occur.

Starting from the easing of COVID-19 restrictions in the third quarter of 2020, a general improvement was noted in market demand and in customer sentiment. The improvement continued in the fourth quarter, despite increasing COVID-19 restrictions in most geographies. However, uncertainty remains about the future impacts on Iveco Group's end-markets and operations of renewed restrictions on social interactions and business operations until widespread vaccination is achieved.

Iveco Group is exposed to operational financial risks such as credit risk, liquidity risk and market risk, mainly relating to exchange rates and interest rates. For a detailed description of this information see Note 17 "Current receivables and Other current financial assets" and Note 30 "Information on financial risks".

Format of the financial statements

Iveco Group presents an income statement using a classification based on the function of expenses (otherwise known as the "cost of sales" method), rather than one based on their nature, as this is believed to provide information that is more relevant.

For the statement of financial position, a mixed format has been selected to present current and non-current assets and liabilities, as permitted by IAS 1 – *Presentation of Financial Statements*. The Combined Financial Statements include both industrial activities companies and financial services companies. The investment portfolios of the financial services companies are included in current assets, as the investments will be realized in their normal operating cycle. However, financial services companies obtain only a portion of their funding from the market; the remainder has historically been obtained from the parent company through its treasury operations (included in the Industrial Activities), which lend funds both to industrial activities companies and to financial services companies as the need arises. This financial services structure within the Iveco Group does not allow the separation of financial liabilities funding the financial services operations (whose assets are reported within current assets) and those funding the industrial activities operations. Presentation of financial liabilities as current or non-current based on their date of maturity would not facilitate a meaningful comparison with financial assets, which are categorized on the basis of their normal operating cycle. Disclosure of the due dates of financial liabilities is however provided in the notes.

The statement of cash flows is presented using the indirect method.

Basis of consolidation

Subsidiaries

Subsidiaries are entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The financial statements of subsidiaries are included in the Combined Financial Statements from the date that control commences until the date that control ceases. Non-controlling interests in the net assets of combined subsidiaries and non-controlling interests in the profit or loss of combined subsidiaries are presented separately from the interests of the owners of the parent in the combined statement of financial position and income statement respectively. Losses applicable to non-controlling interests which exceed the non-controlling interests in the subsidiary's equity are debited to non-controlling interests.

Changes in the Group's ownership interests in subsidiaries that do not result in the loss of control are accounted for as equity transactions. The carrying amounts of the equity attributable to owners of the parent and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the book value of the non-controlling interests and the fair value of the relevant consideration is recognized directly in the equity attributable to the owners of the parent.

If the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the relevant consideration and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Any profits or losses recognized in other comprehensive income in respect of the subsidiary are accounted for as if the subsidiary had been sold (i.e. are reclassified to profit or loss or transferred directly to retained earnings depending on the applicable IFRS).

Subsidiaries that are either dormant or generate a negligible volume of business, are not combined. Their impact on the Group’s assets, liabilities, financial position and profit/(loss) attributable to the owners of the parent is immaterial.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investments in joint ventures are accounted for using the equity method from the date that joint control commences until the date that joint control ceases.

Associates

Associates are enterprises over which the Group has significant influence. As defined in IAS 28 – *Investments in Associates and Joint Ventures*, significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Investments in associates are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. When the Group’s share of losses of an associate, if any, exceeds the carrying amount of the associate in the Group’s statement of financial position, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Investments in other companies

Investments in other companies are measured at fair value. Equity investments for which there is no quoted market price in an active market and there is insufficient financial information in order to determine fair value are measured at cost as an estimate of fair value, as permitted by IFRS 9. The Group may irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income upon the initial recognition of an equity investment that is not held to sell. This election is made on an investment-by-investment basis. Dividends received from these investments are included in Other income/(expenses) from investments.

Transactions eliminated on consolidation

All significant intragroup balances and transactions and any unrealized gains and losses arising from intragroup transactions are eliminated in preparing the Combined Financial Statements. Unrealized gains and losses arising from transactions with associates and joint ventures are eliminated to the extent of the Group’s interest in those entities.

Foreign currency transactions

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate prevailing at that date. Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or in previous financial statements, are recognized in profit or loss.

Consolidation of foreign entities

All assets and liabilities of subsidiaries with a functional currency other than the euro are translated using the exchange rates in effect at the balance sheet date. Income and expenses are translated at the average exchange rate for the period. Translation differences resulting from the application of this method are classified as equity until the disposal of the investment. Average rates of exchange are used to translate the cash flows of foreign subsidiaries in preparing the combined statement of cash flows.

The goodwill, assets acquired and liabilities assumed arising from the acquisition of entities with a functional currency other than the euro are recognized in the functional currency and translated at the exchange rate at the acquisition date. These balances are subsequently retranslated at the exchange rate at the balance sheet date.

The Group applies IAS 29 - Financial reporting in hyperinflationary economies for its subsidiaries that prepare their financial statements in a functional currency of a hyperinflationary economy. According to this standard, non-monetary assets and liabilities not yet translated into euro at the reporting date are redetermined using a general price index. The financial statements of these subsidiaries are then translated at the closing spot rate.

The principal exchange rates used to translate into euros the financial statements prepared in currencies other than the euro were as follows:

	Average 2020	At December 31, 2020	Average 2019	At December 31, 2019	Average 2018	At December 31, 2018
U.S. dollar	1.142	1.227	1.119	1.123	1.181	1.145
Pound sterling	0.890	0.899	0.878	0.851	0.885	0.895
Swiss franc	1.071	1.080	1.112	1.085	1.155	1.127
Brazilian real	5.894	6.373	4.413	4.516	4.308	4.444
Polish Zloty	4.443	4.560	4.298	4.257	4.261	4.301
Czeck Koruna	26.455	26.242	25.670	25.408	25.647	25.724
Argentine peso(1)	103.043	103.043	67.258	67.258	43.074	43.074

(1) From July 1, 2018, Argentina's economy was considered to be hyperinflationary. After the same date, transactions for entities with the Argentine peso as the functional currency were translated using the closing spot rate.

Business combinations

Business combinations are accounted for by applying the acquisition method. Under this method:

- the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred and liabilities assumed by the Group and the equity interests issued in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred;
- at the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at that date, except for deferred tax assets and liabilities, assets and liabilities relating to employee benefit arrangements, liabilities or equity instruments relating to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire, assets (or disposal groups) that are classified as held for sale, which are measured in accordance with the relevant standard;
- goodwill is measured as the excess of the aggregate of the consideration transferred in the business combination, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a gain from a bargain purchase;

- non-controlling interest is initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The selection of the measurement method is made on a transaction-by-transaction basis;
- any contingent consideration arrangement in the business combination is measured at its acquisition-date fair value and included as part of the consideration transferred in the business combination in order to determine goodwill. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are recognized retrospectively, with corresponding adjustments to goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which may not exceed one year from the acquisition date) about facts and circumstances that existed as of the acquisition date. Any changes in fair value after the measurement period are recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured at its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Changes in the equity interest in the acquiree that have been recognized in Other comprehensive income in prior reporting periods are reclassified to profit or loss as if the interest had been disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete in the Combined Financial Statements. Those provisional amounts are adjusted during the above-mentioned measurement period to reflect new information obtained about facts and circumstances that existed at the acquisition date which, if known, would have affected the amounts recognized at that date.

Fair value measurement

Some of the Group's assets and liabilities are measured at fair value at the balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In estimating the fair value of an asset or a liability, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. Additional information about fair value, fair value hierarchy, valuation techniques and inputs used in determining the fair value of assets and liabilities is provided in Note 18, Note 31 and, where required, in the individual notes relating to the assets and liabilities whose fair value were determined.

In addition, fair value measurements are categorized within the fair value hierarchy, described as follows, based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 — inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) on the market;
- Level 3 — inputs that are not based on observable market data.

Intangible assets

Goodwill

Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Development costs

Development costs for vehicle production project (trucks, buses, and engines) are recognized as an asset if and only if both of the following conditions are met: a) development costs can be measured reliably, and b) the technical feasibility of the product, volumes and pricing support the view that the development expenditure will generate future economic benefits. Capitalized development costs include all direct and indirect costs that may be directly attributed to the development process. Capitalized development costs are amortized on a systematic basis from the start of production of the related product over the product's estimated average life, as follows:

	N° of years
Trucks and buses	4-10
Engines	2-10

All other development costs are expensed as incurred.

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives principally consist of acquired trademarks which have no legal, regulatory, contractual, competitive, economic, or other factor that limits their useful life. Intangible assets with an indefinite useful life are not amortized but are tested for impairment annually or more frequently whenever there is an indication that the asset may be impaired.

Other intangible assets

Other purchased and internally-generated intangible assets are recognized as assets in accordance with IAS 38 – *Intangible Assets*, where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably.

Such assets are measured at purchase or manufacturing cost and amortized on a straight-line basis over their estimated useful lives, if these assets have finite useful lives.

Other intangible assets acquired as part of the acquisition of a business are capitalized separately from goodwill if their fair value can be measured reliably.

Property, plant and equipment

Cost

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment.

Subsequent expenditures and the cost of replacing parts of an asset are capitalized only if they increase the future economic benefits embodied in that asset. All other expenditures are expensed as incurred. When such replacement costs are capitalized, the carrying amount of the parts that are replaced is recognized in profit or loss.

Property, plant and equipment also include vehicles sold with a buy-back commitment, which are recognized under the method described in the paragraph "Revenue recognition" if the buy-back commitment originates from Commercial and Specialty Vehicles.

Depreciation

Depreciation is recorded on a straight-line basis over the estimated useful lives of the respective assets as follows:

	Depreciation rates
Buildings	3% - 10%
Plant, machinery and equipment	8% - 25%
Other assets	12% - 30%

Land is not depreciated.

Lease accounting policy

Lessee accounting

A lease is a contract that conveys the right to control the use of an identified asset (the leased asset) for a period of time in exchange for consideration. The lease term determined by the Group comprises the non-cancellable period of lease contract together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. For real estate leases, this assessment is based on an analysis by management of all relevant facts and circumstances including the leased asset's purpose, the economic and practical potential for replacing and any plans that the Group has in place for the future use of the asset. The Group combines lease and non-lease components.

For leases with terms not exceeding twelve months (short-term leases) and for leases of low-value assets, Iveco Group recognizes the lease payments associated with those leases on a straight-line basis over the lease term as operating expense in the income statement.

For all other leases, at the commencement date (i.e., the date the underlying asset is available for use), Iveco Group recognizes a right-of-use asset, classified within Property, plant and equipment, and a lease liability, classified within Other Debt.

At the commencement date, the right-of-use asset includes the amount of lease liability recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. At the same date, the lease liability is measured at the present value of lease payments to be made over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The incremental borrowing rate is determined considering macro-economic factors such as the specific interest rate curve based on the relevant currency and term, as well as specific factors contributing to Iveco Group's credit spread. The Group primarily uses the incremental borrowing rate as the discount rate for its lease liabilities.

After the commencement date, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated on a straight-line basis. If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, Iveco Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. After the commencement date, the lease liability is increased to reflect the accretion of interest, recognized within Financial income/(expenses) in the income statement, reduced for the lease payments made, and remeasured to reflect any reassessment or lease modifications.

Before the adoption of IFRS 16, where Iveco Group entered as lessee in a lease contract classified as finance, assuming substantially all the risks and rewards of ownership, assets held under finance lease were recognized as assets of the Group at the lower of fair value or present value of the minimum lease payments and depreciated. The corresponding liability to the lessor was included in the financial statement as a debt. Where Iveco Group entered as lessee in a lease contract classified as operating, the lessor retained substantially all the risks and rewards of ownership of the asset. Operating lease expenditures were expensed on a straight-line basis over the lease terms.

Lessor accounting

Lease contracts where Iveco Group acts as a lessor, can be classified as either an operating lease or finance lease. Leases where a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are classified as a finance leases.

Where Iveco Group is the lessor in a finance lease, the future minimum lease payments from lessees are classified as Receivables from financing activities. Lease payments are recognized as repayment of the principal, and financial income remunerating the initial investment and the services provided.

Where Iveco Group is the lessor in an operating lease, income from operating leases is recognized over the term of the lease on a straight-line basis. Leased assets include vehicles leased to retail customers by the Group's leasing companies. They are stated at cost and depreciated at annual rates of between 20% and 33%.

When leased assets are no longer leased and become held for sale, the Group reclassifies their carrying amount to Inventories.

Impact of adoption of IFRS 16 – Leases (effective January 1, 2019)

On January 13, 2016, the IASB issued IFRS 16 - *Leases*, replacing IAS 17 - *Leases*. IFRS 16 eliminates the classification of leases for the lessee as either operating leases or finance leases as required by IAS 17, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lessees are required to recognize a right-of-use asset representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments, and to recognize depreciation of leased assets separately from interest on lease liabilities in the income statement. Lessor accounting under IFRS 16 is largely unchanged from the previous accounting standard.

Iveco Group has adopted the new standard effective January 1, 2019, using the modified retrospective approach, without recasting prior periods. Iveco Group has applied practical expedients upon transition, including: not to reassess under the new guidance its prior conclusions about lease identification, lease classification and initial direct costs; and, those provided for short-term leases and leases of low-value assets. In such cases, the lease payments associated with leases are recognized as expense, in the income statement. In addition, Iveco Group has elected not to separate lease and non-lease components.

At January 1, 2019, Iveco Group recognized approximately €200 million of right-of-use assets and lease liabilities in its combined statement of financial position, without transition effect to invested equity, as detailed in the following table:

	At December 31, 2018 in accordance with IAS 17	Impact of IFRS 16 adoption	At January 1, 2019 in accordance with IFRS 16
		(€ million)	
ASSETS			
Property, plant and equipment	3,554	200	3,754
Prepaid expenses and other assets	74	(1)	73
INVESTED EQUITY AND LIABILITIES			
Debt:			
Other debt	923	199	1,122

The following reconciliation to the opening balance for the lease liabilities as of January 1, 2019 is based upon the operating lease obligations as of December 31, 2018:

	At January 1, 2019
	(€ million)
Operating lease obligations at December 31, 2018	**235**
Relief option for short-term leases	(4)
Relief option for leases of low-value assets	(6)
Other	(2)
Gross lease liabilities at January 1, 2019	**223**
Discounting	(24)
Additional lease liabilities as a result of the initial application of IFRS 16 as of January 1, 2019	**199**
Finance lease liabilities at December 31, 2018	2
Lease liabilities at January 1, 2019	**201**

The item Other primarily includes other minor lease agreements excluded from the application of the new IFRS 16 rules as a policy election.

The lease liabilities were discounted at the incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate was 2.7%.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets (as defined under IAS 23 – *Borrowing Costs*), which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized and amortized over the useful life of the class of assets to which they refer.

All other borrowing costs are expensed when incurred.

Impairment of assets

The Group reviews, at least annually, the recoverability of the carrying amount of intangible assets (including capitalized development costs) and property, plant and equipment, in order to determine whether there is any indication that those assets have suffered an impairment loss. Goodwill and Intangible assets with indefinite useful lives are tested for impairment annually or more frequently, if there is an indication that an asset may be impaired.

If indicators of impairment are present, the carrying amount of the assets is reduced to its recoverable amount that is the higher of its fair value less disposal costs and its value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized when the recoverable amount is lower than the carrying amount.

Where a previous impairment loss for assets other than goodwill no longer exists or has decreased, the carrying amount of the asset or cash-generating unit is increased up to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been recorded had no impairment loss been recognized. A reversal of an impairment loss is recognized in profit or loss immediately.

Financial instruments

Presentation

Financial instruments held by the Group are presented and measured in the financial statements as described in the following paragraphs.

Investments and other non-current financial assets comprise investments in unconsolidated companies and other non-current financial assets (securities, and other non-current financial receivables).

Current financial assets include trade receivables, receivables from financing activities (retail financing, dealer financing, lease financing and other current loans to third parties), current securities and other current financial assets (which include derivative financial instruments stated at fair value as assets), as well as cash and cash equivalents.

Current securities include short-term or marketable securities which represent temporary investments of available funds and do not satisfy the requirements for being classified as cash equivalents.

Financial liabilities refer to debt, which includes asset-backed financing, and derivative liabilities (which include derivative financial instruments stated at fair value as liabilities), trade payables and other liabilities.

Measurement

Investments in unconsolidated companies classified as non-current financial assets are accounted for as described in the paragraph "Basis of consolidation".

In accordance with IFRS 9 - *Financial Instruments*, financial assets are classified as measured at either amortized cost ("AC"), fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"), depending on the business model for managing such financial assets and the asset's contractual cash flow characteristics. Financial liabilities are classified as measured at amortized cost using the effective interest method.

Financial assets and current securities acquired through a regular way purchase are recognized on the basis of the settlement date and, on initial recognition, are measured at fair value, including transaction costs. Subsequent measurement depends on the business model for managing the asset and the cash flow characteristics of the asset.

Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost using the effective interest method. Receivables with maturities of over one year which bear no interest or an interest rate significantly lower than market rates are discounted using market rates.

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the asset's cash flows represent solely payments of principal and interests, are measured at fair value through other comprehensive income. Gains and losses on assets measured at fair value through other comprehensive income are recognized directly in other comprehensive income until the financial asset is disposed of or is determined to be impaired; when the asset is disposed of, the cumulative gains or losses, including those previously recognized in other comprehensive income, are reclassified to profit or loss; when the asset is impaired, impairment losses are recognized to profit or loss. Interest income from these financial assets is included in financial income.

As a result of the Group's business model, trade receivables and receivables from financing activities are subsequently measured at amortized cost.

Assessments are made regularly as to whether there is any objective evidence that a financial asset or group of assets may be impaired. If any such evidence exists, an impairment loss is included in profit or loss for the period. The recognition of an impairment is based on expected credit losses.

Cash and cash equivalents include cash at banks, units in liquidity funds, other money market securities and other cash equivalents. Cash and cash equivalents are subject to an insignificant risk of changes in value. Money market securities consist of investments in high-quality, short-term, diversified financial instruments that can generally be liquidated on demand and are measured at FVTPL. Cash at banks and Other cash equivalents are measured at amortized cost.

Derivatives financial assets and liabilities are measured either at fair value through other comprehensive income (when in an hedging relationship) or at fair value through profit or loss.

Financial assets and liabilities hedged by derivative instruments are measured in accordance with hedge accounting principles applicable to fair value hedges: gains and losses arising from remeasurement at fair value, due to changes in the respective hedged risk, are recognized in profit or loss and are offset by the effective portion of the loss or gain arising from remeasurement at fair value of the hedging instrument.

Derivative financial instruments

Derivative financial instruments are used for hedging purposes, in order to reduce currency, interest rate and market price risks. In accordance with IFRS 9, derivative financial instruments qualify for hedge accounting only when, at the inception of the hedge, there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge, there is an economic relationship between the hedging instrument and the hedged item, credit risk does not dominate the value changes that result from the economic relationship, and the hedging ratio in the hedging relationship reflects the actual quantity of the hedging instruments and the hedged item. Further details on qualifying criteria are included in Note 18 "Derivative assets and derivative liabilities" and Note 30 "Information on financial risks".

When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

- *Fair value hedges* – where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of a recognized asset or liability that is attributable to a particular risk and could affect profit or loss, the gain or loss from remeasuring the hedging instrument at fair value is recognized in profit or loss. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in profit or loss.
- *Cash flow hedges* – where a derivative financial instrument is designated as a hedge of the exposure to variability in future cash flows of a recognized asset or liability or a highly probable forecasted transaction and could affect

profit or loss, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in other comprehensive income in the cash flow hedge reserve. The cumulative gain or loss is removed from other comprehensive income and recognized in profit or loss at the same time as the economic effect arising from the hedged item affects income. The gain or loss associated with a hedge or part of a hedge that has become ineffective is recognized in profit or loss immediately. When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss realized to the point of termination remains in other comprehensive income and is recognized in profit or loss at the same time as the underlying transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealized gain or loss held in other comprehensive income is recognized in profit or loss immediately.

If hedge accounting cannot be applied, the gains or losses from the fair value measurement of derivative financial instruments are recognized immediately in profit or loss.

Transfers of financial assets

The Group derecognizes financial assets when the contractual rights to the cash flows arising from the assets are no longer held or if it transfers the financial activities, as follows:

- if the Group transfers substantially all the risks and rewards of ownership of the financial asset, it derecognizes the financial asset and recognizes separately as assets or liabilities any possible rights and obligations created or retained in the transfer;
- if the Group retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset;
- if the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it determines whether it has retained control of the financial asset. In this case:
    - if the Group has not maintained control, it derecognizes the financial asset and recognizes separately as assets and liabilities any possible rights and obligations created or retained in the transfer;
    - if the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received or receivable for the transfer of the asset is recognized in profit or loss.

Inventories

Inventories of raw materials, semi-finished products and finished goods (including assets leased out under operating lease) are stated at the lower of cost or market. Cost is determined by the first-in-first-out (FIFO) method. Cost includes the direct costs of materials, labor and indirect costs (variable and fixed). Provision is made for obsolete and slow-moving raw materials, finished goods, spare parts and other supplies based on their expected future use and realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs for sale and distribution.

Assets and liabilities held for sale

Non-current assets are classified as held for sale if their carrying amounts will be principally recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, with the sale expected to be completed within one year from the date of classification, and the non-current asset (or the disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group). When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell.

Employee benefits

Pension plans

The present value of a defined benefit obligation and the related current service cost (and past service cost, where applicable) for defined benefit pension plans are determined on an actuarial basis using the projected unit credit method.

The net defined benefit liability that the Group recognizes in the statement of financial position represents the present value of the defined benefit obligation reduced by the fair value of any plan assets (deficit). In case of a surplus, a net defined benefit asset is recognized at the lower of the surplus and the asset ceiling.

Remeasurements of the net defined benefit liability/asset (that comprise: a) actuarial gains and losses, b) return on plan assets, excluding amounts included in net interest on the net defined benefit liability/asset, and c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability/asset) are recognized directly in other comprehensive income without reclassification to profit or loss in subsequent years.

Past service cost resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction in the number of employees covered by a plan) and gain or loss on settlements (a transaction that eliminates all further legal or constructive obligations for part or all of the benefits) are recognized in profit or loss in the period in which they occur (or, in case of past service costs, when the entity recognizes related restructuring costs or termination benefits, if earlier).

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset and is recognized as Financial income/(expenses) in profit or loss. Current service cost and all other costs and income arising from the measurement of pension plan provisions are allocated to costs by function in profit or loss.

Post-employment plans other than pensions

The Group provides other post-employment defined benefits. The method of accounting and the frequency of valuations are similar to those used for defined benefit pension plans.

Defined contribution plans

Costs arising from defined contribution plans are recognized as an expense in profit or loss as incurred.

Share-based compensation plans

Iveco Group's key executive officers and select employees have historically participated in CNH Industrial's equity compensation plans (stock option plans and stock grants). In accordance with IFRS 2 – *Share-based Payment*, these plans represent a component of recipient remuneration. The compensation expense, corresponding to the fair value of the instruments at the grant date, is recognized in profit or loss on a straight-line basis over the requisite service period for each separately vesting portion of an award, with the offsetting credit recognized directly in equity, and has been allocated to the Iveco Group based on the awards and terms previously granted to its employees as well as an allocation of CNH Industrial's management expenses attributable to the Iveco Group, as part of the allocation of the corporate general and administrative functions costs as described above. Any subsequent changes to fair value do not have any effect on the initial measurement. The historical cost of share-based payments may not be indicative of the future expenses that will be incurred through incentive schemes that will be established for the Iveco Group's key personnel following the Demerger.

Provisions

The Group records provisions when it has an obligation, legal or constructive, to a third party, as a result from a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when a reliable estimate of the amount can be made.

Changes in estimates are reflected in profit or loss in the period in which the change occurs.

Revenue recognition

Revenue is recognized when control of the vehicles, services or parts has been transferred and the Group's performance obligations to the customers have been satisfied. Revenue is measured as the amount of consideration the Group expects to receive in exchange for transferring goods or providing services.

The timing of when the Group transfers the goods or services to the customer may differ from the timing of the customer's payment.

Revenues are stated net of discounts, allowances, settlement discounts and rebates, as well as costs for sales incentive programs, which are determined on the basis of historical costs, country by country, and charged against profit for the period in which the corresponding sales are recognized.

The Group also enters into contracts with multiple performance obligations. For these contracts, the Group allocates revenue from the transaction price to the distinct goods and services in the contract on a relative standalone selling price basis. To the extent the Group sells the goods or services separately in the same market, the standalone selling price is the observable price at which the Group sells the goods or services separately. For all other goods or services, the Group estimates the standalone selling price considering all information, reasonably available (including market conditions, entity-specific factors and information about the customer or class of customer).

Sales of goods

The Group has determined that the customers from the sale of vehicles and parts are generally dealers, distributors and retail customers.

Transfer of control, and thus related revenue recognition, generally corresponds to when the vehicles and parts are made available to the customer. Therefore, the Group recognizes revenue at a point in time, when control is transferred to the customer at a sale price that the Group expects to receive.

For all sales, no significant uncertainty exists surrounding the purchaser's obligation to pay for vehicles and parts. The Group records appropriate allowance for credit losses and anticipated returns as required. Fixed payment schedules exist for all sales, but payment terms vary by geographic market and product line.

The cost of incentives, if any, are estimated at the inception of a contract at the amount that is expected to be paid and is recognized as a reduction to revenue at the time of the sale. If a vehicle contract transaction has multiple performance obligations, the cost of incentives is allocated entirely to vehicle as the intent of the incentives is to encourage sales of vehicles. If the estimate of the incentive changes following the sale to the customer, the change in estimate is recognized as an adjustment to revenue in the period of the change. Iveco Group grants sales incentives to support sales of its products to retail customers. At the later of the time of sale or the time an incentive is announced to dealers, Iveco Group records the estimated impact of sales allowances in the form of dealer and customer incentives as a reduction of revenue. Subsequent adjustments to sales incentive programs related to products/vehicles previously sold are recognized as an adjustment to revenues in the period the adjustment is determinable. The determination of sales allowances requires management to make estimates based upon historical data, estimated future market demand for products, field inventory levels, announced incentive programs, competitive pricing and interest rates, among other things. With reference to the sales to dealers accompanied by "floor plan" agreements under which the Group offers wholesale financing including "interest-free" financing for a specified period of time (which also vary by geographic market and product line), two separate performance obligations exist. The first performance obligation consists of the sale of the vehicle from Industrial Activities to the dealer. Concurrent with the sale of the vehicle, Industrial Activities offers to the dealer wholesale financing through loans extended by Financial Services. Industrial Activities compensates Financial Services for the cost of the interest-free period. This cost has been determined to represent a cash sale incentive on the initial sale of the good, and therefore it should be recognized upfront as a reduction of net sales of Industrial Activities. The second performance obligation consists of a credit facility extended by Financial Services to the dealer. The remuneration for this performance obligation is represented by the compensation received from Industrial Activities for the period of the interest-free financing and by the interest charged to dealer for the remaining period. This remuneration is recognized by Financial Services over the period of the outstanding exposure.

For parts sales, when the Group provides its customers with a right to return a transferred product, revenue and corresponding cost of sales are recognized for parts that are not expected to be returned. The expected returns are estimated based on an analysis of historical experience. The portion of revenue (and corresponding cost of sales) related to the parts that are expected to be returned is recognized at the end of the return period. The amount received or receivable that is expected to be returned is recognized as a refund liability, representing the obligation to return the customer's consideration. Furthermore, at the time of the initial sale, Iveco Group recognizes a return asset for the right to recover the goods returned by the customer. This asset is initially measured at the former carrying amount of the inventory. At each reporting date, both the refund liability and the return asset are remeasured to record for any revisions to the expected level of returns, as well as any decreases in the value of the returned products.

Rendering of services

Revenues from services provided are primarily comprised of extended warranties and maintenance and repair services and are recognized over the contract period when the costs are incurred, that is when the claims are charged by the dealer. Amounts invoiced to customers for which Iveco Group receives consideration before the performance is satisfied are recognized as contract liability. These services are either separately-priced or included in the selling price of the vehicle. In the second case, revenue for the services is allocated based on the estimated stand-alone selling price. In the event that the costs expected to be incurred to satisfy the remaining performance obligations exceed the transaction price, an estimated contract loss is recognized.

Shipping and other transportation activities performed as an agent are recognized on a net basis, which is netting the related freight cost against the freight revenue.

Rents and other income on assets sold with a buy-back commitment

Commercial and Specialty Vehicles enters into transactions for the sale of vehicles to some customers with an obligation to repurchase ("buy-back commitment") the vehicles at the end of a period ("buy-back period") at the customer's request. For these types of arrangements, at inception, Iveco Group assesses whether a significant economic incentive exists for the customer to exercise the option.

If Iveco Group determines that a significant economic incentive exists for the customer to exercise the buy-back option, the transaction is accounted for as an operating lease. In such case, vehicles are accounted for as Property, plant and equipment because the agreements typically have a long-term buy-back period. The difference between the carrying value (corresponding to the manufacturing cost) and the estimated resale value (net of refurbishing costs) at the end of the buy-back period is depreciated on a straight-line basis over the same period. The initial sale price received is recognized in "Other current liabilities" and is comprised of the repurchase value of the vehicle, and the rents to be recognized in the future recorded as contract liability. These rents are determined at the inception of the contract as the difference between the initial sale price and the repurchase price and are recognized as revenue on a straight-line basis over the term of the agreement. At the end of the agreement term, upon exercise of the option, the used vehicles are reclassified from Property, plant and equipment to Inventories. The proceeds from the sale of such vehicles are recognized as Revenues.

If Iveco Group determines that a significant economic incentive does not exist for the customer to exercise the buy-back option, the transaction is treated as a sale with a variable consideration whose variable component is the buy-back provision accrual. The buy-back provision accrual is the difference between the repurchase price and the estimated market value of the used vehicle at the end of the buy-back period and is recorded only when the repurchase price is greater than the estimated market value of the used vehicle. The buy-back provision accrual is estimated and recognized as a reduction of revenues at the time of the sale. Any subsequent change following such periodic reassessment is recognized as a reduction of revenues at that time.

Finance and interest income

Finance and interest income on retail and other notes receivables and finance leases is recorded using the effective yield method. Deferred costs on the origination of financing receivables are recognized as a reduction in finance revenue over the expected lives of the receivables using the effective yield method. When a financial asset becomes credit-impaired and is, therefore, regarded as "Stage 3", Iveco Group calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, Iveco Group reverts to calculating interest income on a gross basis. Receivables are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Delinquency is reported on receivables greater than 30 days past due. Charge-offs of principal amounts of receivables outstanding are deducted from the allowance at the point when it is determined to be probable that all amounts due will not be collected.

Rents and other income on operating leases

Income from operating leases is recognized over the term of the lease on a straight-line basis.

Cost of sales

Cost of sales comprises the cost of manufacturing products and the acquisition cost of purchased merchandise which has been sold. It includes all directly attributable material and production costs and all production overheads. These include the depreciation of property, plant and equipment and the amortization of intangible assets relating to production and write-downs of inventories. Cost of sales also includes freight and insurance costs relating to deliveries to dealers and agency fees in the case of direct sales.

Cost of sales also includes provisions made to cover the estimated cost of product warranties at the time of sale to dealer networks or to the end customer.

Expenses which are directly attributable to the Financial Services business, including the interest expense related to the financing of Financial Services business as a whole and charges for risk provisions and write-downs, are reported in cost of sales.

Research and development costs

This item includes research costs, development costs not eligible for capitalization and the amortization of development costs recognized as assets in accordance with IAS 38.

Government grants

Government grants are recognized in the financial statements when there is reasonable assurance that the company concerned will comply with the conditions for receiving such grants and that the grants themselves will be received. Government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to offset.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying amount of the loan (fair value plus transaction costs) and the proceeds received, and is accounted for in accordance with the policies already used for the recognition of government grants.

Income taxes

Income taxes include all taxes based upon the taxable profits of the Group. Taxes on income are recognized in profit or loss except to the extent they relate to items recognized directly in equity or in other comprehensive income, in which case the related tax effects are recognized directly in equity or in other comprehensive income. Provisions for income taxes arising on the future distribution of a subsidiary's undistributed profits are only made when there is a current intention to distribute such profits. Deferred taxes are provided using the full liability method. They are calculated on all temporary differences between the tax bases of assets or liabilities and the corresponding carrying amounts in the Combined Financial Statements, except for those arising from non-tax-deductible goodwill and investments in subsidiaries where it is possible to control the reversal of the basis differences and reversal will not take place in the foreseeable future.

Deferred tax assets relating to the carry-forward of unused tax losses and tax credits, as well as those arising from temporary differences, are recognized to the extent it is probable future profits will be available against which they can be utilized. Current and deferred income tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and where there is a legally enforceable right of offset. Deferred tax assets and liabilities are measured at the enacted or substantively enacted tax rates of the relevant tax jurisdictions that are expected to apply to taxable income during the period or periods in which the temporary differences reverse. The Group recognizes tax liabilities for uncertain tax treatments when tax risks arising from positions taken by the Group are considered probable, assuming the tax authorities have full knowledge of all relevant information when making their examinations. In doing so, the Group evaluates whether to consider each uncertain tax treatment separately or jointly consider multiple uncertain tax treatments, using the approach that better predicts the resolution of the uncertainty. The liabilities recognized correspond to the amounts expected to be paid. Other taxes not based on taxable profits, such as property taxes and taxes on capital, are included in operating expenses.

Use of estimates

These Combined Financial Statements have been prepared in accordance with EU-IFRS which requires Iveco Group to make judgments, estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of income and expenses. The estimates and related assumptions are based on available information at the date of preparation of the financial statements, on historical experience and other relevant factors. Actual results may differ from the estimates.

Particularly in light of the current economic uncertainty, developments may occur which may differ from Iveco Group's estimates and assumptions, and therefore might require significant adjustments to the carrying amounts of certain items, which as of the date of these Combined Financial Statements cannot be accurately estimated or predicted.

The principal items affected by estimates are the allowances for doubtful accounts receivable and inventories, non-current assets (tangible and intangible assets), the residual values of vehicles leased out under operating lease arrangements or sold with buy-back commitments, sales allowances, product warranties, pension and other post-employment benefits, deferred tax assets and liabilities and contingent liabilities.

Estimates and assumptions are reviewed periodically and the effects of any changes are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and the key assumptions concerning the future that Iveco Group has made in the process of applying its accounting policies and that may have the most significant effect on the amounts recognized in its Combined Financial Statements or that represent a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for doubtful accounts

The allowance for doubtful accounts for trade receivables and contract assets reflects Iveco Group's estimate of expected lifetime credit losses, and it is measured at an amount equal to the present value of the cash shortfalls over the expected life of the financial asset.

The allowance for doubtful accounts for receivables from financing activities reflects management's estimate of forward-looking expected credit losses ("ECL") in the wholesale and retail credit portfolio. This requires considerable judgement about how changes in economic factors affect ECLs, which is determined on a probability-weighted basis. The ECL model applies to financial assets accounted for at amortized cost and at fair value through other comprehensive income, lease receivables, and certain loan commitments and financial guarantee contracts. The loss allowances will be measured on either of the following bases:

- 12 months ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Refer to Note 17 "Current receivables and Other current financial assets" for additional details on the calculation of allowance for credit losses.

Impact of adoption of IFRS 9 – Financial Instruments (effective January 1, 2018)

On July 24, 2014, the IASB issued IFRS 9 – *Financial Instruments*. IFRS 9 replaces IAS 39 – *Financial Instruments: Recognition and Measurement*, and includes requirements for classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. IFRS 9 amends IFRS 7 – *Financial Instruments: Disclosures*. As permitted by the transitional provisions of the standard, Iveco Group has adopted IFRS 9 effective January 1, 2018 retrospectively, except for hedge accounting which was applied prospectively, without recasting prior periods.

In accordance with IFRS 9, the simplified approach, which requires expected lifetime losses, was applied to trade receivables. For receivables from financing activities Iveco Group applied the general approach recording the credit losses either on a 12-month or lifetime basis.

In accordance with the transitional provisions of IFRS 9, the allowance for doubtful accounts for trade receivables and receivables from financing activities at January 1, 2018, were reassessed in accordance with the new impairment model. The total impact from the adoption of the new impairment model amounted to €5 million, net of tax effect, and was recognized in Earnings reserves at January 1, 2018.

Allowance for obsolete and slow-moving inventory

The allowance for obsolete and slow-moving inventory reflects management's estimate of the expected loss in value and has been determined on the basis of past experience and historical and expected future trends in the used vehicle market. A worsening of the economic and financial situation could cause a further deterioration in conditions in the used vehicle market compared to that taken into consideration in calculating the allowances recognized in the financial statements.

Recoverability of non-current assets

Non-current assets include property, plant and equipment, intangible assets (including goodwill), investments and other non-current financial assets. The Group reviews the carrying value of non-current assets held and used and that of assets to be disposed of when events and circumstances warrant such a review. For goodwill and intangible assets with indefinite useful lives such analysis is carried out at least annually.

The analysis of the recoverable amount of non-current assets other than goodwill is usually performed using estimates of future expected cash flows from the use or disposal of the asset and an appropriate discount rate in order to calculate present value. If the carrying amount is deemed to be impaired, the Group recognizes an impairment loss for the amount by which the carrying amount of the asset exceeds its estimated recoverable amount from use or disposal determined by reference to the cash flows included in its most recent business forecasts.

In view of the present economic and financial situation, the Group made the following considerations in respect of its future prospects:

- when carrying out impairment testing of tangible and intangible assets, the Group took into account its expected performance in the upcoming years. Iveco Group extended such projections for subsequent years to appropriately cover the period of analysis.
- should the assumptions underlying the forecast deteriorate further, the following is noted: the Group's tangible and intangible assets with a finite useful life (mostly development costs) relate to models or products with high technological content in line with the latest environmental laws and regulations, which consequently makes them competitive in the current economic environment, especially in the more mature economies in which particular attention is placed on the eco-sustainability of those types of products. Consequently, despite the fact that the capital goods sector is one of the markets which could be most affected by a potential crisis in the immediate term, management considers that is highly probable that the life cycle of these products can be lengthened to extend over the period of time involved in a slower economic recovery, allowing the Group to achieve sufficient cash flows to cover the investments, although over a longer period of time.

Residual values of assets leased out under operating lease arrangements or sold with a buy-back commitment

Iveco Group records assets rented to customers or leased to them under operating lease as tangible assets. Furthermore, new vehicle sales with a buy-back commitment are not recognized as sales at the time of delivery but are accounted for as operating lease if it is probable that the vehicle will be bought back. Income from such operating lease is recognized on a straight-line basis over the term of the lease. Depreciation expense for assets subject to operating lease is recognized on a straight-line basis over the lease term in amounts necessary to reduce the cost of an asset to its estimated residual value at the end of the lease term. The estimated residual value of leased assets is calculated at the lease commencement date on the basis of published industry information and historical experience and are reviewed quarterly. Realization of the residual values is dependent on Iveco Group's future ability to market the assets under the then-prevailing market conditions. The Group continually evaluates whether events and circumstances have occurred which impact the estimated residual values of the assets on operating lease. The used vehicle market was carefully monitored to ensure that write-downs were properly determined. However, it cannot be excluded that additional write-downs may be required if market conditions should deteriorate further.

Sales allowances

Iveco Group grants sales incentives to support sales of its products to retail customers. At the later of the time of sale or the time an incentive is announced to dealers, Iveco Group records the estimated impact of sales allowances in the form of dealer and customer incentives as a reduction of revenue. The expense for new programs is accrued at the inception of the program. The amounts of incentives to be paid are estimated. The determination of sales allowances requires management to make estimates based upon historical data, estimated future market demand for products, field inventory levels, announced incentive programs, competitive pricing and interest rates, among other things.

Product warranties

Iveco Group makes provisions for estimated expenses related to product warranties at the time products are sold. Management establishes these estimates based on historical information on the nature, frequency and average cost of warranty claims. The Group seeks to improve vehicle quality and minimize warranty expenses arising from claims. Warranty costs may differ from those estimated if actual claim rates are higher or lower than historical rates.

Pension and other post-employment benefits

Group companies sponsor pension and other post-employment benefits in various countries, mainly in the United Kingdom, Germany, Italy, and Switzerland.

Employee benefit liabilities, related assets, costs and net interest connected with them are measured on an actuarial basis which requires the use of estimates and assumptions to determine the net defined benefit liability/asset for the Group. The actuarial method takes into consideration parameters of a financial nature such as the discount rate, the rate for expected return on plan assets, the rate of salary increases and the healthcare costs trend rate and takes into consideration the likelihood of potential future events by using demographic parameters such as mortality rates and dismissal or retirement rates. The discount rates selected are based on yields or yield curves of high-quality corporate bonds in the relevant market. Trends in healthcare costs are developed on the basis of historical experience, the near-term outlook for costs and likely long-term trends. Rates of salary increases reflect the Group's long-term actual expectations in the reference market and inflation trends. Changes in any of these assumptions may have an effect on future contributions to the plans.

The effects resulting from revising the estimates for the above parameters ("re-measurements") are recognized directly in other comprehensive income without reclassification to profit or loss in subsequent years: refer to "Employee benefits" section above for further details.

Significant future changes in the yields of corporate bonds, other actuarial assumptions referred to above and returns on plan assets may significantly impact the net liability/asset.

Recognition of deferred tax assets

At December 31, 2020, Iveco Group had net deferred tax assets, including tax loss carry forwards, of €910 million, of which €240 million are not recognized in the financial statements. The corresponding totals at December 31, 2019 were €777 million and €256 million, and at December 31, 2018 were €739 million and €230 million. Management has recognized deferred tax assets it believes are probable to be recovered considering amounts from budgets and plans consistent with those used for other purposes within Iveco Group, for example impairment testing, as discussed in the paragraph "Recoverability of non-current assets (including goodwill)" above. Iveco Group believes the amount of recognized deferred tax assets is appropriate, despite the risk of actual future results potentially being less than results included in these forecasts, considering many of the recognized net deferred tax assets relate to temporary differences and tax losses which, to a significant extent, may be recovered over an extended time period, but do not expire based on currently enacted tax law.

As in all financial reporting periods, Iveco Group assessed the realizability of its various deferred tax assets, which related to multiple tax jurisdictions in all regions of the world. During 2020 Iveco Group recorded net, non-cash deferred tax benefits of €28 million related to the net recognition of deferred tax assets, primarily based on the recent profit history and expected future profitability of a particular tax reporting group in Europe. In substantially all the jurisdictions in which Iveco Group operates, no changes in assessment occurred with respect to the recognition of deferred tax assets despite incurring significant pre-tax losses. This is primarily attributable to the fact the losses were largely driven by non-recurring events (the COVID-19 pandemic and asset impairments) that are only expected to impact taxable income in the near-term, while substantially all of Iveco Group's deferred tax assets have no expiry date. Further, Iveco Group has a history of producing pre-tax losses in the bottom-end of economic cycles followed by generating pre-tax profits during ensuing periods of economic expansion such that there is little history of its tax attributes expiring unutilized. Given the economic impact of the COVID-19 pandemic, however, it is possible assessment changes could occur within the next twelve months, with those changes potentially having a material impact on Iveco Group's results of operations.

Contingent liabilities

Iveco Group is the subject of legal proceedings and tax issues covering a range of matters, which are pending in various jurisdictions. Due to the uncertainty inherent in such matters, it is difficult to predict the final outcome of such matters. The cases and claims against Iveco Group often raise difficult and complex factual and legal issues, which are subject to many uncertainties, including but not limited to the facts and circumstances of each particular case and claim, the jurisdiction and the differences in applicable law. In the normal course of business management consults with legal counsel and other experts on matters related to litigation and taxes. The Group accrues a liability when it is determined that an adverse outcome is probable, and the amount of the loss can be reasonably estimated. In the event an adverse outcome is possible, or an estimate is not determinable, the matter is disclosed.

New standards and amendments effective in 2020

- On September 26, 2019, the IASB issued *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*, which modifies some specific hedge accounting requirements to provide relief from the potential effects of uncertainty caused by the Interbank Offered Rates (IBOR) reform, allowing the hedge accounting to be continued as if the reference rates on which the hedged item and hedging instrument are based were not changed by the reform. Furthermore, the amendments require to provide additional information to investors about hedging relationships directly affected by the uncertainties caused by the reform. The amendments are effective from January 1, 2020. The adoption of these amendments did not have any material impact on these Combined Financial Statements.
- On October 31, 2018, the IASB clarified the definition of "material" and how it should be applied by amending IAS 1 - *Presentation of Financial Statements* and IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments are effective from January 1, 2020, with earlier application permitted. The adoption of these amendments did not have any material impact on these Combined Financial Statements.
- On October 22, 2018, the IASB issued narrow-scope amendments to IFRS 3 - *Business Combinations* to improve the definition of a business. The amendments shall be applied to acquisitions that occurred on or after January 1, 2020 with earlier application permitted. The adoption of these amendments did not have any material impact on these Combined Financial Statements.

Accounting standards, amendments and interpretations not yet applicable and not early adopted by the Group as of December 31, 2020

The main accounting standards, amendments, and interpretations not yet applicable and not early adopted by the Group are the following:

- On May 28, 2020 the IASB issued *Covid-19-Related Rent Concessions (Amendment to IFRS 16)* adding a practical expedient that relieves the lessee from assessing whether a COVID-19-related rent concession is a lease modification. The lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification. The amendment is voluntary and does not affect lessors. The amendment is effective retrospectively for annual reporting periods beginning on or after June 1, 2020 and it is also available for interim reports. The Group does not apply this practical expedient for lessees.
- On August 27, 2020 the IASB issued *Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*, which addresses the accounting for changes in the basis for determining contractual cash flows as a consequence of IBOR reform. Furthermore, the amendments include additional temporary exceptions from applying specific hedge accounting requirements and additional disclosures. The amendments are

effective retrospectively for annual reporting periods beginning on or after January 1, 2021. The Group does not expect a material impact to its Combined Financial Statements or disclosures upon adoption of the amendments.

The Group is currently evaluating the impact of the adoption of these amendments and improvements on its Combined Financial Statements or disclosures:

- On May 14, 2020 the IASB issued *Property, Plant and Equipment—Proceeds before Intended Use (Amendments to IAS 16)* to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use and clarifying the meaning of "testing whether an asset is functioning properly". These amendments are effective retrospectively from January 1, 2022.
- On May 14, 2020, the IASB issued *Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)* specifying that the cost of fulfilling a contract comprises the costs that relate directly to the contract, including both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. These amendments are effective retrospectively from January 1, 2022.
- On May 14, 2020 the IASB issued the *Annual Improvements to IFRS 2018-2020 Cycle*. The most important topics addressed in these amendments are: (i) on IFRS 9 - Financial Instruments clarifying which fees an entity includes when it applies the "10 per cent" test in assessing whether to derecognize a financial liability; and (ii) on IFRS 16 - Leases removing the illustration of the reimbursement of leasehold improvements. These improvements are effective from January 1, 2022.
- On February 12, 2021 the IASB issued the *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies*, requiring disclosure of material accounting policy information rather than the significant accounting policies. Furthermore, the amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. This amendment is effective from January 1, 2023.
- On February 12, 2021 the IASB issued the *Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*. The amendments clarify how to distinguish changes in accounting policies (generally also applied retrospectively to past transactions and other past events) from changes in accounting estimates (applied prospectively only to future transactions and other future events). This amendment is effective from January 1, 2023.
- On May 7, 2021 the IASB issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*, which specifies how companies should account for deferred tax on transactions such as leases and decommissioning obligations. The amendments clarify that no exemption applies on such transactions and that companies are required to recognize deferred tax when they recognize the related assets or liabilities for the first time. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted.

SCOPE OF COMBINATION

The Combined Financial Statements of the Group as of December 31, 2020 include the Company and 83 combined subsidiaries over which the Company, directly or indirectly, has control.

At December 31, 2020, excluded from combination are 6 subsidiaries that are either dormant or generate a negligible volume of business: their proportion of the Group’s assets, liabilities, financial position, and earnings is immaterial. All such subsidiaries are accounted for using the cost method and represent in aggregate less than 0.01 percent of Group revenues, invested equity and total assets.

A list of the companies included in the scope of the Combined Financial Statements that will be allocated to the Iveco Group as part of the Demerger is included in Note 35.

BUSINESS COMBINATIONS

There were no significant business combinations in 2020, 2019 or 2018.

COMPOSITION AND PRINCIPAL CHANGES

1. Net revenues

The following table summarizes Net revenues for the years ended December 31, 2020, 2019, and 2018:

	2020	2019	2018
		(€ million)	
Commercial and Specialty Vehicles	8,247	9,326	9,258
Powertrain	3,180	3,675	3,858
Eliminations and Other	(1,113)	(1,209)	(1,277)
Total Industrial Activities	**10,314**	**11,792**	**11,839**
Financial Services	165	224	249
Eliminations and Other	(68)	(68)	(83)
Total Net revenues	**10,411**	**11,948**	**12,005**

In 2020, total Net revenues includes €526 million (€701 million in 2019 and €761 million in 2018) of Revenues from CNH Industrial Group post-Demerger.

The following table disaggregates Net revenues by major source for the years ended December 31, 2020, 2019, and 2018:

	2020	2019	2018
		(€ million)	
Revenues from:			
Sales of goods	9,461	10,832	10,967
Rendering of services and other revenues	577	615	477
Rents and other income on assets sold with a buy-back commitment	276	345	395
Revenues from sales of goods and services	**10,314**	**11,792**	**11,839**
Finance and interest income	72	135	143
Rents and other income on operating lease	25	21	23
Total Net revenues	**10,411**	**11,948**	**12,005**

During the years ended December 31, 2020, 2019, and 2018, revenues included €406 million, €453 million and €461 million, respectively, relating to the reversal of contract liabilities outstanding at the beginning of each period. Refer to Note 26 "Other current liabilities" for additional details on contract liabilities.

As of December 31, 2020, the aggregate amount of the transaction price allocated to remaining performance obligations related to extended warranties/maintenance and repair contracts, and transactions for the sale of vehicles with a buy-back commitment, was approximately €1.9 billion (approximately €1.8 billion and €1.9 billion at December 31, 2019, and 2018, respectively). As of December 31, 2020, Iveco Group expects to recognize revenue on approximately 32% and 77% of the remaining performance obligations over the next 12 and 36 months, respectively, (approximately 39% and 84% as of December 31, 2019, respectively and approximately 40% and 84% as of December 31, 2018, respectively), with the remaining recognized thereafter.

2. Cost of sales

Cost of sales amounted to €9,462 million in 2020, € 10,298 million in 2019, and €10,184 million in 2018. In 2020, Cost of sales included asset optimization charges of €247 million (€148 million in 2019) and other asset impairment charges of €6 million.

3. Selling, general and administrative costs

Selling, general and administrative costs amounted to €705 million in 2020, compared to €755 million recorded in 2019 and €741 million recorded in 2018.

4. Research and development costs

In 2020, Research and development costs of €436 million (€464 million in 2019 and €413 million in 2018) comprise all the research and development costs not recognized as assets in the year, amounting to €215 million (€264 million in 2019 and €245 million in 2018), the amortization of capitalized development costs of €219 million (€186 million in 2019 and €168 million in 2018) and the impairment of capitalized development costs of €2 million (€14 million in 2019 and nil in 2018). During 2020, the Group capitalized new development costs of €178 million (€177 million in 2019 and €187 million in 2018).

5. Result from investments

In 2020, 2019, and 2018 Iveco Group's share in the net profit or loss of the investees accounted for using the equity method amounted to a loss of €43 million, a loss of €14 million and nil, respectively. In 2020 this item also included the €17 million negative impact from the costs recognized by a Chinese joint venture, accounted for under the equity method, for valuation allowances against deferred tax assets and restructuring actions.

6 Restructuring costs

Iveco Group incurred restructuring costs of €32 million, €40 million, and €28 million in 2020, 2019, and 2018, respectively, primarily due to plant reorganization actions and efficiency programs.

7. Other income/(expenses)

This item consists of miscellaneous costs which cannot be allocated to specific functional areas, such as accruals for various provisions not attributable to other items of Cost of sales or Selling, general and administrative costs, net of income arising from operations which is not attributable to the sale of goods and services. Other expenses were €109 million, €45 million, and €94 million in 2020, 2019, and 2018 respectively. The lower amount in 2019 was primarily due to the recognition of an indirect tax benefit following a final tax law interpretation, issued by the Brazilian government, which impacted the Group's indirect tax liabilities paid in multiple prior years.

8. Financial income/(expenses)

The item "Financial income/(expenses)" is detailed as follows:

	2020	2019	2018
		(€ million)	
Financial income (a)	**24**	**30**	**22**
Interest and other financial expenses (b)	**81**	**103**	**158**
Net income/(expenses) from derivative financial instruments at fair value through profit or loss	(1)	(18)	24
Exchange rate differences from derivative financial instruments	(54)	(66)	(123)
Total net income/(expenses) and exchange differences from derivative financial instruments (c)	**(55)**	**(84)**	**(99)**
Net financial income/(expenses) (a) - (b) + (c)	**(112)**	**(157)**	**(235)**

Capitalized borrowing costs amounted to €16 million, €13 million and €12 million in 2020, 2019, and 2018, respectively.

9. Income tax (expense) benefit

The Company and its subsidiaries have substantial worldwide operations. The Company's subsidiaries incur tax obligations in the jurisdictions in which they operate. The Company's income tax expenses or benefits as reported in its combined income statement for the years ended December 31, 2020, 2019, and 2018 consist primarily of income tax (expenses) or benefits related to subsidiaries of the Company.

Income tax (expense) benefit for the years ended December 31, 2020, 2019, and 2018 consisted of the following:

	2020	2019	2018
		(€ million)	
Current taxes	(61)	(83)	(91)
Deferred taxes	152	5	(41)
Taxes relating to prior periods	25	4	5
Total Income tax (expense) benefit	**116**	**(74)**	**(127)**

The Company is incorporated in the Netherlands but is a tax resident of Italy. The reconciliation of the differences between the theoretical income taxes at the parent statutory rate and the total income taxes is presented based on the Italian national statutory corporation tax rate of 24% in force during each of Iveco Group's calendar year reporting periods presented in these comparative financial statements. A reconciliation of Iveco Group's income tax expense for the years ended December 31, 2020, 2019, and 2018 is as follows:

	2020	2019	2018
		(€ million)	
Theoretical Income tax (expense) benefit at the parent statutory rate	**119**	**(40)**	**(73)**
Foreign income taxed at different rates	16	1	5
Deferred tax assets not recognized and write-down	(25)	(47)	(60)
Italian IRAP taxes	(7)	(9)	(17)
Taxes relating to prior years	(12)	12	5
Recognition or use of previously unrecognized deferred tax assets	41	12	1
Change in tax rate or law	(2)	—	—
Other	(14)	(3)	12
Total Income tax (expense) benefit	**116**	**(74)**	**(127)**

The effective tax rates for 2020, 2019, and 2018 were 23.4%, 44.0%, and 41.9%, respectively. The 2020 effective tax rate reflects the Group's geographic mix of pre-tax earnings, which included pre-tax losses in jurisdictions for which no tax benefits were recognized, the negative impact of incremental tax reserve accruals and the net benefits associated with recognizing deferred tax assets in certain jurisdictions. The 2019 and 2018 effective tax rate reflects the Group's geographic mix of pre-tax earnings, which included pre-tax losses in jurisdictions for which no tax benefits were recognized, and, for 2019, the de-recognition of certain net deferred tax assets.

The Company recognizes in its combined statement of financial position within Deferred tax assets, the amount of deferred tax assets less the deferred tax liabilities of the individual combined legal entities, where these may be offset.

The components of net deferred tax assets at December 31, 2020, 2019, and 2018 are as follows:

	At December 31, 2019	Recognized in income statement	Charged to invested equity	Translation differences and other changes	At December 31, 2020
			(€ million)		
Deferred tax assets arising from:					
Taxed provisions and impairment of assets related to contracts for sales under buy-back commitments	374	23	-	(3)	394
Inventories	85	20	-	(2)	103
Taxed allowances for doubtful accounts	67	(6)	-	(1)	60
Provision for employee benefits	61	(2)	4	1	64
Intangible assets	14	(9)	-	-	5
Lease liabilities	54	-	-	(7)	47
Fixed assets	25	3	-	-	28
Measurement of derivative financial instruments	17	2	(4)	-	15
Other	92	(14)	-	1	79
Total	**789**	**17**	**-**	**(11)**	**795**
Deferred tax liabilities arising from:					
Accelerated depreciation	(53)	5	-	4	(44)
Provision from employee benefits	(3)	-	-	1	(2)
Capitalization of development costs	(81)	(6)	-	2	(85)
Other	(85)	45	-	2	(38)
Total	**(222)**	**44**	**-**	**9**	**(169)**
Theoretical tax benefit arising from tax loss carryforwards and tax credits	**210**	**80**	**-**	**(6)**	**284**
Adjustments for assets whose recoverability is not probable	**(256)**	**11**	**-**	**5**	**(240)**
Total net deferred tax assets	**521**	**152**	**-**	**(3)**	**670**

	At December 31, 2018	Recognized in income statement	Charged to invested equity	Translation differences and other changes	At December 31, 2019
			(€ million)		
Deferred tax assets arising from:					
Taxed provisions and impairment of assets related to contracts for sales under buv-back commitments	344	32	-	(2)	374
Inventories	100	(3)	-	(12)	85
Taxed allowances for doubtful accounts	69	(2)	-	-	67
Provision for employee benefits	51	1	9	-	61
Intangible assets	24	(10)	-	-	14
Lease liabilities	-	-	-	54	54
Fixed assets	24	1	-	-	25
Measurement of derivative financial instruments	10	3	4	-	17
Other	103	(12)	-	1	92
Total	**725**	**10**	**13**	**41**	**789**
Deferred tax liabilities arising from:					
Accelerated depreciation	(9)	10	-	(54)	(53)
Provision from employee benefits	(4)	1	-	-	(3)
Capitalization of development costs	(66)	(15)	-	-	(81)
Other	(92)	1	-	6	(85)
Total	**(171)**	**(3)**	**-**	**(48)**	**(222)**
Theoretical tax benefit arising from tax loss carryforwards and tax credits	**185**	**27**	**-**	**(2)**	**210**
Adjustments for assets whose recoverability is not probable	**(230)**	**(29)**	**-**	**3**	**(256)**
Total net deferred tax assets	**509**	**5**	**13**	**(6)**	**521**

	At January 1, 2018	Recognized in income statement	Charged to invested equity	Translation differences and other changes	At December 31, 2018
			(€ million)		
Deferred tax assets arising from:					
Taxed provisions	328	12	-	4	344
Inventories	74	32	-	(6)	100
Taxed allowances for doubtful accounts	68	1	-	-	69
Provision for employee benefits	43	11	(2)	(1)	51
Intangible assets	43	(19)	-	-	24
Fixed assets	27	(3)	-	-	24
Measurement of derivative financial instruments	9	(1)	3	(1)	10
Other	113	(10)	-	-	103
Total	**705**	**23**	**1**	**(4)**	**725**
Deferred tax liabilities arising from:					
Accelerated depreciation	(5)	(4)	-	-	(9)
Provision from employee benefits	3	(6)	-	(1)	(4)
Capitalization of development costs	(74)	7	-	1	(66)
Other	(61)	(44)	-	13	(92)
Total	**(137)**	**(47)**	**-**	**13**	**(171)**
Theoretical tax benefit arising from tax loss carryforwards and tax credits	**206**	**(15)**	**-**	**(6)**	**185**
Adjustments for assets whose recoverability is not probable	**(229)**	**(2)**	**-**	**1**	**(230)**
Total net deferred tax assets	**545**	**(41)**	**1**	**4**	**509**

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Deferred tax assets	681	531	512
Deferred tax liabilities	(11)	(10)	(3)
Net deferred tax assets	**670**	**521**	**509**

The increase of €149 million in net deferred tax assets during 2020 was mainly due to the €152 million credit recognized in the Company's consolidated income statement for the net creation of deferred tax assets, largely driven by the increase in tax loss carryforwards, various provisions included in the financial statements that were not currently deductible for income tax purposes and the recognition during the year of certain previously unrecognized deferred tax assets. The increase in net deferred tax assets of €12 million in 2019 was primarily attributable to items accounted for in the Group's Other Comprehensive Income. The decrease in net deferred tax assets of €36 million during 2018 was largely related to the €41 million deferred tax charge reported in the Group's combined income statement.

The decision to recognize deferred tax assets is made for each legal entity in the Group by critically assessing whether the conditions exist for the future recoverability of such assets on the basis of actual results, as well as updated strategic business plans and accompanying tax plans. For this reason, the total theoretical future tax benefits arising from deductible temporary differences of €795 million at December 31, 2020, €789 million at December 31, 2019 and €725 million at December 31, 2018, and tax loss and credit carryforwards of €284 million at December 31, 2020, €210 million at December 31, 2019, and €185 million at December 31, 2018, were reduced by €240 million at December 31, 2020, €256 million at December 31, 2019, and €230 million at December 31, 2018.

Net recognized deferred tax assets include €149 million at December 31, 2020 (€83 million and €57 million at December 31, 2019, and 2018, respectively) of tax benefits arising from tax loss carryforwards and tax credits. At December 31, 2020, a further tax benefit of €135 million (€127 million and €128 million at December 31, 2019, and 2018, respectively) arising from tax loss carryforwards and tax credits has not been recognized.

At December 31, 2020, tax liabilities primarily include uncertain income tax amounts of €17 million and other tax payables (€15 million at December 31, 2019, and €32 million at December 31, 2018).

The totals of deductible and taxable temporary differences and accumulated tax losses at December 31, 2020, 2019, and 2018 together with the amounts for which deferred tax assets have not been recognized, analyzed by estimated year of reversal or expiry, are as follows:

	Total at December 31, 2020	Estimated year of reversal or expiry					
		2021	2022	2023	2024	Beyond 2024	Unlimited/ indeterminable
	(€ million)						
Temporary differences and tax losses:							
Deductible temporary differences	**2,962**	1,114	462	462	462	462	-
Taxable temporary differences	**(613)**	(113)	(125)	(125)	(125)	(125)	-
Tax losses and tax credits	**1,192**	8	-	5	54	110	1,015
Temporary differences and tax losses for which deferred tax assets have not been recognized	**(1,141)**	(53)	(150)	(154)	(204)	(223)	(357)
Temporary differences and tax losses	**2,400**	**956**	**187**	**188**	**187**	**224**	**658**

	Total at December 31, 2019	Estimated year of reversal or expiry					
		2020	2021	2022	2023	Beyond 2023	Unlimited/ indeterminable
	(€ million)						
Temporary differences and tax losses:							
Deductible temporary differences	**2,727**	875	463	463	463	463	-
Taxable temporary differences	**(495)**	(71)	(106)	(106)	(106)	(106)	-
Tax losses and tax credits	**709**	8	8	-	60	47	586
Temporary differences and tax losses for which deferred tax assets have not been recognized	**(1,185)**	(277)	(109)	(102)	(161)	(121)	(415)
Temporary differences and tax losses	**1,756**	**535**	**256**	**255**	**256**	**283**	**171**

	Total at December 31, 2018	2019	2020	2021	2022	Beyond 2022	Unlimited/ indeterminable
		Estimated year of reversal or expiry					
				(€ million)			
Temporary differences and tax losses:							
Deductible temporary differences	**2,628**	672	489	489	489	489	-
Taxable temporary differences	**(588)**	(28)	(140)	(140)	(140)	(140)	-
Tax losses and tax credits	**685**	4	8	8	1	46	618
Temporary differences and tax losses for which deferred tax assets have not been recognized	**(935)**	(73)	(125)	(126)	(118)	(135)	(358)
Temporary differences and tax losses	**1,790**	**575**	**232**	**231**	**232**	**260**	**260**

During 2020 countries around the world enacted substantial amounts of tax legislation in response to the COVID-19 pandemic. While the legislation generally did not impact Iveco Group's results of operations, it improved Iveco Group's operating cash flow and overall cash position by delaying income tax payments for an amount of €5 million (to be paid in 2021).

Iveco Group files income tax returns in multiple jurisdictions and is subject to examination by taxing authorities throughout the world. Iveco Group has open tax years from 2010 through 2020. Due to the global nature of Iveco Group's business, transfer pricing disputes may arise and Iveco Group may seek correlative relief through competent authority processes. Further, as various ongoing audits are concluded, or as the applicable statutes of limitations expire, it is possible Iveco Group's amount of unrecognized tax benefits could change during the next twelve months. Iveco Group does not believe the resolution of any outstanding tax examinations will have a material effect on Iveco Group's results of operations, statement of financial position, or cash flows.

10. Other information by nature of expense

The income statement includes personnel costs for €1,562 million in 2020 (€1,675 million in 2019 and €1,590 million in 2018).

An analysis of the average number of employees by category is as follows:

	2020	2019	2018
Managers	380	355	328
White-collar	11,217	11,295	11,370
Blue-collar	21,035	20,875	20,881
Average number of employees	**32,632**	**32,525**	**32,579**

11. Earnings per share

As these Combined Financial Statements have been prepared on a combined/carve-out basis, earnings per share is not a meaningful measure of financial performance for any of the periods presented. The Iveco Group has not had share capital during the periods presented, therefore, management has determined that presenting an earnings per share ratio calculated on the combined/carve-out information would not accurately reflect the historical earnings per share. Accordingly, the requirement of IAS 33 - *Earnings per share* to disclose earnings per share is not applicable.

12. Intangible assets

In 2020, 2019, and 2018, changes in the carrying amount of Intangible assets were as follows:

	Goodwill	Development costs externally acquired	Development costs internally generated	Patents, concessions and licenses	Other intangible assets externally acquired	Advances and intangible assets in progress externally acquired	Total
				(€ million)			
Gross carrying amount Balance at January 1, 2018	**71**	**1,269**	**1,862**	**485**	**74**	**18**	**3,779**
Additions	-	122	65	1	4	20	212
Divestitures, translation differences and other changes	-.	(1)	(12)	13	(3)	(13)	(16)
Balance at December 31, 2018	**71**	**1,390**	**1,915**	**499**	**75**	**25**	**3,975**
Additions	-	112	65	5	3	26	211
Divestitures, translation differences and other changes	-	-	(9)	19	3	(22)	(9)
Balance at December 31, 2019	**71**	**1,502**	**1,971**	**523**	**81**	**29**	**4,177**
Additions	-	105	73	7	1	22	208
Divestitures, translation differences and other changes	-	(4)	(22)	15	1	(19)	(29)
Balance at December 31, 2020	**71**	**1,603**	**2,022**	**545**	**83**	**32**	**4,356**
Accumulated amortization and impairment losses Balance at January 1, 2018	**-**	**999**	**968**	**444**	**47**	**-**	**2,458**
Amortization	-	103	65	17	7	-	192
Impairment losses	-	-	-	2	-	-	2
Divestitures, translation differences and other changes	-	-	(7)	(1)	(2)	-	(10)
Balance at December 31, 2018	**-**	**1,102**	**1,026**	**462**	**52**	**-**	**2,642**
Amortization	-	138	48	18	6	-	210
Impairment losses	-	11	3	1	-	-	15
Divestitures, translation differences and other changes	1	(5)	(2)	(2)	3	-	(5)
Balance at December 31, 2019	**1**	**1,246**	**1,075**	**479**	**61**	**-**	**2,862**
Amortization	-	163	56	19	9	-	247
Impairment losses	-	-	2	-	-	-	2
Divestitures, translation differences and other changes	-	5	(14)	(1)	(5)	-	(15)
Balance at December 31, 2020	**1**	**1,414**	**1,119**	**497**	**65**	**-**	**3,096**
Carrying amount at December 31, 2018	**71**	**288**	**889**	**37**	**23**	**25**	**1,333**
Carrying amount at December 31, 2019	**70**	**256**	**896**	**44**	**20**	**29**	**1,315**
Carrying amount at December 31, 2020	**70**	**189**	**903**	**48**	**18**	**32**	**1,260**

Goodwill and intangible assets with indefinite useful lives

Goodwill is allocated to the Group's cash-generating units identified as the Group's operating segments. The following table presents the allocation of goodwill across the segments:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Commercial and Specialty Vehicles	53	53	54
Powertrain	5	5	5
Financial Services	12	12	12
Goodwill net carrying amount	**70**	**70**	**71**

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually or more frequently if a triggering event occurs.

Goodwill impairment test is performed at the cash generating unit level, the segment level, comparing the recoverable amount of the cash generating to the carrying amount to determine if there is an impairment loss. The results of the impairment tests obtained in 2020, 2019, and 2018 confirmed the absence of an impairment loss.

The vast majority of goodwill, representing approximately the 80% of the total, related to Commercial and Specialty Vehicles and, as such, the following discussion relates to the impairment testing performed at year-end for this cash-generating unit.

The recoverable amount of the Commercial and Specialty Vehicles cash-generating unit is determined using an income approach, based on the present value of estimated future cash flows. The income approach is dependent on several critical management assumptions, including estimates of future sales in the discrete future period, the weighted average cost of capital (discount rate), and also less significant assumptions such as gross margins, operating costs, income tax rates, capital expenditures and changes in working capital requirements.

Discount rate assumptions include an assessment of the risk inherent in the future cash flows of the cash-generating unit. The discount rate before taxes selected was approximately 10% at December 31, 2020, and 13% at December 31, 2019 and 2018.

Expected cash flows used under the income approach are developed in conjunction with budgeting and forecasting processes. Iveco Group used 7 years in 2020 and 2019, and 8 years in 2018, of expected cash flows for Commercial and Specialty Vehicles as the Company believes that these periods reflect the underlying market cycle for its business. Furthermore, instead of including a terminal value, an additional 5-year discounted cash flow has been included at the end of the projection period in order to conservatively reflect the remaining value that the cash-generating unit is expected to generate.

Due to the many variables inherent in the estimation of a cash generating unit's recoverable amount, differences in assumptions could have a material effect on the estimated recoverable amount and could result in a goodwill impairment loss in a future period. Circumstances and events, which could potentially cause further impairment losses, are constantly monitored by Iveco Group.

Development costs

The amortization of development costs and impairment losses are reported in the income statement as Research and development costs.

Development costs are tested for impairment at the cash-generating unit level.

13. Property, plant and equipment

In 2020, 2019, and 2018, changes in the carrying amount of Property, plant and equipment were as follows:

	Land	Industrial buildings	Plant, machinery and equipment	Right-of-use assets	Assets sold with a buy-back commitment	Other tangible assets	Total
				(€ million)			
Gross carrying amount Balance at January 1, 2018	**120**	**1,112**	**4,512**	**—**	**3,007**	**384**	**9,135**
Additions	1	17	119	—	513	88	**738**
Divestitures, translation differences and other changes	(1)	(13)	(31)	—	(769)	(36)	**(850)**
Balance at December 31, 2018	**120**	**1,116**	**4,600**	**—**	**2,751**	**436**	**9,023**
Impact of IFRS 16 adoption	—	—	—	200	—	—	**200**
Reclassification of assets under finance lease at December 31, 2018	—	(7)	—	7	—	—	**—**
Balance at January 1, 2019	**120**	**1,109**	**4,600**	**207**	**2,751**	**436**	**9,223**
Additions	2	11	257	65	473	11	**819**
Divestitures, translation differences and other changes	—		(59)	3	(867)	(37)	**(960)**
Balance at December 31, 2019	**122**	**1,120**	**4,798**	**275**	**2,357**	**410**	**9,082**
Additions	—	14	134	63	580	45	**836**
Divestitures, translation differences and other changes	—	(37)	(27)	(16)	(787)	(26)	**(893)**
Balance at December 31, 2020	**122**	**1,097**	**4,905**	**322**	**2,150**	**429**	**9,025**
Accumulated depreciation and impairment losses balance at January 1, 2018	**3**	**686**	**3,504**	**—**	**675**	**313**	**5,181**
Depreciation	—	33	217	—	321	23	**594**
Impairment losses	—	—	1	—	30	—	**31**
Divestitures, translation differences and other changes		(10)	(33)	—	(273)	(21)	**(337)**
Balance at December 31, 2018	**3**	**709**	**3,689**	**—**	**753**	**315**	**5,469**
Reclassification of assets under finance lease at December 31, 2018	—	(3)	—	3	—	—	—
Balance at January 1, 2019	**3**	**706**	**3,689**	**3**	**753**	**315**	**5,469**
Depreciation	—	33	216	69	272	13	**603**
Impairment losses	—	—	4	—	60	—	**64**
Divestitures, translation differences and other changes	—	(12)	(72)	(2)	(309)	(10)	**(405)**
Balance at December 31, 2019	**3**	**727**	**3,837**	**70**	**776**	**318**	**5,731**
Depreciation	—	32	218	66	242	17	**575**
Impairment losses	—	—	6	—	125	—	**131**
Divestitures, translation differences and other changes	—	(21)	(34)	(17)	(364)	(8)	**(444)**
Balance at December 31, 2020	**3**	**738**	**4,027**	**119**	**779**	**327**	**5,993**
Carrying amount at December 31, 2018	**117**	**407**	**911**	**—**	**1,998**	**121**	**3,554**
Impact of IFRS 16 adoption and Reclassifications of assets under finance lease at December 31, 2018	—	(4)	—	204	—	—	**200**
Carrying amount at January 1, 2019	**117**	**403**	**911**	**204**	**1,998**	**121**	**3,754**
Carrying amount at December 31, 2019	**119**	**393**	**961**	**205**	**1,581**	**92**	**3,351**
Carrying amount at December 31, 2020	**119**	**359**	**878**	**203**	**1,371**	**102**	**3,032**

Other tangible assets also include advances and tangible assets in progress.

As a result of the significant decline in industry demand and other market conditions due to the economic disruption caused by the COVID-19 pandemic, during the second quarter of 2020 Iveco Group reviewed its current manufacturing footprint and, consequently, reassessed the recoverability of assets. As a result, during the second quarter of 2020, Commercial and Specialty Vehicles recognized impairment losses of €117 million in connection with new actions identified in order to realize the asset portfolio of vehicles sold under buy-back commitments as a result of the significant deterioration of the used vehicle markets in which the segment operates and the consequent impact on truck residual values. Commercial and Specialty Vehicles also recognized impairment losses of €6 million against Property, plant and equipment acquired. The impairment losses were recognized in Cost of sales.

Commercial and Specialty Vehicles recognized an impairment loss of €75 million and €67 million on Assets sold with a buy-back commitment for the years ended December 31, 2019, and 2018. The losses were recognized in the Cost of sales.

Other changes mainly include the reclassification of the prior year balances for Advances and tangible assets in progress to the appropriate categories when the assets were effectively acquired and put into operation, as well as the reclassification to Inventory of Assets sold with a buy-back commitment (€187 million) that are held for sale at the agreement expiry date.

At December 31, 2020, right-of-use assets refer primarily to lease contracts for industrial buildings for €140 million (€148 million at December 31, 2019), plant, machinery and equipment for €17 million (€16 million at December 31, 2019), and other assets for €46 million (€41 million at December 31, 2019). For a description of the related lease liabilities, refer to Note 24 "Debt".

Short-term and low-value leases are not recorded in the statement of financial position. Iveco Group recognizes lease expense (€11 million and €12 million in 2020 and 2019, respectively) in the income statement for these leases on a straight-line basis over the lease term.

Property, plant and equipment included €4 million at December 31, 2018 related to the net carrying amount of assets leased under finance lease agreements.

Land and industrial buildings and plant, machinery and equipment pledged as security for debt and other commitments were immaterial at December 31, 2020, 2019, and 2018.

Iveco Group had contractual commitments of €75 million, €65 million and €59 million for the acquisition of property, plant and equipment at December 31, 2020, 2019, and 2018 respectively.

14. Investments and other non-current financial assets

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Investments accounted for using the equity method	209	243	259
Equity investments measured at fair value through other comprehensive income	319	96	—
Other investments	5	2	2
Total Investments	533	341	261
Non-current financial receivables and other non-current securities	13	13	1
Total Investments and other non-current financial assets	**546**	**354**	**262**

At December 31, 2020, 2019, and 2018, no Non-current financial receivables had been pledged as security.

Investments

Changes in Investments in 2020, 2019, and 2018 are set out below:

	At December 31, 2019	Revaluations/ (Write-downs)	Acquisitions and capitalizations	Fair value remeasurements	Translation differences, Disposals and other changes	At December 31, 2020
			(€ million)			
Investments in:						
Unconsolidated subsidiaries and other	2	—	3	—	—	5
Joint ventures	129	(55)	7		(1)	80
Associates	114	12	—	—	3	129
Equity investments measured at fair value through other comprehensive income	96	—	124	93	6	319
Total Investments	**341**	**(43)**	**134**	**93**	**8**	**533**

	At December 31, 2018	Revaluations/ (Write-downs)	Acquisitions and capitalizations	Translation differences, Disposals and other changes	At December 31, 2019
			(€ million)		
Investments in:					
Unconsolidated subsidiaries and other	2	—	—	—	2
Joint ventures	156	(27)	—	—	129
Associates	103	13	—	(2)	114
Equity investments measured at fair value through other comprehensive income	—	—	96	—	96
Total Investments	**261**	**(14)**	**96**	**(2)**	**341**

	At January 1, 2018	Revaluations/ (Write-downs)	Acquisitions and capitalizations	Translation differences, Disposals and other changes	At December 31, 2018
			(€ million)		
Investments in:					
Unconsolidated subsidiaries and other	2	—	—	—	2
Joint ventures	172	(15)	—	(1)	156
Associates	95	15	—	(7)	103
Total Investments	**269**	**—**	**—**	**(8)**	**261**

Revaluations and Write-downs include the Group's share of the profit or loss for the year of investments accounted for using the equity method for a loss of €43 million in 2020 (€14 million in 2019 and nil million in 2018).

Translation differences, disposals and other changes also included dividends by companies accounted for using the equity method.

Equity investments measured at fair value through other comprehensive income include the fair value of the approximately 6.6% investment held by Iveco Group in Nikola Corporation ("Nikola"), made in the context of the strategic partnership with Nikola to industrialize fuel-cell and battery electric Heavy-Duty trucks. During the second quarter of 2020, Nikola completed a business combination with VectoIQ Acquisition Corp., a publicly-traded special purpose acquisition company. Under the terms and conditions of the business combination, the former shareholders of Nikola received 1.901 shares of VectoIQ for each share held in Nikola and became shareholders of VectoIQ, which, in turn, changed its name to "Nikola Corporation". The combined company's shares continued to list on NASDAQ under the new ticker symbol "NKLA". Before the completion of the business combination, Iveco Group increased its investment in Nikola to $250 million (equivalent to €220 million). The market price of Nikola shares as of December 31, 2020 was $15.26, determining a value of $392 million (equivalent to €319 million) for the 25,661,448 shares held by Iveco Group through its fully-owned subsidiary Iveco S.p.A. During the year ended December 31, 2020, Iveco Group recorded in Other comprehensive income a pre-tax gain of €93 million (€91 million after-tax) from the remeasurement at fair value of the investment in Nikola.

Iveco S.p.A. and Nikola Corporation are jointly developing cab over battery-electric vehicle ("BEV") and hydrogen fuel cell electric vehicle ("FCEV") trucks, which will be manufactured in Europe through a legal entity 50/50 owned by Iveco S.p.A. and Nikola Corporation, and in the U.S. by Nikola Corporation. During 2020, Iveco S.p.A. and Nikola entered into a series of agreements to establish the European legal entity. The set-up activities of the legal entity started in the fourth quarter of 2020 and the implementation continues in line with the roadmap.

Investments in joint ventures

Interests in joint ventures are accounted for using the equity method. A summary of investments in joint ventures at December 31, 2020, 2019, and 2018 is as follows:

	At December 31, 2020		At December 31, 2019		At December 31, 2018	
	% of interest	(€ million)	% of interest	(€ million)	% of interest	(€ million)
Naveco (Nanjing Iveco Motor Co.) Ltd.	50.0	54	50.0	114	50.0	144
Other Joint ventures		26		15		12
Total Investments in joint ventures		**80**		**129**		**156**

Interests in joint ventures consist of 6 companies at December 31, 2020 (5 companies at December 31, 2019 and 2018) and mainly include Naveco (Nanjing IVECO Motor Co.) Ltd, People's Rep. of China: joint venture (50% Iveco S.p.A. and 50% Nanjing Automotive Corporation, a subsidiary of the SAIC Group) which manufactures light and other commercial vehicles in China. During the first half of 2021, Iveco Group and the partner (SAIC Group) completed the regulatory filings required for the finalization of the sale of our 30.1% to SAIC Group. Closing of the transaction occurred in the third quarter of 2021.

Summarized financial information relating to Naveco Ltd, the material joint venture of the Group, prepared in accordance with EU-IFRS, is as follows:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Cash and cash equivalents	176	121	99
Non-current assets	259	328	317
Current assets	245	253	365
Total Assets	**680**	**702**	**781**
Debt	87	—	—
Other liabilities	485	474	493
Total Liabilities	**572**	**474**	**493**
Total Equity	**108**	**228**	**288**

	2020	2019	2018
		(€ million)	
Net revenues	489	459	522
Depreciation and amortization	31	29	11
Net Financial income/(expenses)	(2)	1	2
Profit/(loss) before taxes	(88)	(49)	(33)
Income tax (expenses)	(28)	(13)	(2)
Profit/(loss) from continuing operations	(116)	(62)	(35)
Profit/(loss) from discontinued operations	—	—	—
Profit/(loss)	(116)	(62)	(35)
		—	—
Total Other comprehensive income, net of tax	—	—	—
Total Comprehensive income	(116)	(62)	(35)

This summarized financial information may be reconciled to the carrying amount of the % interest held in the joint ventures as follows:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Total Equity	**108**	**228**	**288**
Group's interest (%)	50.0	50.0	50.0
Pro-quota equity	**54**	**114**	**144**
Adjustments made by using the equity method	—	—	—
Carrying amount	**54**	**114**	**144**

Investments in associates

A summary of investments in associates at December 31, 2020, 2019, and 2018 is as follows:

	At December 31, 2020		At December 31, 2019		At December 31, 2018	
	% of interest	(€ million)	% of interest	(€ million)	% of interest	(€ million)
CNH Industrial Capital Europe S.a.S.	24.95	96	24.95	85	24.95	77
Other Associates		33		29		26
Total Investments in associates		**129**		**114**		**103**

Summarized financial information relating to CNH Industrial Capital Europe S.a.S., material associate of the Group, is as follows:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Non-current assets	—	—	—
Current assets	4,771	4,541	4,312
Total Assets	**4,771**	**4,541**	**4,312**
Debt	4,181	4,025	3,839
Other liabilities	214	174	169
Total Liabilities	**4,395**	**4,199**	**4,008**
Total Equity	**376**	**342**	**304**

	2020	2019	2018
		(€ million)	
Net revenues	114	200	170
Profit/(loss) before taxes	55	58	56
Profit/(loss) from continuing operations	38	41	41
Profit/(loss) from discontinued operations	—	—	—
Profit/(loss)	38	41	41
Total Other comprehensive income, net of tax	—	—	—
Total Comprehensive income	38	41	41

This summarized financial information may be reconciled to the carrying amount of the % interest held in the associate as follows:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Total Equity	**376**	**342**	**304**
Group's interest (%)	24.95	24.95	24.95
Pro-quota equity	**94**	**85**	**76**
Adjustments made by using the equity method	2	—	1
Carrying amount	**96**	**85**	**77**

15. Leased assets

This item changed as follows in 2020, 2019, and 2018:

	At December 31, 2019	Additions	Depreciation	Translation differences, disposals and other	At December 31, 2020
			(€ million)		
Gross carrying amount	66	83	-	(29)	120
Less: Depreciation and impairment	(24)	-	(24)	1	(47)
Net carrying amount of Leased assets	**42**	**83**	**(24)**	**(28)**	**73**

	At December 31, 2018	Additions	Depreciation	Translation differences, disposals and other changes	At December 31, 2019
			(€ million)		
Gross carrying amount	52	55	-	(41)	66
Less: Depreciation and impairment	(28)	-	(18)	22	(24)
Net carrying amount of Leased assets	**24**	**55**	**(18)**	**(19)**	**42**

	At January 1, 2018	Additions	Depreciation	Translation differences, disposals and other	At December 31, 2018
			(€ million)		
Gross carrying amount	25	37	-	(10)	52
Less: Depreciation and impairment	(11)	-	(18)	1	(28)
Net carrying amount of Leased assets	**14**	**37**	**(18)**	**(9)**	**24**

Leased assets include vehicles leased to retail customers by the Group's leasing companies.

At December 31, 2020, minimum lease payments receivable for assets under non-cancelable operating leases amount to €71 million (€59 million at December 31, 2019 and €59 million at December 31, 2018) and fall due as follows:

	At December 31, 2020	At December 31, 2019
	(€ million)	
Operating leases under IFRS 16		
Less than one year	29	21
One to two years	17	14
Two to three years	13	11
Three to four years	7	7
Four to five years	4	3
More than five years	1	3
Total Undiscounted lease payments	**71**	**59**

	At December 31, 2018

	(€ million)
Operating leases under IAS 17:	
Within one year	22
Between one and five years	34
Beyond five years	3
Total Minimum lease payments	**59**

No leased assets have been pledged as security at December 31, 2020, 2019, and 2018.

16. Inventories

At December 31, 2020, 2019, and 2018, Inventories consisted of the following:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Raw materials	493	484	467
Work-in-progress	276	311	295
Finished goods	1,477	1,801	1,745
Total Inventories	**2,246**	**2,596**	**2,507**

At December 31, 2020, Inventories included assets which are no longer subject to operating lease arrangements or buy-back commitments and were held for sale for a total amount of €144 million (€254 million and €196 million at December 31, 2019, and 2018, respectively).

At December 31, 2020, the amount of Inventories measured at net realizable value (estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale) is €508 million (€772 million and €768 million at December 31, 2019, and 2018, respectively).

During 2020, Commercial and Specialty Vehicles recognized an impairment loss of €107 million in Inventories in connection with new actions identified in order to realize the asset portfolio of vehicles sold under buy-back commitments as a result of the significant deterioration of the used vehicle markets in which the segment operates and the consequent impact on truck residual values. During 2019, the segment recognized an impairment loss of €80 million in Inventories.

There were no inventories pledged as security at December 31, 2020, 2019, and 2018.

17. Current receivables and Other current financial assets

A summary of Current receivables and Other current financial assets as of December 31, 2020, 2019, and 2018 is as follows:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Trade receivables	444	371	438
Financial receivables from CNH Industrial Group post-Demerger	3,543	3,395	3,353
Receivables from financing activities	2,831	3,136	2,847
Current tax receivables	73	83	124
Other current receivables and financial assets:			
Other current receivables	217	246	211
Other current financial assets	136	—	—
Total Other current receivables and financial assets	353	246	211
Total Current receivables and Other current financial assets	**7,244**	**7,231**	**6,973**

An analysis of Current receivables and Other current financial assets by due date is as follows:

	At December 31, 2020				At December 31, 2019				At December 31, 2018			
	due within one year	due between one and five years	due beyond five years	Total	due within one year	due between one and five years	due beyond five years	Total	due within one year	due between one and five years	due beyond five years	Total
	(€ million)											
Trade receivables	443	1	—	444	371	—	—	371	433	5	—	438
Financial receivables from CNH Industrial Group post-Demerger	3,543	—	—	3,543	3,395	—	—	3,395	3,353	—	—	3,353
Receivables from financing activities	2,685	138	8	2,831	3,015	102	19	3,136	2,716	109	22	2,847
Current tax receivables	70	3	—	73	82	1	—	83	123	1	—	124
Other current receivables	201	6	10	217	226	10	10	246	187	12	12	211
Other current financial assets	136	-	-	136	-	-	-	-	-	-	-	-
Total Current receivables and Other current financial assets	**7,078**	**148**	**18**	**7,244**	**7,089**	**113**	**29**	**7,231**	**6,812**	**127**	**34**	**6,973**

Trade receivables

As of December 31, 2020, 2019, and 2018, Iveco Group had trade receivables of €444 million, €371 million and €438 million, respectively. Trade receivables are shown net of allowances for doubtful accounts of €30 million, €37 million and €50 million at December 31, 2020, 2019, and 2018, respectively. The allowances are determined using the simplified approach as permitted by IFRS 9 for trade receivables, consisting in the use of lifetime expected loss.

Changes in the allowances for doubtful accounts during 2020, 2019, and 2018 were as follows:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
	(€ million)		
Opening balance	**37**	**50**	**61**
Provision (benefit)	5	(1)	2
Use and other changes	(12)	(12)	(13)
Ending balance	**30**	**37**	**50**

The allowances at December 31, 2020, 2019, and 2018, have been determined using the following expected loss rates:

At December 31, 2020	At December 31, 2019	At December 31, 2018

		Current	31-60 days past due	61-90 days past due	Greater than 90 days past due	Total	Current	31-60 days past due	61-90 days past due	Greater than 90 days past due	Total	Current	31-60 days past due	61-90 days past due	Greater than 90 days past due	Total
Expected loss rate	%	1%	-%	-%	78%	6%		-%	-%	72%	9%	2%	-%	-%	66%	10%
Gross carrying amount	€ million	436	4	2	32	474	355	8	2	43	408	399	24	3	62	488
Allowances for doubtful accounts	€ million	(5)	-	-	(25)	(30)	(4)	-	-	(31)	(37)	(8)	-	-	(41)	(50)

Trade accounts have significant concentrations of credit risk in Commercial and Specialty Vehicles segment. There is not a disproportionate concentration of credit risk in any geographic region.

The Industrial Activities businesses sell a significant portion of their trade receivables to Financial Services and provide compensation to Financial Services at approximate market interest rates.

In 2020, 2019, and 2018 trade receivables for an amount of €6 million, €18 million and nil, respectively, were written off by Iveco Group.

Charge-offs of principal amounts of trade receivables outstanding are deducted from the allowance at the point when it is estimated that amounts due are deemed uncollectible. Iveco Group continues to engage in collection efforts to attempt to recover the receivables. When recoveries are collected, these are recognized as income.

Financial receivables from CNH Industrial Group post-Demerger

This item mainly refers to cash balances deposited with the CNH Industrial Group post-Demerger central treasury, including cash management and/or cash pooling arrangements.

Receivables from financing activities

A summary of Receivables from financing activities as of December 31, 2020, 2019, and 2018 is as follows:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Retail:			
Retail financing	9	10	21
Finance leases	77	114	160
Total Retail	86	124	181
Wholesale:			
Dealer financing	2,720	2,930	2,630
Total Wholesale	2,720	2,930	2,630
Other	25	82	36
Total Receivables from financing activities	**2,831**	**3,136**	**2,847**

Iveco Group provides and administers financing for retail purchases of new and used vehicles sold through its dealer network. The terms of retail and other notes and finance leases generally range from two to six years, and interest rates on retail and other notes and finance leases vary depending on prevailing market interest rates and incentive programs offered by Industrial Activities.

Wholesale receivables arise primarily from the sale of goods to dealers and distributors and, to a lesser extent, the financing of dealer operations. Under the standard terms of the wholesale receivable agreements, these receivables typically have "interest-free" periods of up to twelve months and stated original maturities of up to twenty-four months, with repayment accelerated upon the sale of the underlying equipment by the dealer. During the "interest free" period, Financial Services is compensated by Industrial Activities for the difference between market interest rates and the amount paid by the dealer. After the expiration of any "interest-free" period, interest is charged to dealers on outstanding balances until Iveco Group receives payment in full. The "interest-free" periods are determined based on the type of equipment sold and the time of year of the sale. Iveco Group evaluates and assesses dealers on an ongoing basis as to their credit worthiness. Iveco Group may be obligated to repurchase the dealer's equipment upon cancellation or termination of the dealer's contract for such causes as change in ownership, closeout of the business, or default. There were no significant losses in 2020, 2019, and 2018 relating to the termination of dealer contracts.

Financing receivables are considered past due if the required principal and interest payments have not yet been received as of the contractual payment due date. Delinquency is reported in financing receivables greater than 30 days past due. Non-performing financing receivables represent loans for which Iveco Group has ceased accruing finance income. These receivables are generally 90 days delinquent. Finance income for non-performing receivables is recognized on a cash basis. Accrued interest is charged-off to Interest income. Interest income charged-off was not material for the years ended December 31, 2020, 2019, and 2018. Accrual of finance income is resumed when the receivable becomes contractually current and collections are reasonably assured.

The aging of Receivables from financing activities as of December 31, 2020, 2019, and 2018 is as follows (all receivables are related to Europe region):

	At December 31, 2020					
	Total Current	31-60 Days Past Due	61-90 Days Past Due	Total Performing	Non-Performing	Total
	(€ million)					
Total Retail	86	-	-	**86**	**-**	**86**
Total Wholesale	2,720	-	-	**2,720**	**-**	**2,720**

	At December 31, 2019					
	Total Current	31-60 Days Past Due	61-90 Days Past Due	Total Performing	Non-Performing	Total
	(€ million)					
Total Retail	124	-	-	**124**	-	**124**
Total Wholesale	2,895	21	8	**2,924**	6	**2,930**

At December 31, 2018

	Total Current	31-60 Days Past Due	61-90 Days Past Due	Total Performing	Non-Performing	Total
			(€ million)			
Total Retail	136	1	-	**137**	44	**181**
Total Wholesale	2,606	17	7	**2,630**	-	**2,630**

The above aging tables are not necessarily reflective of the potential credit risk in the portfolio due to payment schedule changes granted by Iveco Group and government stimulus policies benefiting Iveco Group's dealers and end-use customers.

There is not a disproportionate concentration of credit risk in any geographic region. Receivables from financing activities generally relate to the truck businesses. Iveco Group typically retains a security interest in the vehicle being financed. In addition, Iveco Group may also obtain other forms of collateral including letter of credit/guarantees, insurance coverage, real estate and personal guarantees.

A financial asset has experienced a significant increase in credit risk when the customer shows signs of operational or financial weakness including past dues, which requires significant collection effort and monitoring and generally occurs when the customer becomes past due greater than 30 days. The assessment considers available information regarding the financial stability of the customer and other market/industry data; an account is typically considered in default when it is 90 days past due.

Iveco Group utilizes three categories for receivables from financing activities that reflect their credit risk and how the loan provision is determined.

Internal risk grade	IFRS 9 classification	Definition	Basis for recognition of expected credit loss provision
Performing	Stage 1	Low risk of default; payments are generally less than 30 days past due	12 month expected credit losses
Performing	Stage 2	Significant increase in credit risk; payments generally between 31 and 90 days past due	Lifetime expected credit losses
Non-performing	Stage 3	Accounts are credit impaired and/or a legal action has been initiated; payments generally greater than 90 days past due	Lifetime expected credit losses

Charge-offs of principal amounts of receivables outstanding are deducted from the allowance at the point when it is estimated that amounts due are deemed uncollectible. Iveco Group continues to engage in collection efforts to attempt to recover the receivables. When recoveries are collected, these are recognized as income.

Allowance for Credit Losses of Receivables from financing activities

Iveco Group’s allowance for credit losses is segregated into two portfolio segments: retail and wholesale. A portfolio segment is the level at which Iveco Group develops a systematic methodology for determining its allowance for credit losses. Typically, Iveco Group’s receivables within a portfolio segment have similar risk profiles and methods for assessing and monitoring risk. These classes align with management reporting.

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, Iveco Group considers historical loss rates for each category of customer and adjusts for forward-looking macroeconomic data.

In calculating the expected credit losses, Iveco Group’s calculations depend on whether the receivable has been individually identified as being impaired. The first component of the allowance for credit losses covers the receivables specifically reviewed by management for which Iveco Group has determined it is probable that it will not collect all of the contractual principal and interest. Receivables are individually reviewed for impairment based on, among other items, amounts outstanding, days past due and prior collection history. Expected credit losses are measured by considering: the unbiased and probability-weighted amount; the time value of money; and reasonable and supportable information (available without undue costs or effort) at the reporting date about past events, current conditions and forecasts of future economic conditions. Expected credit losses are measured as the probability-weighted present value of all cash shortfalls over the expected life of each financial asset.

The second component of the allowance for credit losses covers all receivables that have not been individually reviewed for impairment. The allowance for these receivables is based on aggregated portfolio evaluations, generally by financial product. The allowance for wholesale and retail credit losses is based on loss forecast models that consider a variety of factors that include, but are not limited to, historical loss experience, collateral value, portfolio balance and delinquency. The loss forecast models are updated on a quarterly basis. The calculation is adjusted for forward-looking macroeconomic factors. In addition, qualitative factors that are not fully captured in the loss forecast models are considered in the evaluation of the adequacy of the allowance for credit losses. These qualitative factors are subjective and require a degree of management judgment.

At December 31, 2020, the allowance for credit losses includes a build of reserves primarily due to the expectation of deteriorating credit conditions related to the COVID-19 pandemic. Iveco Group continues to monitor the situation and will update the macroeconomic factors and qualitative factors in future periods, as warranted.

Allowance for credit losses activity for the years ended December 31, 2020, 2019, and 2018 is as follows:

	Year ended December 31, 2020							
	Retail				Wholesale			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	(€ million)							
Opening balance	**41**	**—**	**91**	**132**	**10**	**1**	**70**	**81**
Provision (benefit)	2	—	8	10	(1)	—	16	15
Charge-offs, net of recoveries	—	—	(22)	(22)	—	—	(8)	(8)
Transfers	(11)	—	11	—	(1)	—	1	—
Foreign currency translation and other	—	—	(8)	(8)	—	—	3	3
Ending balance	**32**	**—**	**80**	**112**	**8**	**1**	**82**	**91**
Receivables:								
Ending balance	**47**	**2**	**37**	**86**	**2,659**	**11**	**50**	**2,720**

	Year ended December 31, 2019							
	Retail				Wholesale			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	(€ million)							
Opening balance	**45**	**2**	**99**	**146**	**11**	**2**	**77**	**90**
Provision (benefit)	—	—	(3)	(3)	1	—	(1)	—
Charge-offs, net of recoveries	—	—	(9)	(9)	—	—	(6)	(6)
Transfers	(4)	(2)	6	—	(2)	(1)	3	—
Foreign currency translation and other	—	—	(2)	(2)	—	—	(3)	(3)
Ending balance	**41**	**—**	**91**	**132**	**10**	**1**	**70**	**81**
Receivables:								
Ending balance	**87**	**1**	**36**	**124**	**2,884**	**22**	**24**	**2,930**

	Year ended December 31, 2018							
	Retail				Wholesale			
	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	(€ million)							
Opening balance	**54**	**2**	**118**	**174**	**15**	**3**	**110**	**128**
Provision (benefit)	(1)	—	3	2	—	—	1	1
Charge-offs, net of recoveries	—	—	(6)	(6)	(1)	—	—	(1)
Transfers	22	—	(22)	—	4	—	(4)	—
Foreign currency translation and other	(30)	—	6	(24)	(7)	(1)	(30)	(38)
Ending balance	**45**	**2**	**99**	**146**	**11**	**2**	**77**	**90**
Receivables:								
Ending balance	**132**	**6**	**43**	**181**	**2,563**	**10**	**57**	**2,630**

Finance lease receivables mainly relate to vehicles leased out under finance lease arrangements. The interest rate implicit in the lease is determined at the commencement of the lease for the whole lease term. The average interest rate implicit in total finance lease receivables varies depending on prevailing market interest rates.

The item may be analyzed as follows stated gross of an allowance of €91 million at December 31, 2020 (€105 million at December 31, 2019 and €119 million at December 31, 2018):

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Less than one year	65	103	144
One to two years	28	34	46
Two to three years	33	24	25
Three to four years	12	29	18
Four to five years	15	8	23
More than five years	15	21	23
Total Undiscounted receivables for future minimum lease payments	168	219	279
Unearned finance income	-	-	-
Present value of future minimum lease payments	**168**	**219**	**279**

Other current receivables

At December 31, 2020, Other current receivables mainly consisted of other tax receivables for VAT and other indirect taxes of €103 million (€123 million and €123 million at December 31, 2019, and 2018, respectively) and receivables from employees of €8 million (€14 million and €13 million at December 31, 2019, and 2018, respectively).

Other current financial assets

At December 31, 2020, 2019, and 2018, Other current financial assets primarily consist of current securities and short-term deposits and investments.

Refer to Note 30 “Information on financial risks” for additional information on the credit risk to which Iveco Group is exposed and the way it is managed by the Group.

Transfers of financial receivables

The Group transfers a number of its financial receivables to securitization programs or factoring transactions.

A securitization transaction entails the sale of a portfolio of receivables to a securitization vehicle. This structured entity finances the purchase of the receivables through asset-backed financing. Asset-backed financing are divided into classes according to their degree of seniority and rating: the most senior classes are placed with investors on the market; the junior class, whose repayment is subordinated to the senior classes, is normally subscribed for by the seller. The residual interest in the receivables retained by the seller is therefore limited to the junior securities it has subscribed for. In accordance with IFRS 10 – *Consolidated Financial Statements*, all securitization vehicles are included in the scope of consolidation because the subscription of the junior note of the asset-backed commercial paper by the seller implies its control in substance over the structured entity.

Furthermore, factoring transactions may be either with recourse or without recourse; without recourse transfers include deferred payment clauses (for example, when the payment by the factor of a minor part of the purchase price is dependent on the total amount collected from the receivables), requiring first loss cover, meaning that the transferor takes priority participation in the losses, or requires a significant exposure to the cash flows arising from the transferred receivables to be retained. These types of transactions do not comply with the requirements of IFRS 9 – *Financial Instruments* for the derecognition of the assets, since the risks and rewards connected with collection are not substantially transferred and, accordingly, the Group continues to recognize the receivables transferred by this means in its combined statement of financial position and recognizes a financial liability of the same amount under Asset-backed financing (see Note 24 "Debt"). The gains and losses arising from the transfer of these assets are only recognized when the assets are derecognized.

At December 31, 2020, 2019, and 2018, the carrying amount of such transferred financial assets not derecognized (constituted entirely of Receivables from financing activities) and the related liability and the respective fair values were as follows:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Carrying amount of assets	2,343	2,334	2,018
Carrying amount of the related liabilities	(2,031)	(2,133)	(1,932)
Liabilities for which the counterparty has the right to obtain relief on the transferred assets:			
Fair value of the assets	2,343	2,334	2,018
Fair value of the liabilities	(2,031)	(2,133)	(1,932)
Net position	**312**	**201**	**86**

Other financial assets transferred also include the cash with a pre-determined use restricted to the repayment of the securitization debt.

Iveco Group has discounted receivables and bills without recourse having due dates beyond December 31, 2020 amounting to €254 million (€262 million and €382 million at December 31, 2019, and 2018, respectively, with due dates beyond that date), which refer to trade receivables.

18. Derivative assets and Derivative liabilities

These items consist of derivative financial instruments measured at fair value at the balance sheet date.

Iveco Group utilizes derivative instruments to mitigate its exposure to interest rate and foreign currency exposures. Derivatives used as hedges are effective at reducing the risk associated with the exposure being hedged and are designated as a hedge at the inception of the derivative contract. Iveco Group does not hold or enter into derivative or other financial instruments for speculative purposes. The credit and market risk related to derivatives is reduced through diversification among various counterparties, utilizing mandatory termination clauses and/or collateral support agreements. Derivative instruments are generally classified as Level 2 in the fair value hierarchy.

In accordance with IFRS 9, derivative financial instruments qualify for hedge accounting only when, at the inception of the hedge, there is formal designation and documentation of the hedging relationship, there is an economic relationship between the hedging instrument and the hedged item, credit risk does not dominate the value changes that result from the economic relationship, and the hedging relationship's hedging ratio reflects the actual quantity of the hedging instrument and the hedged item. Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

Further description of the risk management exposures and strategies for interest rate and currency risk is presented in Note 30 "Information on financial risks", paragraph "Market risk" together with sensitivity analysis assessing the potential impact of changes in interest rates and foreign currencies.

In 2020, the COVID-19 pandemic significantly impacted the economic environment. With regard to hedge accounting, Iveco Group continues to monitor significant developments in order to assess the potential future impacts of the COVID-19 pandemic on the hedging relationships in place and to update its estimates concerning whether forecasted transactions can still be considered highly likely to occur.

Foreign Exchange Derivatives

Iveco Group has entered into foreign exchange forward contracts and swaps in order to manage and preserve the economic value of cash flows in a currency different from the functional currency of the relevant legal entity. Iveco Group conducts its business on a global basis in a wide variety of foreign currencies and hedges foreign currency exposures arising from various receivables, liabilities, and expected inventory purchases and sales. Derivative instruments utilized to hedge the foreign currency risk associated with anticipated inventory purchases and sales in foreign currencies are designated as cash flow hedges. Gains and losses on these instruments are deferred in accumulated other comprehensive income/(loss) and recognized in earnings when the related transaction occurs.

For hedging cash flows in a currency different from the functional currency, the hedge relationship reflects the hedge ratio of 1:1, which means that relationship is characterized by the value of the hedging instrument and the value of the hedged item moving in the opposite direction as a result of the common underlying of hedged risk.

The main sources of hedge ineffectiveness are:

- the effect of the counterparty and the Group's own credit risk on the fair value of the foreign exchange derivatives, which is not reflected in the change in the fair value of the hedged cash flow attributable to the change in the exchange rates, and
- changes in timing of the hedged transaction.

Ineffectiveness related to these hedge relationships is recognized in the combined income statement in the line "Financial income/(expenses)" and was not significant for all periods presented. The maturity of these instruments does not exceed 24 months and the after-tax gains/(losses) deferred in accumulated other comprehensive income/(loss) that will be recognized in net revenues and cost of sales over the next twelve months, assuming foreign exchange rates remain unchanged, is €14 million. If a derivative instrument is terminated because the hedge relationship is no longer effective or because the hedged item is a forecasted transaction that is no longer determined to be probable, the cumulative amount recorded in accumulated other comprehensive income/(loss) is recognized immediately in earnings. Such amounts were insignificant in all periods presented.

Iveco Group also uses forwards and swaps to hedge assets and liabilities denominated in foreign currencies. Such derivatives are considered economic hedges and not designated as hedging instruments. The changes in the fair values of these instruments are recognized directly in income in "Financial income/(expenses)" and are expected to offset the foreign exchange gains or losses on the exposures being managed.

All of Iveco Group's foreign exchange derivatives are considered Level 2 as the fair value is calculated using market data input and can be compared to actively traded derivatives.

Interest Rate Derivatives

Iveco Group has entered into interest rate derivatives (mainly swaps) in order to manage interest rate exposures arising in the normal course of business. Interest rate derivatives that have been designated as cash flow hedges are being used by Iveco Group to mitigate the risk of rising interest rates related to existing debt and anticipated issuance of fixed-rate debt in future periods. Gains and losses on these instruments, to the extent that the hedge relationship has been effective, are deferred in other comprehensive income/(loss) and recognized in "Financial income/(expenses)" over the period in which Iveco Group recognizes interest expense on the related debt. The after-tax gains (losses) deferred in other comprehensive income/(loss) that will be recognized in interest expense over the next twelve months are insignificant.

Interest rate derivatives that have been designated as fair value hedge relationships have been used by Iveco Group to mitigate the volatility in the fair value of existing financing instruments due to changes in floating interest rate benchmarks. Gains and losses on these instruments are recorded in "Financial income/(expenses)" in the period in which they occur and an offsetting gain or loss is also reflected in "Financial income/(expenses)" based on changes in the fair value of the debt instrument being hedged due to changes in floating interest rate benchmarks.

For hedging interest rate exposures, the hedge relationship reflects the hedge ratio 1:1, which means that relationship is characterized by the value of the hedging instrument and the value of the hedged item that move in the opposite direction as a result of the common underlying of hedged risk.

The main sources of hedge ineffectiveness are:

- the effect of the counterparty and the Group's own credit risk on the fair value of the swaps, which is not reflected in the change in the fair value of the hedged cash flow attributable to the change in the interest rates, and
- differences in repricing dates between the swaps and the borrowings.

Any ineffectiveness is recorded in "Financial income/(expenses)" in the combined income statement and its amount was insignificant for all periods presented.

Iveco Group also enters into offsetting interest rate derivatives with substantially similar terms that are not designated as hedging instruments to mitigate interest rate risk related to Iveco Group's committed asset-backed facilities. Unrealized and realized gains and losses resulting from fair value changes in these instruments are recognized directly in income. Net gains and losses on these instruments were insignificant for the years ending December 31, 2020, 2019, and 2018. All of Iveco Group's interest rate derivatives outstanding as of December 31, 2020, 2019, and 2018 are considered Level 2. The fair market value of these derivatives is calculated using market data input and can be compared to actively traded derivatives.

Financial statement impact of Iveco Group derivatives

The following table summarizes the gross impact of changes in the fair value of derivatives had on other comprehensive income and profit or loss during the years ended December 31, 2020, 2019, and 2018:

	2020	2019	2018
		(€ million)	
Fair value hedges			
Interest rate derivatives— Financial income/(expenses)	-	-	-
Gains/(losses) on hedged items— Financial income/(expenses)	-	-	-
Cash flow hedges			
Recognized in Other comprehensive income (effective portion):			
Foreign exchange derivatives	30	(41)	14
Interest rate derivatives	-	1	(9)
Reclassified from other comprehensive income (effective portion):			
Foreign exchange derivatives – Net revenues	(5)	(1)	1
Foreign exchange derivatives – Cost of sales	11	(17)	16
Foreign exchange derivatives – Financial income/(expenses)	6	(9)	5
Interest rate derivatives – Cost of sales	-	-	-
Other derivatives – Cost of sales	-	(1)	-
Not designated as hedges			
Foreign exchange derivatives – Financial income/(expenses)	57	(38)	9

The fair values of Iveco Group's derivatives as of December 31, 2020, 2019, and 2018 in the combined statement of financial position are recorded as follows:

	At December 31, 2020		At December 31, 2019		At December 31, 2018	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value	Positive fair value	Negative fair value
			(€ million)			
Derivatives designated as hedging instruments						
Fair value hedges:						
Interest rate derivatives	-	-	-	-	-	-
Total Fair value hedges	-	-	-	-	-	-
Cash flow hedges:						
Foreign exchange derivatives	20	(19)	4	(35)	9	(13)
Interest rate derivatives	-	-	-	-	-	-
Total Cash flow hedges	20	(19)	4	(35)	9	(13)
Total Derivatives designated as hedging instruments	20	(19)	4	(35)	9	(13)
Derivatives not designated as hedging instruments						
Foreign exchange derivatives	8	(8)	4	(4)	7	(7)
Interest rate derivatives	-	-	-	-	-	-
Total Derivatives not designated as hedging instruments	8	(8)	4	(4)	7	(7)
Derivative assets/(liabilities)	**28**	**(27)**	**8**	**(39)**	**16**	**(20)**

Derivatives not designated as hedging instruments consist mainly of derivatives (mostly currency-based derivatives) acquired to hedge receivables and payables subject to currency risk and/or interest rate risk which are not formally designated as hedges at Group level. The following table provides, for derivatives designated as hedging instruments, the detail of notional amounts and of the fair vale changes used as a basis to calculate hedge ineffectiveness, and for derivative not designated as hedging instruments, the detail of notional amounts:

	At December 31, 2020		At December 31, 2019		At December 31, 2018	
	Notional amount	Fair value changes used as a basis to calculate hedge ineffectiveness	Notional amount	Fair value changes used as a basis to calculate hedge ineffectiveness	Notional amount	Fair value changes used as a basis to calculate hedge ineffectiveness
			(€ million)			
Derivatives designated as hedging instruments						
Fair value hedges:						
Interest rate derivatives	53	-	50	-	48	-
Total Fair value hedges	53	-	50	-	48	-
Cash flow hedges:						
Foreign exchange derivatives	1,237	6	941	(18)	976	17
Interest rate derivatives	-	-	-	-	-	-
Total Cash flow hedges	1,237	6	941	(18)	976	17
Total Derivatives designated as hedging instruments	1,237	6	991	(18)	1,024	17
Total Derivatives not designated as hedging instruments	11	n/a	15	n/a	29	n/a
Total Derivatives	1,301	**n/a**	1,006	**n/a**	1,053	**n/a**

The following table provides the effect of hedged items designated in fair value hedging relationships:

	At December 31, 2020				
	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amounts		Fair value changes used as a basis to calculate hedge ineffectiveness
	Assets	Liabilities	Assets	Liabilities	
			(€ million)		
Fair value hedges:					
Interest rate risk	53	-	-	-	-

	At December 31, 2019				
	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amounts		Fair value changes used as a basis to calculate hedge ineffectiveness
	Assets	Liabilities	Assets	Liabilities	
			(€ million)		
Fair value hedges:					
Interest rate risk	50	-	-	-	-

	At December 31, 2018				
	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amounts		Fair value changes used as a basis to calculate hedge ineffectiveness
	Assets	Liabilities	Assets	Liabilities	
	(€ million)				
Fair value hedges:					
Interest rate risk	48	-	-	-	-

The following table provides the effects of hedged items designated in cash flow hedging relationships:

	At December 31, 2020		At December 31, 2019		At December 31, 2018	
	Cash flow hedge reserve (continuing hedges)	Fair value changes used as a basis to calculate hedge ineffectiveness	Cash flow hedge reserve (continuing hedges)	Fair value changes used as a basis to calculate hedge ineffectiveness	Cash flow hedge reserve (continuing hedges)	Fair value changes used as a basis to calculate hedge ineffectiveness
	(€ million)					
Cash flow hedges:						
Foreign exchange risk	(3)	6	(20)	(18)	(16)	17
Interest rate risk	(5)	-	(16)	-	(7)	-

The following table provides an analysis by due date of the notional amount of outstanding derivative financial instruments at December 31, 2020, 2019, and 2018:

	At December 31, 2020			
	due within one year	due between one and five years	due beyond five years	Total
	(€ million)			
Currency risk	208	16	-	224
Interest rate risk	-	-	-	-
Total notional amount	**208**	**16**	**-**	**224**

	At December 31, 2019			
	due within one year	due between one and five years	due beyond five years	Total
	(€ million)			
Currency risk	259	21	-	280
Interest rate risk	-	-	-	-
Total notional amount	**259**	**21**	**-**	**280**

	At December 31, 2018			
	due within one year	due between one and five years	due beyond five years	Total
	(€ million)			
Currency risk	323	18	-	340
Interest rate risk	-	-	-	-
Total notional amount	**323**	**18**	**-**	**340**

19. Cash and cash equivalents

Cash and cash equivalents consist of:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Cash at banks	377	327	383
Restricted cash	45	43	35
Money market securities and other cash equivalents	41	47	78
Total Cash and cash equivalents	**463**	**417**	**496**

Amounts shown are readily convertible into cash and are subject to an insignificant risk of changes in value. Restricted cash mainly includes bank deposits that may be used exclusively for the repayment of the debt relating to securitizations classified as Asset-backed financing.

The credit risk associated with Cash and cash equivalents is considered not significant, because it mainly relates to deposits spread across primary national and international financial institutions.

20. Assets held for sale

Assets held for sale at December 31, 2020, 2019, and 2018 primarily included buildings.

21. Invested Equity

Iveco Group business did not comprise a separate parent company or group of entities during the year ended December 31, 2020, 2019, and 2018. Therefore, it is not meaningful to present share capital or an analysis of reserves.

The net invested equity of Iveco Group is represented by total Invested equity in the Combined Statement of Changes in Invested Equity, and comprises Invested capital and retained earnings, Cash flow hedge reserve, Cumulative translation adjustment reserve, Defined benefit plans remeasurement reserve, Reserve for equity investments measured at fair value through other comprehensive income and Non-controlling interests.

Other comprehensive income/(loss)

Other comprehensive income/(loss) consisted of the following:

	2020	2019	2018
		(€ million)	
Other comprehensive income/(loss) that will not be reclassified subsequently to profit or loss:			
Gains/(losses) on the remeasurement of defined benefit plans	(12)	(59)	12
Net change in fair value of equity investments measured at fair value through other comprehensive income(1)	93	(5)	—
Total Other comprehensive income/(loss) that will not be reclassified subsequently to profit or loss (A)	**81**	**(64)**	**12**
Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedging instruments arising during the period	30	(40)	5
(Gains)/losses on cash flow hedging instruments reclassified to profit or loss	(12)	28	(22)
Gains/(losses) on cash flow hedging instruments	18	(12)	(17)
Exchange gains/(losses) on translating foreign operations arising during the period	(110)	(97)	19
Exchange (gains)/losses on translating foreign operations reclassified to profit or loss	-	-	-
Exchange gains/(losses) on translating foreign operations	(110)	(97)	19
Share of Other comprehensive income/(loss) of entities accounted for using the equity method arising during the period	(2)	1	(1)
Reclassification adjustment for the share of Other comprehensive income/(loss) of entities accounted for using the equity method	—	—	—
Share of Other comprehensive income/(loss) of entities accounted for using the equity method	(2)	1	(1)
Total Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss (B)	**(94)**	**(108)**	**1**
Tax effect (C)	**(5)**	**14**	**1**
Total Other comprehensive income/(loss), net of tax (A) + (B) + (C)	**(18)**	**(158)**	**14**

(1) In the years ended December 31, 2020 and 2019, Net change in fair value of equity investments at fair value through other comprehensive income includes the remeasurement at fair value of the investment in Nikola Corporation. Refer to Note 14 for additional information on this investment.

The income tax effect for each component of Other comprehensive income/(loss) consisted of the following:

	2020			2019			2018		
	Before tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before tax amount	Tax (expense)/ benefit	Net-of-tax amount
					(€ million)				
Other comprehensive income/(loss) that will not be reclassified subsequently to profit or loss:									
Gains/(losses) on the remeasurement of defined benefit plans	(12)	2	(10)	(59)	9	(50)	12	(2)	10
Net change in fair value of equity investments measured at fair value through other comprehensive income(1)	93	(2)	91	(5)	1	(4)	—	—	—
Total Other comprehensive income/(loss) that will not be reclassified subsequently to profit or loss	**81**	**-**	**81**	**(64)**	**10**	**(54)**	**12**	**(2)**	**10**
Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss:									
Gains/(losses) on cash flow hedging instruments	18	(5)	13	(12)	4	(8)	(17)	3	(14)
Exchange gains/(losses) on translating foreign operations	(110)	—	(110)	(97)	—	(97)	19	—	19
Share of Other comprehensive income/(loss) of entities accounted for using the equity method	(2)	—	(2)	1	—	1	(1)	—	(1)
Total Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss	**(94)**	**(5)**	**(99)**	**(108)**	**4**	**(104)**	**1**	**3**	**4**
Total Other comprehensive income/(loss)	**(13)**	**(5)**	**(18)**	**(172)**	**14**	**(158)**	**13**	**1**	**14**

(1) In the years ended December 31, 2020 and 2019, Net change in fair value of equity investments at fair value through other comprehensive income includes the remeasurement at fair value of the investment in Nikola Corporation. Refer to Note 14 for additional information on this investment.

Share-based compensation

Iveco Group's key executive officers and select employees have historically participated in CNH Industrial's equity compensation plans (stock option plans and stock grants). Share-based compensation expense for the years ended December 31, 2020, 2019, and 2018 amounted to approximately €8 million, €4 million and €8 million, respectively, and has been allocated to the Iveco Group based on the awards and terms previously granted to Iveco Groups employees.

CNH Industrial's equity awards are governed by the CNH Industrial N.V. Equity Incentive Plan ("CNH Industrial EIP").

At the AGM held on April 16, 2014, CNH Industrial's shareholders approved the adoption of the CNH Industrial EIP, an umbrella program defining the terms and conditions for any subsequent long-term incentive program. The EIP allows grants of the following specific types of equity awards to any current or prospective executive director, officer, employee of, or service provider to, CNH Industrial: stock options, stock appreciation rights, restricted share units, restricted stock, performance shares or performance share units and other stock-based awards that are payable in cash, Common Shares or any combination thereof subject to the terms and conditions established by CNH Industrial's Compensation Committee.

In February 2020, CNH Industrial's Board of Directors approved the issuance of up to 50 million Common Shares under the EIP. At the AGM held on April 16, 2020, CNH Industrial's shareholders approved the issuance of up to 7 million Common Shares to executive directors under the 2021-2023 Long-Term Incentive Plan (described below) in accordance with and under the EIP.

Performance Share Units

2017-2019 Long-Term Incentive Plan

In December 2017, CNH Industrial canceled all Performance Share Units ("PSU's") issued in 2014, 2015 and 2016 and issued a grant of PSU's to key executive officers and select employees, with financial performance goals covering the three-year period from January 1, 2017 to December 31, 2019. The performance goal was a market condition with a payout schedule ranging from 0% to 130%. In 2018 and 2019, prorated share amounts covering performance through this same period were issued to select new employees entering the plan. In 2018 and 2019, 19 thousand and 167 thousand additional PSU's were granted to Iveco Group key executive officers and select employees. On February 28, 2020 all PSU's associated with these grants failed to meet their performance goals and were therefore forfeited. Iveco Group still incurred the expense associated with these awards but the awards themselves were never issued to their recipients.

2021-2023 Long-Term Incentive Plan

In February 2020, the Board of Directors of CNH Industrial approved the 2021-2023 Long-Term Incentive Plan under the EIP. In December 2020, CNH Industrial issued a new grant of PSUs to its key executive officers and select employees with the financial performance goals covering a three-year period culminating with a cliff vest date of February 28, 2024. Total PSUs earned will be determined by internal financial metrics which are considered performance vesting conditions. As such, compensation cost is accrued based on whether it is considered probable that the performance conditions will be satisfied. As of December 31, 2020, a total 1.7 million PSUs were granted to Iveco Group key executive officers and select employees, of which 615 thousand awards were awarded to Iveco Group key executive officers.

The fair value of the December 2020 PSU award group was calculated by using the CNH Industrial stock price on the grant date adjusted for the present value of future dividends that would not be received during the vesting period. The weighted average fair value of the awards that were issued in 2020 is $10.83 per share. The total number of shares that will eventually be issued may vary from the original estimate due to forfeiture or the level of achievement of the performance goals.

Under the 2017-2019 Long-Term Incentive Plan and 2021-2023 Long-Term Incentive Plan, 1.7 million, 0.8 million and 1 million of nonvested PSUs related to Iveco Group key executive officers and select employees where outstanding at December 31, 2020, 2019, and 2018, respectively, with a weighted average fair value of $9.61, $7.17 and $7.85, respectively.

Restricted Share Units

2017-2019 Long-Term Incentive Plan

On April 3, 2019, 107 thousand RSUs were granted to Iveco Group key executive officers and select employees, with a weighted average fair value of $10.18 measured using the CNH Industrial stock price on the grant date adjusted for the present value of future dividends that would not be received during the vesting period. A total of 84 thousand of those shares were granted to Iveco Group key executive officers. The grant had a cliff vest date of February 1, 2021.

2021-2023 Long-Term Incentive Plan

On December 4, 2020, two separate RSU grants were issued to Iveco Group key executive officers and select employees. Under the first RSU grant, 426 thousand RSUs were issued to Iveco Group key executive officers and select employees with a weighted average fair value of $11.43. Iveco Group key executive officers accounted for 103 thousand of the RSUs granted with a weighted average fair value of $11.43. These awards vested on December 31, 2020.

Under the second RSU grant, 1.3 million RSUs were issued, which are set to vest in three equal installments over a three-year period. The first tranche is set to vest on February 28, 2022. The second and third tranches are set to vest on February 28, 2023 and February 28, 2024, respectively. The weighted average fair value for the December 2020 three tranche award group are 11.23, $11.02, and $10.82, respectively. Iveco Group key executive officers accounted for 224 thousand of the 1.3 million awards granted. The shares granted to Iveco Group key executive officers follow the same vesting schedule and have a weighted average fair value of $11.23, $11.02, and $10.82, respectively.

Under the 2017-2019 Long-Term Incentive Plan and 2021-2023 Long-Term Incentive Plan, 1.4 million, 0.4 million and 0.6 million of nonvested RSUs related to Iveco Group key executive officers and select employees where outstanding at December 31, 2020, 2019, and 2018, respectively, with a weighted average fair value of $10.97, $11.21, and $11.92, respectively. Iveco Group key executive officers accounted for 308 thousand, 190 thousand, and 55 thousand worth of nonvested PSUs, with a weighted average fair value of $10.79, $10.11, and $12.40, respectively.

22. Provisions for employee benefits

Iveco Group provides pension, healthcare, and insurance plans and other post-employment benefits to their employees and retirees, either directly or by contributing to independently administered funds. The way these benefits are provided varies according to the legal, fiscal and economic conditions of each country in which the Group operates, the benefits generally being based on the employees' remuneration and years of service. Iveco Group provides post-employment benefits under defined contribution and defined benefit plans.

In the case of defined contribution plans, Iveco Group makes contributions to publicly or privately administered pension insurance plans on a mandatory, contractual, or voluntary basis. Once the contributions have been made, Iveco Group has no further payment obligations. Iveco Group recognizes the contribution cost when the employees have rendered their service and includes this cost by function in Cost of sales, Selling, general and administrative costs and Research and development costs. During the years ended December 31, 2020, 2019, and 2018, Iveco Group recorded expenses of approximately €240 million, €260 million and €250 million, respectively, for its defined contribution plans, inclusive of social security contributions.

Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions made by an entity, and sometimes by its employees, into an entity, or fund, that is legally separate from the employer from which the employee benefits are paid. Benefits are generally payable under these plans after the completion of employment. Defined benefit plans are classified by Iveco Group on the basis of the type of benefit provided as Pension plans and Other post-employment benefits.

Pension plans

Pension obligations primarily comprise the obligations of Iveco Group's pension plans in the U.K., Germany and Switzerland.

Under these plans, contributions are made to a separate fund (trust) that independently administers the plan assets. Iveco Group's funding policy is to contribute amounts to the plan equal to the amounts required to meet the minimum funding requirements pursuant to the laws of the applicable jurisdictions. The significant pension plans that we are required to fund are in the U.K. Iveco Group may also choose to make discretionary contributions in addition to the funding requirements. To the extent that a fund is overfunded, the Group is not required to make further contribution to the plan in respect of minimum performance requirements so long as the fund is in surplus.

Other post-employment benefits

Other post-employment benefits consist of obligations for Italian Employee Leaving Entitlements up to December 31, 2006, loyalty bonus in Italy and various other similar plans in France, Germany, and Belgium. Until December 31, 2006, Italian companies with more than 50 employees were required to accrue for benefits paid to employees upon them leaving Italian legal entities. The scheme has since changed to a defined contribution plan. The obligation on our combined balance sheet represents the residual reserve for years until December 31, 2006. Loyalty bonus is accrued for employees who have reached pre-defined service seniority and are generally settled when employees leave the company. These plans are not required to be funded and, therefore, have no plan assets. Other post-employment benefits also include plan obligations for healthcare and insurance plans granted to Iveco Group employees working in France.

Provisions for employee benefits at December 31, 2020, 2019, and 2018 are as follows:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Post-employment benefits:			
Pension plans	262	265	232
Other post-employment benefits	209	214	203
Total Post-employment benefits	471	479	435
Other provisions for employees	79	59	91
Other long-term employee benefits	60	59	53
Total Provision for employee benefits	**610**	**597**	**579**
Defined benefit plan assets	1	-	-
Total Defined benefit plan assets	**1**	**-**	**-**

The item Other provisions for employees consists of the best estimate at the balance sheet date of short-term employee benefits payable by the Group within twelve months from the end of the period in which the employees render the related service.

The item Other long-term employee benefits consists of the Group's obligation for those benefits generally payable during employment on reaching a pre-defined level of seniority in the company or when a specified event occurs, and reflects the probability of payment and the length of time over which this will be made.

In 2020, 2019, and 2018 changes in Other provisions for employees and in Other long-term employee benefits are as follows:

	At December 31, 2019	Accrual	Utilization	Change in the scope of consolidation and other changes	At December 31, 2020
			(€ million)		
Other provisions for employees	59	76	(48)	(8)	79
Other long-term employee benefits	59	5	(5)	1	60
Total	**118**	**81**	**(53)**	**(7)**	**139**

	At December 31, 2018	Accrual	Utilization	Change in the scope of consolidation and other changes	At December 31, 2019
			(€ million)		
Other provisions for employees	91	54	(71)	(15)	59
Other long-term employee benefits	53	12	(5)	(1)	59
Total	**144**	**66**	**(76)**	**(16)**	**118**

	At January 1, 2018	Accrual	Utilization	Change in the scope of consolidation and other changes	At December 31, 2018
			(€ million)		
Other provisions for employees	90	65	(61)	(3)	91
Other long-term employee benefits	54	5	(6)	—	53
Total	**144**	**70**	**(67)**	**(3)**	**144**

The amounts recognized in the statement of financial position for pension plans at December 31, 2020, 2019, and 2018 are as follows:

	Defined benefit obligation			Fair value of plan assets			Net defined benefit balance		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
					(€ million)				
Balance at the beginning of year	**539**	**472**	**482**	**274**	**240**	**233**	**265**	**232**	**249**
Current service cost	7	6	6	-	-	-	7	6	6
Interest expenses	4	7	6	-	-	-	4	7	6
Interest income	-	-	-	2	4	3	(2)	(4)	(3)
Other	-	-	5	-	-	-	-	-	5
Component of defined benefit cost recognized in the Combined Income Statement	**11**	**13**	**17**	**2**	**4**	**3**	**9**	**9**	**14**

Return on plan assets	-	-	-	22	20	3	(22)	(20)	(3)
Changes in financial assumptions	27	57	(10)	-	-	-	27	57	(10)
Other[(1)]	3	2	-	-	-	-	3	2	-
Remeasurements recognized in the Combined Statement of Comprehensive Income	**30**	**59**	**(10)**	**22**	**20**	**3**	**8**	**39**	**(13)**
Contribution by employer	-	-	-	10	8	8	(10)	(8)	(8)
Contribution by plan participants	2	2	2	2	2	2	-	-	-
Benefits paid	(22)	(21)	(17)	(12)	(11)	(7)	(10)	(10)	(10)
Settlement	-	-	(4)	-	-	(4)	-	-	-
Exchange rate differences	(11)	14	2	(8)	11	2	(3)	3	-
Other	2	-	-	-	-	-	2	-	-
Balance at end of year	**551**	**539**	**472**	**290**	**274**	**240**	**261**	**265**	**232**
Thereof:									
U.K.	208	206	179	164	156	137	44	50	42
Germany	206	206	187	-	-	-	206	206	187
Switzerland	124	116	99	119	112	98	5	4	1
Other countries	13	11	7	7	6	5	6	5	2
Total	**551**	**539**	**472**	**290**	**274**	**240**	**261**	**265**	**232**
Thereof:									
Net defined benefit liability							**262**	**265**	**232**
Net defined benefit asset							**1**	**-**	**-**

(1) Mainly includes experience adjustments.

Other post-employment benefits at December 31, 2020, 2019, and 2018 do not have plan assets; therefore, the net liability at the end of each year considered corresponds to the defined benefit obligation at the same date.

The amounts recognized in the statement of financial position for other post-employment benefits at December 31, 2020, 2019, and 2018 are as follows:

	Defined benefit obligation		
	2020	**2019**	**2018**
		(€ million)	
Balance at the beginning of year	**214**	**203**	**211**
Current service cost	5	4	4
Interest expenses	-	1	1
Component of defined benefit cost recognized in the Combined Income Statement	**5**	**5**	**5**
Changes in financial assumptions	(2)	21	(3)
Other[(1)]	6	(1)	4
Remeasurements recognized in the Combined Statement of Comprehensive Income	**4**	**20**	**1**
Benefits paid	(11)	(15)	(13)
Other	(3)	1	(1)
Balance at end of year	**209**	**214**	**203**
Thereof:			
Italy	138	146	144
France	67	63	55
Other countries	4	5	4
Net defined benefit liability	**209**	**214**	**203**

(1) Mainly includes experience adjustments.

The weighted average durations of post-employment benefits obligations are as follows:

	N° of years
Pension plans	16
Other post-employment benefits	10

Assumptions

The following significant assumptions were utilized in determining the funded status at December 31, 2020, 2019, and 2018, and the expense of Iveco Group's defined benefit plans for the years ended December 31, 2020, 2019, and 2018:

		Assumptions used to determine funded status at year-end
		At December 31, 2020
(in %)	Pension plans	Other post-employment benefits
Weighted-average discount rates	0.72	0.43
Weighted-average rate of compensation increase	1.97	1.75
		At December 31, 2019
(in %)	Pension plans	Other post-employment benefits
Weighted-average discount rates	1.09	0.67
Weighted-average rate of compensation increase	2.56	1.79
		At December 31, 2018
(in %)	Pension plans	Other post-employment benefits
Weighted-average discount rates	1.84	1.64
Weighted-average rate of compensation increase	2.57	1.18

		Assumptions used to determine expense at year-end
		At December 31, 2020
(in %)	Pension plans	Other post-employment benefits
Weighted-average discount rates – current service cost	0.55	0.86
Weighted-average discount rates – interest cost	0.86	0.62
Weighted-average rate of compensation increase	2.56	1.79
		At December 31, 2019
(in %)	Pension plans	Other post-employment benefits
Weighted-average discount rates – current service cost	1.34	1.73
Weighted-average discount rates – interest cost	1.52	1.58
Weighted-average rate of compensation increase	2.57	1.18
		At December 31, 2018
(in %)	Pension plans	Other post-employment benefits
Weighted-average discount rates – current service cost	1.23	1.66
Weighted-average discount rates – interest cost	1.33	1.40
Weighted-average rate of compensation increase	2.66	0.59

Assumed discount rates are used in measurements of pension and other post-employment benefit obligations and net interest on the net defined benefit liability/asset. Iveco Group selects its assumed discount rates based on the consideration of equivalent yields on high-quality fixed income investments at the measurement date. The assumed discount rate is used to discount future benefit obligations back to today's euros. The discount rates are based on a benefit cash flow-matching approach and represent the rates at which the benefit obligations could effectively be settled as of the measurement date, December 31. The benefit cash flow-matching approach involves analyzing Iveco Group's projected cash flows against a high-quality bond yield curve, mainly calculated using a wide population of AA-grade corporate bonds subject to minimum amounts outstanding and meeting other defined selection criteria.

Iveco Group reviews annually the mortality assumptions used in measurements of its pension, healthcare and other post-employment benefit obligations. Consideration is given to the assumptions used in the latest local funding valuations, and the latest tables applicable in each country.

Iveco Group uses the spot yield curve approach to estimate the service cost and net interest components by applying the specific spot rates along the yield curve used to determine the benefit obligations to relevant projected cash outflows.

Assumed discount rates have a significant effect on the amount recognized in the 2020 financial statements. A one percentage point change in the assumed discount rates would have the following effects:

	One percentage point increase	One percentage
	(€ million)	
Effect on pension plans defined benefit obligation at December 31, 2020	(75)	98

Plan assets

The investment strategy for the plan assets depends on the features of the plan and on the maturity of the obligations. Typically, less mature plan benefit obligations are funded by using more equity securities as they are expected to achieve long-term growth exceeding the rate of inflation. More mature plan benefit obligations are funded using more fixed income securities as they are expected to produce current income with limited volatility. Risk management practices include the use of multiple asset classes and investment managers within each asset class for diversification purposes. Specific guidelines for each asset class and investment manager are implemented and monitored. Plan assets do not include treasury shares of the Company or properties occupied by Group companies.

The fair value of plan assets at December 31, 2020, 2019, and 2018 may be disaggregated by asset class and level as follows. Fair value levels presented below are described in the "Significant accounting policies – Fair value measurement" section of these Notes.

	Fair value of plan assets at December 31, 2020			
	Total	Level 1	Level 2	Level 3
	(€ million)			
Other types of investments:				
Mutual funds(1)	165	-	165	-
Insurance contracts	123	-	-	123
Total Other types of investments	288	-	165	123
Cash	2	2	-	-
Total	**290**	**2**	**165**	**123**

(1) This category includes mutual funds, which primarily invest in equities and corporate bonds.

	Fair value of plan assets at December 31, 2019			
	Total	Level 1	Level 2	Level 3
	(€ million)			
Other types of investments:				
Mutual funds[(1)]	156	-	156	-
Insurance contracts	116	-	-	116
Total Other types of investments	272	-	156	116
Cash	2	2	-	-
Total	**274**	**2**	**156**	**116**

(1) This category includes mutual funds, which primarily invest in equities and corporate bonds.

	Fair value of plan assets at December 31, 2018			
	Total	Level 1	Level 2	Level 3
	(€ million)			
Other types of investments:				
Mutual funds[(1)]	131	-	131	-
Insurance contracts	102	-	-	102
Total Other types of investments	233	-	131	102
Cash	7	7	-	-
Total	**240**	**7**	**131**	**102**

(1) This category includes mutual funds, which primarily invest in equities and corporate bonds.

Contribution

Iveco Group expects to contribute approximately €6 million to its pension plans in 2021. Over the next ten fiscal years, average annual benefit payments of €40 million are expected as of each of the three years ended December 31, 2020, 2019, and 2018. Potential outflows in the years after 2021 are subject to a number of uncertainties, including future asset performance and changes in assumptions.

23. Other provisions

Changes in Other provisions are as follows:

	At December 31, 2019	Charge	Utilization	Release to income and other changes	At December 31, 2020
			(€ million)		
Warranty and technical assistance provision	439	295	(286)	(50)	398
Restructuring provision	35	12	-	(6)	41
Investment provision	10	-	-	2	12
Other risks	647	727	(486)	(135)	753
Total Other provisions	**1,131**	**1,034**	**(772)**	**(189)**	**1,204**

	At December 31, 2018	Charge	Utilization	Release to income and other changes	At December 31, 2019
			(€ million)		
Warranty and technical assistance provision	433	344	(296)	(42)	439
Restructuring provision	40	9	(13)	(1)	35
Investment provision	10	-	-	-	10
Other risks	617	668	(544)	(94)	647
Total Other provisions	**1,100**	**1,021**	**(853)**	**(137)**	**1,131**

	At January 1, 2018	Charge	Utilization	Release to income and other changes	At December 31, 2018
			(€ million)		
Warranty and technical assistance provision	457	338	(305)	(57)	433
Restructuring provision	41	7	(15)	7	40
Investment provision	10	-	-	-	10
Other risks	715	633	(613)	(118)	617
Total Other provisions	**1,223**	**978**	**(933)**	**(168)**	**1,100**

The warranty and technical assistance provision represents management's best estimate of commitments given by the Group for contractual, legal or constructive obligations arising from product warranties given for a specified period of time which begins at the date of delivery to the customer. This estimate has been calculated considering past experience and specific contractual terms. This provision also includes management's best estimate of the costs that are expected to be incurred in connection with product defects that could result in a larger recall of vehicles. This provision for risks is developed through an assessment of reported damages or returns on a case-by-case basis.

The provision for other risks represents the amounts set aside by the individual companies of the Group principally in connection with contractual and commercial risks and disputes. The more significant balances of this provision are as follows:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Commercial risks	305	271	207
Marketing and sales incentives programs	150	148	129
Legal proceedings and other disputes	33	22	116
Other reserves for risks and charges	265	206	165
Total Other risks	**753**	**647**	**617**

A description of these provisions follows:

- *Commercial risks* - this provision relates to risks arising in connection with the sale of products and services.
- *Marketing and sales incentives programs* - this provision relate to sales incentives that are offered on a contractual basis to the dealer networks and primarily given if the dealers achieve a specific cumulative level of sales transactions during the calendar year. This provision is estimated based on information available for the sales made by the dealers during the calendar year.
- *Legal proceedings and other disputes* - this provision represents management's best estimate of the liability to be recognized by the Group with regard to:

  - Legal proceedings arising in the ordinary course of business with dealers, customers, suppliers, or regulators (such as contractual, patent, or antitrust disputes).
  - Legal proceedings involving claims with active and former employees.
- *Other reserves for risks and charges* - this item includes all the other provisions for miscellaneous risks and charges accrued by the Group legal entities in connection with risks which cannot be specifically attributed to the previous provision categories.

None of these provisions is individually significant. Each Group company recognizes a provision for legal proceedings when it is deemed probable that the proceedings will result in an outflow of resources. In determining their best estimate of the probable liability, each Group company assesses its legal proceedings on a case-by-case basis to estimate the probable losses that typically arise from events of the type giving rise to the liability. Their estimate takes into account, as applicable, the views of legal counsel and other experts, the experience of the company and others in similar situations and the company's intentions with regard to further action in each proceeding. Iveco Group's consolidated provision combines the individual provisions established by each of the Group's companies.

24. Debt

An analysis of debt by nature and due date is as follows:

	At December 31, 2020			
	Due within one year	Due between one and five years	Due beyond five years	Total
		(€ million)		
Asset-backed financing	2,031	-	-	2,031
Debt payable to CNH Industrial Group post-Demerger	2,563	-	-	2,563
Other debt:				
Borrowings from banks	388	-	-	388
Payables represented by securities	92	-	-	92
Lease liabilities	57	105	44	206
Other	17	16	-	33
Total Other debt	554	121	44	719
Total Debt	**5,148**	**121**	**44**	**5,313**

	At December 31, 2019			
	Due within one year	Due between one and five years	Due beyond five years	Total
		(€ million)		
Asset-backed financing	2,133	-	-	2,133
Debt payable to CNH Industrial Group post-Demerger	2,059	-	-	2,059
Other debt:				
Borrowings from banks	599	-	-	599
Payables represented by securities	93	-	-	93
Lease liabilities	54	104	45	203
Other	17	43	-	60
Total Other debt	763	147	45	955
Total Debt	**4,955**	**147**	**45**	**5,147**

	At December 31, 2018			
	Due within one year	Due between one and five years	Due beyond five years	Total
	(€ million)			
Asset-backed financing	1,932	-	-	1,932
Debt payable to CNH Industrial Group post-Demerger	1,936	-	-	1,936
Other debt:				
Borrowings from banks	745	16	7	768
Payables represented by securities	88	-	-	88
Other	47	20	-	67
Total Other debt	880	36	7	923
Total Debt	**4,748**	**36**	**7**	**4,791**

The item Asset-backed financing represents the financing received through both asset-backed commercial paper ("ABCP") and factoring transactions which do not meet IFRS 9 derecognition requirements and are recognized as assets in the statement of financial position.

Debt payable to CNH Industrial Group post-Demerger mainly includes overdraft and advances/utilizations under cash management and/or cash pooling arrangements and loans granted by the CNH Industrial Group post-Demerger central treasury.

Due to the initial application of IFRS 16 as of January 1, 2019, €199 million of additional liabilities from leases were recognized. At December 31, 2018, only finance lease liabilities in accordance with IAS 17 (€2 million) were recognized, corresponding to financial lease agreements for property, plant and equipment whose net carrying amount totaling €4 million at December 31, 2018, was included in Property, plant and equipment (Note 13).

In 2020, €65 million for the principal portion of Lease liabilities and €5 million for interest expenses related to lease liabilities were paid. In 2019, €67 million for the principal portion of Lease liabilities and €6 million for interest expenses related to lease liabilities were paid.

The following table sets out a maturity analysis of Lease liabilities at December 31, 2020 and 2019:

	At December 31, 2020	At December 31, 2019
	(€ million)	
Less than one year	61	58
One to two years	44	44
Two to three years	30	31
Three to four years	23	23
Four to five years	17	17
More than five years	50	52
Total undiscounted lease payments	**225**	**225**
Less: Interest	(19)	(22)
Total Lease liabilities	**206**	**203**

At December 31, 2020, the weighted average remaining lease term (calculated on the basis of the remaining lease term and the lease liability balance for each lease) and the weighted average discount rate for leases were 6.8 years and 2.6%, respectively (7.0 years and 2.9% at December 31, 2019).

At December 31, 2020, 2019, and 2018 there was no debt secured with mortgages and other liens on assets of the Group, and the total carrying amount of assets acting as security for loans was not significant at December 31, 2020, 2019, and 2018. In addition, the Group's assets include current receivables and cash with a pre-determined use to settle asset-backed financing of €48 million at December 31, 2020 (€32 million and €15 million at December 31, 2019, and 2018, respectively).

25. Trade payables

An analysis by due date of trade payables is as follows:

	At December 31, 2020			
	due within one year	due between one and five years	due beyond five years	Total
		(€ million)		
Trade payables	**3,079**	**3**	—	**3,082**

	At December 31, 2019			
	due within one year	due between one and five years	due beyond five years	Total
		(€ million)		
Trade payables	**3,050**	**—**	—	**3,050**

	At December 31, 2018			
	due within one year	due between one and five years	due beyond five years	Total
		(€ million)		
Trade payables	**2,924**	**—**	—	**2,924**

26. Other current liabilities

An analysis of Other current liabilities is as follows:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Advances on buy-back agreements	1,105	1,310	1,632
Contract liabilities	1,118	1,096	1,192
Indirect tax payables	164	158	158
Accrued expenses and deferred income	94	98	116
Payables to personnel	112	120	118
Social security payables	75	82	82
Other	315	241	204
Total Other current liabilities	**2,983**	**3,105**	**3,502**

An analysis of Other current liabilities (excluding Accrued expenses and deferred income) by due date is as follows:

	At December 31, 2020			
	due within one year	due between one and five years	due beyond five years	Total
	(€ million)			
Other current liabilities (excluding Accrued expenses and deferred income)	**1,606**	**1,212**	**71**	**2,889**

	At December 31, 2019			
	due within one year	due between one and five years	due beyond five years	Total
	(€ million)			
Other current liabilities (excluding Accrued expenses and deferred income)	**1,528**	**1,408**	**71**	**3,007**

	At December 31, 2018			
	due within one year	due between one and five years	due beyond five years	Total
	(€ million)			
Other current liabilities (excluding Accrued expenses and deferred income)	**1,691**	**1,634**	**61**	**3,386**

Contract liabilities primarily relate to extended warranties/maintenance and repair contracts, and transactions for the sale of vehicles with a buy-back commitment. Contract liabilities include €600 million at December 31, 2020 (€583 million and €672 million at December 31, 2019, and 2018, respectively) for future rents related to buy-back agreements. Changes in Contract liabilities for the years ended December 31, 2020, 2019, and 2018 are as follows:

	At December 31, 2019	Additional amounts arising during the period	Amounts recognized within revenue	Translation differences and other changes	At December 31, 2020
	(€ million)				
Contract liabilities	**1,096**	**532**	**(528)**	**18**	**1,118**

	At December 31, 2018	Additional amounts arising during the period	Amounts recognized within revenue	Translation differences and other changes	At December 31, 2019
	(€ million)				
Contract liabilities	**1,192**	**507**	**(604)**	**1**	**1,096**

	At January 1, 2018	Additional amounts arising during the period	Amounts recognized within revenue	Translation differences and other changes	At December 31, 2018
	(€ million)				
Contract liabilities	**1,247**	**541**	**(595)**	**(1)**	**1,192**

Advances on buy-back agreements includes the repurchase value of the vehicle relating to new vehicles sold with the buy-back commitment from Commercial and Specialty Vehicles included in Property, plant and equipment, as described in section "Significant accounting policies".

27. Commitments and contingencies

As a global company with a diverse business portfolio, the Iveco Group, in the ordinary course of business is exposed to numerous legal risks, including, without limitation, dealer and supplier litigation, intellectual property right disputes, product warranty and defective product claims, product performance, asbestos, personal injury, emissions and/or fuel economy regulatory and contractual issues, competition law and other investigations and environmental claims. All significant matters are described below.

The outcome of any current or future proceedings, claims, or investigations cannot be predicted with certainty. Adverse decisions in one or more of these proceedings, claims, or investigations could require the Iveco Group to pay substantial damages or fines or undertake service actions, recall campaigns or other costly actions. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could affect the Iveco Group's financial position and results.

When it is probable that an outflow of resources embodying economic benefits will be required to settle obligations and this amount can be reliably estimated, Iveco Group recognizes specific provisions for this purpose. Contingent liabilities estimated by the Group, for which no provisions have been recognized since an outflow of resources is not considered probable at the present time, were not material at December 31, 2020 and 2019, and amounted to €15 million at December 31, 2018.

Although the ultimate outcome of legal matters pending against the Iveco Group and its subsidiaries cannot be predicted, the Iveco Group believes the reasonable possible range of losses for these unresolved legal matters in addition to the amounts accrued would not have a material effect on its Combined Financial Statements.

Other litigation and investigation

Follow-on Damages Claims: in 2011 Iveco S.p.A., the Company's wholly owned subsidiary, active in the commercial vehicle business, and its competitors in the European Union were subject to an investigation by the European Commission (the "Commission") into certain business practices in the European Union (in the period 1997-2011) in relation to Medium and Heavy trucks. On July 19, 2016, the Commission announced a decision regarding five OEMs (the ***Decision***) including a settlement with Iveco. In particular, Iveco received a reduction in its fine for cooperating with the European Commission throughout the investigation, and received the lowest fine of all manufacturers (except for one manufacturer that was granted whistleblower immunity for having informed the European Commission about the conduct in September 2010) of €494.6 million. One manufacturer, Scania, chose not to settle with the European Commission, and on September 27, 2017 the European Commission adopted a decision fining Scania approximately €880.5 million (the ***Scania Decision***). Scania has appealed the Scania Decision to the General Court of the European Union and the appeal is ongoing.

As a consequence of these proceedings, Iveco S.p.A. and Iveco Magirus AG (IMAG), as well as some national companies of the Iveco brand (for example Iveco Limited and Iveco España) have been named as defendants in proceedings across Europe. Stellantis N.V., formerly Fiat Chrysler Automobiles N.V. (Stellantis), and CNH Industrial as, respectively, the former and current parent companies of Iveco/IMAG have also been sued as defendants in many proceedings. The consummation of the Demerger will not allow CNH Industrial to be excluded by current and future follow on proceedings originating from the Decision because under EU competition law a company will not be able to use corporate reorganizations to avoid liability for private damages claims. Furthermore, claimants may also decide to extend their judicial claims against the Company as economic successor of CNH Industrial. In the event one or more of these judicial proceedings would result in a decision against Iveco S.p.A., IMAG, other national companies of Iveco, Stellantis N.V., CNH Industrial, and possibly the Company, ordering such companies to compensate one or more claimants for damages caused to such claimants as a result of the conduct that was the subject matter of the Decision, and Iveco or IMAG would not comply with such decisions, as a result of various intercompany arrangements, then CNH Industrial, Stellantis, the other national companies of Iveco, and possibly the Company will ultimately have recourse against Iveco and IMAG for the reimbursement of the damages effectively paid to such claimants.

More specifically, a large number of (direct and indirect) truck purchasers have claimed damages against various OEMs, including Iveco in various national courts for loss allegedly suffered as a result of the infringement. In such cases, alleged losses are generally calculated based on the difference between the price actually paid and the price that would have been paid in the absence of the infringing behaviour (often called the overcharge), with interest. Normally a truck customer claiming damages will need to prove that the infringement caused the overcharge, and the existence and quantum of such overcharge, even though they sometimes may benefit from certain rules of evidence such as (factual) presumptions or prima facie evidence under the applicable procedural rules (which vary depending on the jurisdiction in which the claim is brought). Claims have also been brought by purchasers of services provided using trucks (for example, road haulage services) who also allegedly suffered an overcharge.

The claims against Iveco differ significantly in scope as some truck purchasers only bought or leased a single truck while other cases include claimants who individually or collectively purchased a multitude of trucks. Furthermore, some truck customer claims have been combined in class actions or through claims vehicles to which the truck purchasers have assigned their respective damages claims. Some claims relate to trucks purchased only in the jurisdiction in which the claim is brought but many claims relate to truck purchases in multiple jurisdictions. In total, as of September 30, 2021, on the basis of information available to the Company, the current court proceedings across Europe involve approximately 110,218 Iveco trucks. The actual number of trucks involved in current court proceedings is however unknown: for example, there are class actions which are currently at the certification stage. For other proceedings, it is not yet known how many truck purchasers may assign their claims to the existing claims vehicles. Further, some proceedings are declaratory actions which may not identify the number of trucks included in the claim at this stage. This number, moreover, reflects the information asserted or estimated by the claimants (where provided, which is not always the case since in many actions claimants do not provide sufficient details of the number of trucks involved in their claims, nor the identity of the truck manufacturer, and in some other instances they do not provide any information at all). This number does not include cases where Iveco is not a party of the litigation (but where Iveco trucks may be involved) nor does it take into account any possible defence that has been (or may be in the future be) raised by Iveco (including, trucks not being covered by the Commission's decision *ratione temporis* or otherwise, duplications, etc.).

For many of the same reasons it is not possible at this stage to accurately estimate the overall face value of the claims filed, nor of the claims relating to trucks manufactured and distributed by Iveco and other Iveco national companies. Furthermore, in many cases (including where some of these claims are declaratory actions), such value is not asserted by claimants (as it is the case in many proceedings in the Netherlands or in UK) or, where asserted, such amount reflects exclusively estimates made by claimants that remain unverified and in certain instances, unverifiable. Additionally, this amount mainly reflects claimants' unchallenged view of these cases. Furthermore, such amounts (when asserted) are based on the number of vehicles of the various OEMs identified as defendants and the plaintiffs do not always identify the amount of the damages allegedly caused by each of such OEMs. Finally, this amount (when asserted) reflects the number of vehicles allegedly manufactured by each OEM, however this number needs to be verified in light of the boundaries of these cases (for instance, as to the time period of the alleged infringement or the type of vehicle involved). Against this background, and subject to the various limitations and caveats mentioned in this section, as of September 30, 2021 the face value of the judicial claims where at least one among Iveco, IMAG, other national companies of Iveco or CNH Industrial or Stellantis, as the case may be, are defendants is approximately €4.3 billion. This face value amount relates to all trucks included in these claims and therefore it includes trucks manufactured and distributed by other OEMs. For the reasons indicated above, it is not possible, at this point in time, to estimate the part of this face-value amount which, according to the claimants, allegedly would be directly attributable to Iveco or IMAG; however, considering the overall number of Iveco trucks involved in these proceedings (and subject to the various caveats and limitations mentioned as to how this number has be determined and to how this alleged face value amount has been asserted by claimants), it is expected that this face value amount would be significant.

Subject to the various limitations and caveats on the accurate assessment of such claims set out above, in Germany, as of September 30, 2021, approximately 100 claims are pending before national courts in which Iveco is involved, relating to approximately 40,000 Iveco trucks. Proceedings of claims vehicles are also pending in the Netherlands, where approximately 54 claims were pending as of September 30, 2021 (by claims vehicles and by individual truck purchasers). On the basis of information available, at the date of September 30, 2021, approximately 34,967 Iveco trucks are included in these Dutch proceedings. In England and Wales there are approximately 23 pending claims to which Iveco is a party. These include two applications to commence collective proceedings (class actions), which as of September 30, 2021 have not been certified for inclusion in collective proceedings. Most of these claims in England and Wales are in their early stages. Only two of the claims are currently listed for trial, which will not begin until March 2023 and April 2024 respectively. The claims (excluding the collective proceedings applications) pending in the U.K. at the date of September 30, 2021 include approximately 19,443 Iveco trucks. In Spain, as of September 30, 2021, there are approximately 1,161 pending claims. The claims in Spain are predominantly relatively small claims brought by individual purchasers and include approximately 9,079 Iveco trucks. In Italy, as of September 30, 2021, there are approximately 37 (including at least ten group actions) claims to which Iveco is a party, relating to approximately 2,400 Iveco trucks.

In most jurisdictions claims filed in court are still at an early stage and the courts have not delivered final judgments awarding damages. However, in Spain, as of September 30, 2021, there have been approximately 442 judgments in claims regarding Iveco at first instance (representing claims for approximately 2,500 Iveco trucks). In 368 of these judgments (representing claims for about 1,978 Iveco trucks), the court found that there was an overcharge. In most of those judgments the average overcharge amount was between 5% and 29%. Two of these judgements were overturned on appeal to the Spanish Courts of Appeal and the remainder are currently under appeal either to the Spanish Courts of Appeal or the Spanish Supreme Court. In 75 of the first instance judgments in claims against Iveco (representing claims for approximately 510 Iveco trucks), the claim was rejected. Some of these rejected claims are under appeal. In Italy, as of September 30, 2021, there has been one judgment at first instance in a case concerning one Iveco truck. This judgment (finding an overcharge of 15%) will be subject to appeal.

The extent and outcome of these claims cannot be predicted at this time and, therefore, the Group did not recognize any specific provision for these claims.

FPT Emissions Investigation: on July 22, 2020, a number of CNH Industrial's offices in Europe were visited by investigators in the context of a request for assistance by the Public Prosecutors of Frankfurt am Main, Germany and Turin, Italy in relation to alleged noncompliance of two engine models produced by FPT Industrial S.p.A., a wholly owned subsidiary of Iveco Group as of the Demerger Effective Date, installed in certain Fiat Ducato (a vehicle manufactured and distributed by the Stellantis group) and Iveco Daily vehicles. FPT is providing its full cooperation to properly address the requests received. FPT, other companies of Iveco Group and third parties have received various requests for compensation by German and Austrian customers on various contractual and tort grounds, including requests for damages resulting out of the termination of the purchase contracts, or in the form of requests for an alleged lower residual value of their vehicles as a consequence of the alleged non-compliance with type approval regulations regarding emissions. In certain instances, other customers have brought judicial claims on the same legal and factual bases. As of September 30, 2021 these judicial claims are approximately 865 (for an approximately equivalent number of vehicles) and relate chiefly to Fiat Ducato vehicles, vehicles manufactured and distributed by the Stellantis group. In such proceedings FPT is usually second defendant. Although, at the date hereof, Iveco Group has no evidence of any wrongdoing, it cannot predict at this time the extent and outcome of these requests and directly or indirectly related legal proceedings, including customer claims or potential class actions alleging emissions non-compliance. Therefore, Iveco Group did not recognize any specific provision in relation to this investigation.

Guarantees

Iveco Group provided guarantees on the debt or commitments of third parties and performance guarantees mainly in the interest of a joint venture related to commercial commitments of defense vehicles, totaling €489 million, €390 million and €399 million as of December 31, 2020, 2019, and 2018, respectively.

28. Segment reporting

The segment information disclosed in these Combined Financial Statements reflects the identifiable reporting segments of the Company and the financial information that the Chief Operating Decision Maker ("CODM") reviewed to assess performance and make decisions about resource allocation. The segments are organized based on products and services provided by Iveco Group.

Iveco Group has three operating segments:

- **Commercial and Specialty Vehicles** designs, manufactures and distributes a full range of light, medium, and heavy vehicles for the transportation and distribution of goods under the IVECO brand, city-buses, commuter buses under the IVECO BUS (previously Iveco Irisbus) and HEULIEZ BUS brands, quarry and mining equipment under the IVECO ASTRA brand, firefighting vehicles under the Magirus brand, and vehicles for civil defense and peace-keeping missions under the Iveco Defence Vehicles brand.

- **Powertrain** designs, manufactures and distributes, under the FPT Industrial brand, a range of engines, transmission systems and axles for on- and off-road applications, as well as for marine and power generation.
- **Financial Services** offers a range of financial products and services to dealers and customers. Financial Services provides and administers retail financing to customers for the purchase or lease of new and used vehicles sold by Iveco Group brand dealers and distributors or directly by Iveco Group subsidiaries. In addition, Financial Services provides wholesale financing to Iveco Group brand dealers and distributors. Wholesale financing consists primarily of floor plan financing and allows the dealers to purchase and maintain a representative inventory of products. Financial Services also provides trade receivables factoring services to Iveco Group Industrial Activities legal entities. Additionally, Financial Services, leveraging on its specific expertise, grants support to CNH Industrial post-Demerger financial services, by providing business process services to their European activities, and receiving a fee for the services rendered.

The activities carried out by the two industrial segments Commercial and Specialty Vehicles and Powertrain, and the Company, are collectively referred to as “Industrial Activities”.

Revenues for each reported segment are those directly generated by or attributable to the segment as a result of its business activities and include revenues from transactions with third parties as well as those deriving from transactions with other segments, recognized at normal market prices. Segment expenses represent expenses deriving from each segment's business activities both with third parties and other operating segments or which may otherwise be directly attributable to it. Expenses deriving from business activities with other segments are recognized at normal market prices.

With reference to Industrial Activities' segments, the CODM is expected to assess the segment performance and make decisions about resource allocation based upon Adjusted EBIT, which is deemed to more fully reflect Industrial Activities segments' profitability. Adjusted EBIT of Industrial Activities is defined as profit/(loss) before taxes, Financial Services' results, Industrial Activities' financial expenses, restructuring costs, and non-recurring items. In particular, non-recurring items are specifically disclosed items that management considers rare or discrete events that are infrequent in nature and not reflective of on-going operational activities. With reference to Financial Services, the CODM is expected to assess the performance of the segment and make decisions about resource allocation on the basis of net income.

The following table summarizes Adjusted EBIT of Industrial Activities by reportable segment:

	2020	2019	2018
		(€ million)	
Commercial and Specialty Vehicles	(149)	171	242
Powertrain	195	323	325
Unallocated items, eliminations and other	(135)	(66)	(131)
Adjusted EBIT of Industrial Activities	**(89)**	**428**	**436**

A reconciliation from Adjusted EBIT of Industrial Activities to Iveco Group's combined Profit/(loss) before taxes for the years ended December 31, 2020, 2019 and 2018 is provided below:

	2020	2019	2018
		(€ million)	
Adjusted EBIT of Industrial Activities	**(89)**	**428**	**436**
Adjustments/reclassifications to convert from Adjusted EBIT of Industrial Activities to Profit/(loss) before taxes:			
Financial income/(expenses)	(112)	(157)	(235)
Restructuring costs	(32)	(40)	(28)
Other discrete items(1)	(270)	(164)	-
Other adjustments(2)	15	108	137
Total adjustments/reclassifications	(399)	(253)	(126)
Profit/(loss) before taxes	**(488)**	**175**	**310**

(1) In 2020, this item primarily includes asset optimization charges of €247 million, other asset impairment charges of €6 million, and €17 million negative impact from the costs recognized by a Chinese joint venture, accounted for under the equity method, for valuation allowances against deferred tax assets and restructuring actions. In 2019, this item mainly included the other asset optimization charges for €148 million.

(2) Primarily includes Financial Services results before taxes.

Net income of Financial Services for years ended December 31, 2020, 2019, and 2018 is summarized as follows, together with a reconciliation to Iveco Group's combined Profit/(loss) before taxes for the same periods:

	2020	2019	2018
		(€ million)	
Net income of Financial Services (A)	**13**	**77**	**102**
Eliminations and other (B)(*)	(385)	24	81
Income tax (expense) benefit (C)	116	(74)	(127)
Profit/(loss) before taxes (D) = (A) + (B) - (C)	**(488)**	**175**	**310**

(*) Includes Net income of Industrial Activities

No segment asset is expected to be reported to the CODM for assessing performance and allocating resources. Additional reportable segment information is provided as follows.

Additional reportable segment information

Net Revenues by reportable segment for the years ended December 31, 2020, 2019, and 2018, are provided in Note 1.

Depreciation and amortization by reportable segment for the years ended December 31, 2020, 2019 and 2018 are provided below:

	2020	2019	2018
		(€ million)	
Commercial and Specialty Vehicles	422	380	308
Powertrain	156	159	156
Unallocated items, eliminations and other	-	-	-
Total Industrial Activities	578	539	464
Financial Services	2	2	1
Eliminations and other	-	-	-
Total Depreciation and Amortization(*)	**580**	**541**	**465**

(*) Excluding depreciation of assets on operating lease and assets sold with buy-back commitment.

Expenditures for long-lived assets by operating segments for the years ended December 31, 2020, 2019, and 2018 are provided below:

	2020	2019	2018
		(€ million)	
Commercial and Specialty Vehicles	279	361	313
Powertrain	121	131	124
Unallocated items, eliminations and other	-	-	-
Total Industrial Activities	400	492	437
Financial Services	1	-	-
Eliminations and other	-	-	-
Total Expenditures for long-lived assets(*)	**401**	**492**	**437**

(*) Excluding vehicles sold under buy-back commitments and operating leases.

29. Information by geographical area

The Company has its principal office in Turin, Italy. Revenues earned in Italy from external customers were €2,172 million, €2,866 million and €2,784 million in 2020, 2019, and 2018, respectively. Revenues earned in the rest of the world from external customers were €8,239 million, €9,082 million and €9,221 million in 2020, 2019, and 2018, respectively. The following table highlights revenues earned from external customers in the rest of the world by destination:

	2020	2019	2018
		(€ million)	
France	1,652	1,824	1,779
Germany	1,146	1,245	1,287
China	536	412	421
Spain	452	652	685
Brazil	420	491	432
U.K.	379	504	583
South East and Japan Sub-region, excluding Pakistan	301	361	363
Poland	263	305	320
Czech Republic	243	233	213
Switzerland	232	218	200
Turkey, Caucasus and South Central Asia Sub-region	198	166	185
Austria	197	184	184
Belgium	179	219	179
Argentina	177	159	228
Australia and New Zealand	163	237	276
Netherlands	162	118	122
Russia	127	160	148
Portugal	126	142	139
Romania	116	128	189
Other	1,170	1,324	1,288
Total revenues from external customers in the rest of the world	**8,239**	**9,082**	**9,221**

Total non-current assets located in Italy, excluding financial assets, deferred tax assets, defined benefit assets and rights arising under insurance contracts, were €1,739 million, €1,833 million and €1,912 million at December 31, 2020, 2019, and 2018, respectively, and the total of such assets located in the rest of the world totaled €3,085 million, €3,215 million and €3,258 million at December 31, 2020, 2019, and 2018, respectively. The following highlights non-current assets by geographical area in the rest of the world:

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
France	853	879	915
Spain	704	705	678
Germany	532	553	589
United states	324	101	6
China	152	217	245
Brazil	88	127	127
Czech Republic	72	83	79
Switzerland	61	65	44
Belgium	59	66	64
U.K.	49	73	103
Portugal	39	60	84
Other	225	286	324
Total non-current assets in the rest of the world	**3,158**	**3,215**	**3,258**

In 2020, 2019, and 2018, no single external customer of Iveco Group accounted for 10 per cent or more of combined revenues.

30. Information on financial risks

We are exposed to the following financial risks connected with our operations:

- credit risk related to our financing activities;
- liquidity risk, with particular reference to the availability of funds and access to the credit market and to financial instruments in general;
- market risk (primarily exchange rates and interest rates).

We attempt to actively manage these risks.

The quantitative data reported in the following paragraphs does not have any predictive value. In particular, the sensitivity analysis on market risks does not reflect the complexity of the market or the reaction, which may result from any changes that are assumed to take place.

Credit Risk

The Group's credit risk differs in relation to the activities carried out by the segments and sales markets in which we operate; in all cases, however, the risk is mitigated by the large number of counterparties and customers.

Financial assets are recognized in the statement of financial position net of write-downs for the risk that counterparties may be unable to fulfill their contractual obligations, determined on the basis of the available information as to the creditworthiness of the customer and historical data.

The maximum credit risk to which we were theoretically exposed at the reporting date is represented by the carrying amounts stated for financial assets in the statement of financial position and the nominal value of the guarantees provided on debt or commitments of third parties.

Dealers and final customers are generally subject to specific assessments of their creditworthiness under a detailed scoring system. In addition to carrying out this evaluation process, we may also obtain financial and non-financial guarantees for risks arising from credit granted for the sale of commercial vehicles. These guarantees are further secured, where possible, by retention of title clauses or specific guarantees on financed vehicle sales to the distribution network and on vehicles under finance leasing agreements.

A financial asset has experienced a significant increase in credit risk when the customer shows signs of operational or financial weakness including past dues, which requires significant collection effort and monitoring and generally occurs when the customer becomes past due greater than 30 days. The assessment considers available information regarding the financial stability of the customer and other market/industry data. An account is typically considered in default when they are 90 days past due.

Iveco Group utilizes three categories for receivables from financing activities that reflect their credit risk and how the loan provision is determined.

Internal risk grade	IFRS 9 classification	Definition	Basis for recognition of expected credit loss provision
Performing	Stage 1	Low risk of default; payments are generally less than 30 days past due	12 month expected credit losses
Performing	Stage 2	Significant increase in credit risk; payments generally between 31 and 90 days past due	Lifetime expected credit losses
Non-performing	Stage 3	Accounts are credit impaired and/or a legal action has been initiated; payments generally greater than 90 days past due	Lifetime expected credit losses

Charge-offs of principal amounts of receivables outstanding are deducted from the allowance at the point when it is estimated that amounts due are deemed uncollectible. Iveco Group continues to engage in collection efforts to attempt to recover the receivables. When recoveries are collected, these are recognized as income.

Iveco Group's allowance for credit losses is segregated into two portfolio segments: retail and wholesale. A portfolio segment is the level at which Iveco Group develops a systematic methodology for determining its allowance for credit losses. Typically, Iveco Group's receivables within a portfolio segment have similar risk profiles and methods for assessing and monitoring risk. These classes align with management reporting.

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, Iveco Group considers historical loss rates for each category of customer and adjusts for forward-looking macroeconomic data.

In calculating the expected credit losses, Iveco Group's calculations depend on whether the receivable has been individually identified as being impaired. The first component of the allowance for credit losses covers the receivables specifically reviewed by management for which Iveco Group has determined it is probable that it will not collect all of the contractual principal and interest. Receivables are individually reviewed for impairment based on, among other items, amounts outstanding, days past due and prior collection history. Expected credit losses are measured by considering: the unbiased and probability-weighted amount; the time value of money; and reasonable and supportable information (available without undue costs or effort) at the reporting date about past events, current conditions and forecasts of future economic conditions. Expected credit losses are measured as the probability-weighted present value of all cash shortfalls over the expected life of each financial asset.

The second component of the allowance for credit losses covers all receivables that have not been individually reviewed for impairment. The allowance for these receivables is based on aggregated portfolio evaluations, generally by financial product. The allowance for wholesale and retail credit losses is based on loss forecast models that consider a variety of factors that include, but are not limited to, historical loss experience, collateral value, portfolio balance and delinquency. The loss forecast models are updated on a quarterly basis. The calculation is adjusted for forward-looking macroeconomic factors. In addition, qualitative factors that are not fully captured in the loss forecast models are considered in the evaluation of the adequacy of the allowance for credit losses. These qualitative factors are subjective and require a degree of management judgment.

Liquidity risk

We are exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.

The cash flows, funding requirements and liquidity of our subsidiaries are monitored on a centralized basis. The aim of this centralized system is to optimize the efficiency and effectiveness of the management of our capital resources.

Additionally, as part of our activities, we regularly carry out funding operations on the various financial markets which may take on different technical forms and which are aimed at ensuring that it has an adequate level of current and future liquidity.

Measures taken to generate financial resources through operations and to maintain an adequate level of available liquidity are an important factor in ensuring normal operating conditions and addressing strategic challenges. We therefore plan to meet our requirements to settle liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans and making recourse to the bond market and other forms of funding.

The main factors that determine our liquidity situation are the funds generated by or used in operating and investing activities and the debt lending period and its renewal features or the liquidity of the funds employed and market terms and conditions.

Iveco Group has adopted a series of policies and procedures whose purpose is to optimize the management of funds and to reduce the liquidity risk, as follows:

- centralizing the management of receipts and payments, where it may be economical in the context of the local statutory, currency and fiscal regulations of the countries in which we are present;
- maintaining an adequate level of available liquidity;
- diversifying the means by which funds are obtained and maintaining a continuous and active presence on the capital markets;
- obtaining adequate credit lines; and
- monitoring future liquidity on the basis of business planning.

Details as to the repayment structure of the Iveco Group's financial assets and liabilities are provided in Note 17 "Current Receivables and Other current financial assets" and in Note 24 "Debt". Details of the repayment structure of derivative financial instruments are provided in Note 18 "Derivative assets and Derivative liabilities".

Management believes that the funds currently available, together with the funds that will be generated from operating and financing activities, will enable Iveco Group to satisfy its requirements resulting from its investing activities and working capital needs and to fulfill its obligations to repay its debts at their natural due date.

Market risk

We operate in numerous markets worldwide and are exposed to market risks stemming from fluctuations in currency and interest rates.

The exposure to foreign currency risk arises both in connection with the geographical distribution of our industrial activities compared to the markets in which we sell our products, and in relation to the use of external borrowing denominated in foreign currencies.

The exposure to interest rate risk arises from the need to fund industrial and financial operating activities and the necessity to deploy surplus funds. Changes in market interest rates may have the effect of either increasing or decreasing our profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.

We regularly assess our exposure to foreign currency and interest rate risk and manage those risks through the use of derivative financial instruments in accordance with our established risk management policies.

Our policy permits derivatives to be used only for managing the exposure to fluctuations in exchange and interest rates connected with future cash flows and assets and liabilities, and not for speculative purposes.

We utilize derivative financial instruments designated as fair value hedges, mainly to hedge:

- the currency risk on financial instruments denominated in foreign currency;
- the interest rate risk on fixed rate loans and borrowings.

The instruments used for these hedges are mainly currency swaps, forward contracts, interest rate swaps and combined interest rate and currency financial instruments.

We use derivative financial instruments as cash flow hedges for the purpose of pre-determining:

- the exchange rate at which forecasted transactions denominated in foreign currencies will be accounted for;
- the interest paid on borrowings, both to match the fixed interest received on loans (customer financing activity), and to achieve a pre-defined mix of floating versus fixed rate funding structured loans.

The exchange rate exposure on forecasted commercial flows is hedged by currency swaps, forward contracts and currency options. Interest rate exposures are usually hedged by interest rate swaps and, in limited cases, by forward rate agreements.

Counterparties to these agreements are major and diverse financial institutions.

Information on the fair value of derivative financial instruments held at the balance sheet date is provided in Note 18 "Derivative assets and Derivative liabilities".

Currency risk

We are exposed to risk resulting from changes in exchange rates, which can affect our earnings and invested equity.

Where one of our subsidiaries incurs costs in a currency different from that of its revenues, any change in exchange rates can affect the profit/(loss) of that company. In 2020 the total net trade flows exposed to currency risk amounted to the equivalent of 12% of our revenue (13% in both 2019 and 2018). The principal exchange rates to which we are exposed are the following:

- EUR/CZK, predominately in relation to the production of Commercial and Specialty Vehicles (Bus) in Czech Republic;

- EUR/GBP, predominately in relation to sales on the U.K. market;
- EUR/CHF, predominately in relation to sales on the Swiss market;
- EUR/PLN, predominately in relation to sales on the Polish market.

Trade flows exposed to changes in these exchange rates in 2020 made up approximately 58% of the exposure to currency risk from trade transactions.

It is the Group's policy to use derivative financial instruments to hedge a pre-determined percentage, on average between 55% and 85%, of the forecasted trading transaction exchange risk exposure for the coming 12 months with additional flexibility to reach 0% or 100% (including risk beyond that date where it is believed to be appropriate) and to hedge completely the exposure resulting from firm commitments.

Group's subsidiaries may hold trade receivables or payables denominated in a currency different from the subsidiary's functional currency. In addition, in a limited number of cases, subsidiaries may obtain financing or use funds in a currency different from their functional currency. Changes in exchange rates may result in exchange gains or losses arising from these situations. It is our policy to hedge fully, whenever possible, the exposure resulting from receivables, payables and securities denominated in foreign currencies different from the subsidiary's functional currency.

Group's subsidiaries' may have functional currency is different than the euro, which is the Group presentation currency. The income statements of those subsidiaries are converted into euros using the average exchange rate for the period, and while revenues and margins are unchanged in local currency, changes in exchange rates may lead to effects on the converted balances of revenues, costs and the results reported in euros.

The assets and liabilities of combined companies whose functional currency is different from the euro may acquire converted values in euros which differ as a function of the fluctuation in exchange rates. The effects of these changes are recognized directly in the Cumulative Translation Adjustments reserve, included in Other comprehensive income (see Note 21).

We monitor our principal exposure to translation exchange risk, although there was no specific hedging in place at December 31, 2020. There were no substantial changes in 2020 in the nature or structure of exposure to currency risk or in our hedging policies.

Sensitivity analysis

The potential loss in fair value of derivative financial instruments held for currency risk management (currency swaps/forwards, currency options, interest rate and currency swaps) at December 31, 2020 resulting from a hypothetical change of 10% in the exchange rates amounts to approximately €299 million (€275 million and €246 million at December 31, 2019, and 2018, respectively). The valuation model for currency options assumes that market volatility at year-end remains unchanged.

The underlying transactions (consisting of receivables, payables, and future trade flows) for which we put in place, as hedging transactions, the derivative financial instruments analyzed in the above mentioned sensitivity analysis, were not considered. It is reasonable to assume that changes in exchange rates will produce the opposite effect, of an equal or greater amount, on the underlying transactions that have been hedged.

<u>Interest rate risk</u>

Our Industrial Activities make use of external funds obtained in the form of financing and invest in monetary and financial market instruments. In addition, we sell receivables. Changes in market interest rates can affect the cost of financing, including the sale of receivables, or the return on investments of funds, causing an impact on the level of net financial expenses incurred by us.

In addition, Financial Services provides loans (mainly to customers and dealers), financing themselves primarily using various forms of external borrowings or asset-backed financing (e.g., securitization of receivables). Where the characteristics of the variability of the interest rate applied to loans granted differ from those of the variability of the cost of the financing/funding obtained, changes in the current level of interest rates can affect our profit/(loss).

In order to mitigate these risks, we use interest rate derivative financial instruments, mainly interest rate swaps and forward rate agreements.

Interest rate benchmark reform

Certain existing benchmark InterBank Offered Rates (IBORs) will be reformed by the authority and gradually replaced with alternative benchmark rates. Despite the uncertainty around the timing and precise nature of these changes, the existing benchmark interest rates are still applied as reference rates.

Group Treasury is managing the Group's IBOR transition plan. The greatest change will be amendments to the contractual terms of the IBOR-referenced floating-rate debt and the corresponding update of the hedge designation.

In calculating the change in fair value attributable to the hedged risk of fixed-rate debt, the Group has made the following assumptions that reflect its current expectations:

- the floating-rate debt will move to SOFR at the beginning of July 2023 and the spread will be similar to the spread included in the interest rate swap used as the hedging instrument;
- no other changes to the terms of the floating-rate debt are anticipated; and
- the Group does not expect any material impact deriving from the replacement of benchmark interest rate.

Sensitivity analysis

In assessing the potential impact of changes in interest rates, we separate fixed rate financial instruments (for which the impact is assessed in terms of fair value) from floating rate financial instruments (for which the impact is assessed in terms of cash flows).

The fixed rate financial instruments used by us consist of retail receivables, debt, ABCP, and other instruments.

The potential loss in fair value of fixed rate financial instruments (including the effect of interest rate derivative financial instruments) held at December 31, 2020, resulting from a hypothetical, unfavorable and instantaneous change of 10% in market interest rates, would have been approximately €6 million (nil at both December 31, 2019, and 2018).

Floating rate financial instruments consist principally of cash and cash equivalents, wholesale receivables, debt, and ABCPs. The effect of the sale of receivables is also considered in the sensitivity analysis as well as the effect of hedging derivative instruments.

A hypothetical change of 10% in short-term interest rates at December 31, 2020, applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivative financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately €1 million (€2 million and €3 million at December 31, 2019, and 2018, respectively).

This analysis is based on the assumption that there is a hypothetical change of 10% in interest rates across homogeneous categories. A homogeneous category is defined on the basis of the currency in which the financial assets and liabilities are denominated.

Other risks on derivative financial instruments

We have entered derivative contracts linked to commodity prices to hedge specific exposures on supply contracts.

Sensitivity analysis

In the event of a hypothetical change of 10% in the underlying raw materials prices, the potential loss in fair value of outstanding derivative financial instruments at December 31, 2020 linked to commodity prices would not have been significant (not significant at December 31, 2019, and 2018, respectively).

31. Fair value measurement

Fair value levels presented below are described in the "Significant accounting policies – Fair value measurement" section of these Notes.

Assets and liabilities measured at fair value on a recurring basis

The following table presents, for each of the fair value hierarchy levels, the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2020, 2019, and 2018:

		At December 31, 2020			
	Note	Level 1	Level 2	Level 3	Total
			(€ million)		
Equity investments measured at fair value through other comprehensive income	(14)	319	-	-	319
Other investments	(14)	-	-	5	5
Derivative assets	(18)	-	28	-	28
Total Assets		**319**	**28**	**5**	**352**
Derivative liabilities	(18)	-	(27)	-	(27)
Total Liabilities		**-**	**(27)**	**-**	**(27)**

		At December 31, 2019			
	Note	Level 1	Level 2	Level 3	Total
			(€ million)		
Equity investments measured at fair value through other comprehensive income	(14)	-	-	96	96
Derivative assets	(18)	-	8	-	8
Total Assets		-	8	96	104
Derivative liabilities	(18)	-	(39)	-	(39)
Total Liabilities		**-**	**(39)**	**-**	**(39)**

		At December 31, 2018			
	Note	Level 1	Level 2	Level 3	Total
			(€ million)		
Equity investments measured at fair value through other comprehensive income	(14)	-	-	-	-
Derivative assets	(18)	-	16	-	16
Total Assets		-	16	-	16
Derivative liabilities	(18)	-	(20)	-	(20)
Total Liabilities		**-**	**(20)**	**-**	**(20)**

The following table provides a reconciliation from the opening balance to the closing balance for fair value measurements categorized in Level 3 in 2020, 2019, and 2018:

	2020	2019	2018
		(€ million)	
At January 1	96	-	-
Acquisitions/(disposals)	129	102	-
Gains/(Losses) recognized in Other comprehensive income/(loss)	1,321	(6)	-
Transfer from Level 3 to Level 1	(1,541)	-	-
At December 31	**5**	**96**	**-**

In 2020, Transfer from Level 3 include the investment in Nikola Corporation, reclassified to Level 1 upon the completion in June 2020 of its business combination with VectoIQ Acquisition Corp. and continued listing of the combined company's shares. Refer to Note 14 for additional information on this investment.

Description of the valuation techniques used to determine the fair value of derivative financial instruments is included in Note 18 "Derivative assets and Derivative liabilities".

Assets and liabilities not measured at fair value

The estimated fair values for financial assets and liabilities that are not measured at fair value in the statement of financial position at December 31, 2020, 2019 and 2018 are as follows:

						At December 31, 2020
	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying amount
				(€ million)		
Total Financial receivables from CNH Industrial Group post-Demerger	(17)	**-**	**-**	**3,543**	**3,543**	**3,543**
Retail financing	(17)	-	-	10	10	9
Dealer financing	(17)	-	-	2,715	2,715	2,720
Finance leases	(17)	-	-	78	78	77
Other receivables from financing activities	(17)	-	-	25	25	25
Total Receivables from financing activities		**-**	**-**	**2,828**	**2,828**	**2,831**
Asset-backed financing	(24)	-	2,032	-	2,032	2,031
Debt payable to CNH Industrial Group post-Demerger	(24)	-	-	2,563	2,563	2,563
Borrowings from banks	(24)	-	389	-	389	388
Payables represented by securities	(24)	-	92	-	92	92
Lease liabilities	(24)	-	-	206	206	206
Other debt	(24)	-	33	-	33	33
Total Debt		**-**	**2,546**	**2,769**	**5,315**	**5,313**

						At December 31, 2019
	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying amount
				(€ million)		
Total Financial receivables from CNH Industrial Group post-Demerger	(17)	**-**	**-**	**3,395**	**3,395**	**3,395**
Retail financing	(17)	-	-	10	10	10
Dealer financing	(17)	-	-	2,929	2,929	2,930
Finance leases	(17)	-	-	114	114	114
Other receivables from financing activities	(17)	-	-	82	82	82
Total Receivables from financing activities		**-**	**-**	**3,135**	**3,135**	**3,136**
Asset-backed financing	(24)	-	2,133	-	2,133	2,133
Debt payable to CNH Industrial Group post-Demerger	(24)	-	-	2,059	2,059	2,059
Borrowings from banks	(24)	-	600	-	600	599
Payables represented by securities	(24)	-	93	-	93	93
Lease liabilities	(24)	-	-	203	203	203
Other debt	(24)	-	60	-	60	60
Total Debt		**-**	**2,886**	**2,262**	**5,148**	**5,147**

					At December 31, 2018	
	Note	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Carrying amount**
				(€ million)		
Total Financial receivables from CNH Industrial Group post-Demerger	(17)	**-**	**-**	**3,353**	**3,353**	**3,353**
Retail financing	(17)	-	-	22	22	21
Dealer financing	(17)	-	-	2,629	2,629	2,630
Finance leases	(17)	-	-	161	161	160
Other receivables from financing activities	(17)	-	-	36	36	36
Total Receivables from financing activities		**-**	**-**	**2,848**	**2,848**	**2,847**
Asset-backed financing	(24)	-	1,932	-	1,932	1,932
Debt payable to CNH Industrial Group post-Demerger	(24)	-	-	1,936	1,936	1,936
Borrowings from banks	(24)	-	769	-	769	768
Payables represented by securities	(24)	-	88	-	88	88
Other debt	(24)	-	67	-	67	67
Total Debt		**-**	**2,856**	**1,936**	**4,792**	**4,791**

Receivables from financing activities

The fair value of Receivables from financing activities is based on the discounted values of their related cash flows at market discount rates that reflect conditions applied in various reference markets on receivables with similar characteristic, adjusted to take into account the credit risk of the counterparties.

Debt

The fair value of Asset-backed financing, Borrowings from banks, Payable represented by securities and Other debt are included in the Level 2 and has been estimated based on discounted cash flows analysis using the current market interest rates at year-end adjusted for the Group non-performance risk over the remaining term of the financial liability. Debt payable to CNH Industrial Group post-Demerger is included in Level 3 as its carrying amount is estimated to approximate its fair value.

The fair value of Lease liabilities classified within Level 3 of the fair value hierarchy has been estimated using discounted cash flow models that require significant adjustments using unobservable inputs.

Other financial assets and liabilities

The carrying amount of Cash at banks, Restricted cash, Other cash equivalents, Trade receivables, Other current receivables and financial assets, Trade payables and Other current liabilities included in the statement of financial position approximates their fair value, due to the short maturity of these items.

32. Related party transactions

In accordance with IAS 24 – *Related Party Disclosures*, Iveco Group's related parties are companies and persons capable of exercising control, joint control or significant influence over the Group. As of December 31, 2020, 2019, and 2018, related parties included EXOR N.V and its subsidiaries and affiliates, including CNH Industrial Group post-Demerger, Stellantis N.V. (formerly Fiat Chrysler Automobiles N.V. which, effective January 16, 2021, merged with Peugeot S.A. by means of a cross-border legal merger) and its subsidiaries and affiliates ("Stellantis"), and Iveco Group's unconsolidated subsidiaries, associates or joint ventures. In addition, the members of the Board of Directors and managers of Iveco Group with strategic responsibility and members of their families were also considered related parties.

Transactions with EXOR N.V. and its subsidiaries and affiliates

EXOR N.V. is an investment holding company. As of December 31, 2020 and 2019, among other things, EXOR N.V. managed a portfolio that includes investments in Stellantis. Iveco Group did not enter into any significant transactions with EXOR N.V. during the years ended December 31, 2020 and 2019.

In connection with the establishment of Fiat Industrial (now CNH Industrial) through the demerger from Fiat (which was subsequently merged into Fiat Chrysler Automobiles N.V. which is now Stellantis), the two companies entered into a Master Services Agreement ("Stellantis MSA") which sets forth the primary terms and conditions pursuant to which the service provider subsidiaries of CNH Industrial and Stellantis provide services to the service receiving subsidiaries. As structured, the applicable service provider and service receiver subsidiaries become parties to the Stellantis MSA through the execution of an Opt-in letter that may contain additional terms and conditions. Pursuant to the Stellantis MSA, service receivers are required to pay to service providers the actual cost of the services plus a negotiated margin. During 2020, 2019, and 2018, Stellantis subsidiaries provided Iveco Group with administrative services such as accounting, cash management, maintenance of plant and equipment, security, information systems and training under the terms and conditions of the Stellantis MSA and the applicable Opt-in letters. After the Demerger, the Stellantis MSA is expected to be duplicated at the same terms and conditions between Iveco Group and Stellantis.

Furthermore, Iveco Group and Stellantis might engage in other minor transactions in the ordinary course of business.

These transactions with Stellantis are reflected in the Combined Financial Statements as follows:

	2020	2019	2018
		(€ million)	
Net revenues	524	642	633
Cost of sales	171	259	342
Selling, general and administrative costs	63	74	66

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Trade receivables	6	3	7
Trade payables	51	50	83

Transactions with CNH Industrial Group post-Demerger

Historically, Iveco Group and CNH Industrial Group post-Demerger entered into transactions primarily of commercial nature and consisting in the sale of engines from Iveco Group to CNH Industrial Group post-Demerger, but also covering services in relation to general administrative and specific technical matters, provided by either Iveco Group to CNH Industrial post-Demerger and vice versa.

The transactions with CNH Industrial Group post-Demerger are reflected in the Combined Financial Statements as follows:

	2020	2019	2018
		(€ million)	
Net revenues	526	701	761
Cost of sales	25	31	47

	At December 31, 2020	At December 31, 2019	At December 31, 2018
		(€ million)	
Trade receivables	159	124	208
Financial receivables	3,543	3,395	3,353
Debt	2,563	2,059	1,936
Trade payables	61	78	38

For completeness of information, before the Demerger, Iveco Group and the CNH Industrial Group entered into agreements, primarily of commercial nature, but also covering general administrative and specific technical matters as well as services provided by CNH Industrial N.V., as follows.

<u>Master Service Agreements</u>: in relation to certain services provided by either Iveco Group to CNH Industrial post-Demerger and vice versa, in connection with the execution of the Demerger Deed, Iveco Group and CNH Industrial entered into a two-year Master Services Agreement ("MSA") whereby each Party (and its subsidiaries) may provide services to the other (and its subsidiaries). Services provided under the MSA relate mainly to lease of premises and depots and IT services.

<u>Engine Supply Agreement</u>: in relation to the design and supply of off-road engines from Iveco Group to CNH Industrial post-Demerger, in connection with the execution of the Demerger Deed, Iveco Group and CNH Industrial entered into a ten-year Engine Supply Agreement ("ESA") whereby Iveco Group will sell to CNH Industrial post-Demerger diesel, CNG and LNG engines and provide post-sale services.

<u>Financial Service Agreement</u>: in relation to certain financial services activities carried out by either Iveco Group to CNH Industrial Group post-Demerger or vice versa, in connection with the execution of the Demerger Deed, Iveco Group and CNH Industrial entered into a three-year Master Services Agreement ("FS MSA"), whereby each Party (and its subsidiaries) may provide services and/or financial services activities to the other (and its subsidiaries). Services provided under the FS MSA relate mainly to wholesale and retail financing activities to suppliers, distribution network and customers.

Transactions with joint ventures

Iveco Group sells commercial vehicles and provides technical services to joint ventures such as IVECO - OTO MELARA Società Consortile a responsabilità limitata.

Net revenues from joint ventures totaled €603 million in 2020 (€481 million and €551 million in 2019 and 2018, respectively) and trade receivables from joint ventures totaled €125 at December 31, 2020 (€91 million and €76 million at December 31, 2019 and 2018, respectively).

At December 31, 2020, 2019, and 2018, Iveco Group had provided guarantees on commitments of its joint ventures for an amount of €211 million, €129 million and €140 million, respectively, mainly related to IVECO - OTO MELARA Società Consortile a responsabilità limitata.

Transactions with associates

Iveco Group sells trucks and commercial vehicles and provides services to associates. In 2020, revenues from associates totaled €155 million (€146 million and €142 million in 2019, and 2018, respectively). In 2020, cost of sales from associates totaled €12 million (€10 million and €24 million in 2019 and 2018, respectively). At December 31, 2020 receivables from associates amounted to €11 million (€14 million and €14 million in 2019, and 2018, respectively). Trade payables to associates amounted to €23 million at December 31, 2020 (€24 million and €27 million at December 31, 2019, and 2018, respectively). At December 31, 2020, 2019, and 2018, Iveco Group had provided guarantees on commitments of its associates for an amount of €263 million, €246 million and €228 million related to CNH Industrial Capital Europe S.a.S.

Transactions with unconsolidated subsidiaries

In the years ended December 31, 2020, 2019, and 2018, there were no material transactions with unconsolidated subsidiaries.

Compensation to Directors and Key Management

As the Iveco Group has not had its separate Board of Directors, no compensation of the Board of Directors has been presented.

Since the Iveco Group has not had a separate management team during the periods presented, a share of the compensation of CNH Industrial Group's key management was allocated to Iveco Group and recognized in the Combined Financial Statements for a total amount of €9 million in 2020 (€7 million and €10 million in 2019 and 2018, respectively). The allocation was determined using a key based on the number of employees.

As the Iveco Group did not operate as a stand-alone public company during the historical periods, the amounts presented above are not indicative of the Iveco Group's key management compensation in the future.

33. Explanatory notes to the statement of cash flows

The statement of cash flows sets out changes in cash and cash equivalents during the year. As required by IAS 7 - *Cash Flow Statements*, cash flows are separated into operating, investing and financing activities. The effects of changes in exchange rates on cash and cash equivalents are shown separately under the line item Translation exchange differences.

The Group presents supplemental discussion and disclosure regarding the statement of cash flows for the purpose of additional analysis. Items discussed below, are reflected within the combined statement of cash flows either on an aggregate or net basis, and accordingly have been discussed further as set forth below.

The Cash flows for income tax payments net of refunds in 2020 amount to €68 million (€99 million in 2019 and €88 million in 2018).

Total interest of €78 million was paid and interest of €22 million was received in 2020 (interest of €77 million was paid and interest of €5 million was received in 2019, respectively, and interest of €91 million was paid and interest of €6 million was received in 2018, respectively).

Operating activities

Cash flows from/(used in) operating activities derive mainly from the Group's main revenue producing activities.

Cash generated from the sale of vehicles under buy-back commitments, net of amounts included in Profit/(loss) for the period, is recognized under operating activities in a single line item, which includes changes in working capital, capital expenditure, depreciation and impairment losses.

Cash from operating lease is recognized under operating activities in a single line item, which includes capital expenditure, depreciation, write-downs and changes in inventory.

The adjustment to exclude Other non-cash items of €99 in 2020 (€34 million in 2019 and €-8 million in 2018) includes an amount of €76 million (€10 million in 2019 and €-13 million in 2018) related to result from investments net of impairment losses on assets recognized during the year.

Changes in working capital for 2020, 2019, and 2018 are summarized as follows:

	2020	2019	2018
		(€ million)	
Change in trade receivables	(107)	40	(43)
Change in inventories	133	(84)	(198)
Change in trade payables	102	150	(8)
Change in other receivables/payables	59	15	40
Change in working capital	**187**	**121**	**(209)**

Investing activities

Cash flows from/(used in) investing activities represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures resulting in an asset recognized in the balance sheet are classified as investing activities in the statement of cash flows. In particular, Cash flows from/(used in) investing activities include net change in receivables from financing activities that may be analyzed as follows:

	2020	2019	2018
		(€ million)	
Change in dealer financing	191	(293)	354
Change in retail financing	-	7	(14)
Change in finance leases	23	45	45
Change in other receivables from financing activities	1	(30)	3
Net change in receivables from financing activities	**215**	**(271)**	**388**

Liquidity absorbed by the increase in receivables from financing activities in 2020 was primarily a result of increased financing activities.

For consideration for the acquisition and disposal of subsidiaries and of other investments, refer to section "Business Combinations" above and to Note 14.

Financing activities

The net change in debt and derivative assets/liabilities mainly reflects changes in borrowings from banks and in asset-backed financing, together with changes in derivative assets and liabilities (consisting of derivative financial instruments measured at fair value at the balance sheet date, as discussed in Note 18 above).

Changes in 2020, 2019, and 2018 are summarized as follows:

	2020	2019	2018
		(€ million)	
Change in asset-backed financing	(102)	201	(91)
Change in borrowings from banks and other debt	(293)	(214)	34
Net change in debt	**(395)**	**(13)**	**(57)**
Net change in derivative assets and derivative liabilities	(4)	(15)	3
Net change in debt and derivative assets/liabilities	**(399)**	**(28)**	**(54)**

Reconciliation of changes in liabilities arising from financing activities may be analyzed as follows:

	2020	2019	2018
		(€ million)	
Total Debt at beginning of year(1)	3,088	2,855	2,984
Derivative (assets)/liabilities at beginning of year	4	2	-
Total liabilities from financing activities at beginning of year	**3,092**	**2,857**	**2,984**
Cash flows	(399)	(28)	(54)
Other changes	29	263	(73)
Total liabilities from financing activities at end of year	**2,754**	**3,092**	**2,859**
Of which:			
Total Debt at end of year(1)	2,750	3,088	2,857
Derivative (assets)/liabilities at end of year	4	4	2

(1) Excluding Debt payable to CNH Industrial Group post-Demerger

34. Subsequent events

Iveco Group has evaluated subsequent events through October 29, 2021, which is the date the financial statements were authorized for issuance. No significant events have occurred.

35. Companies included in the scope of the Combined Financial Statements

These Combined Financial Statements have been prepared to represent the combined historical results of operations, financial position and cash flows of the Iveco Group business structure that will be controlled by the Company following the Demerger. The Combined Financial Statements are presented as if the entities controlled directly or indirectly by CNH Industrial until the Demerger and that will be controlled by the Company afterwards, together with other assets and liabilities, had been combined for all periods presented.

The main legal entities comprising the Iveco Group, including major subsidiaries, joint ventures and associates, are provided below:

Name of Subsidiary	Country of Incorporation	Percentage Interest Held
Iveco S.p.A.	Italy	100.00%
FPT Industrial S.p.A.	Italy	100.00%
CNH Industrial Capital Solutions S.p.A.	Italy	100.00%
Iveco Magirus AG	Germany	94.00%
Iveco Espana S.L.	Spain	100.00%
IVECO FRANCE SAS	France	100.00%
CNH Industrial Financial Services S.A.	France	100.00%
Iveco Czech Republic A.S.	Czech Republic	98.84%
SAIC Fiat Powertrain Hongyan Co. Ltd.	People's Rep.of China	60.00%
Iveco Defence Vehicles SpA	Italy	100.00%
Iveco Limited	United Kingdom	100.00%
CAMIONES IVECO ARGENTINA S.A.	Argentina	100.00%
FPT INDUSTRIAL BRASIL LTDA.	Brazil	100.00%
Iveco Poland Sp. z o.o.	Poland	100.00%
Iveco Belgium N.V.	Belgium	100.00%
Magirus GmbH	Germany	84.43%
Heuliez Bus S.A.S.	France	100.00%
Iveco Trucks Australia Limited	Australia	100.00%
Name of Joint Venture		
Naveco (Nanjing IVECO Motor Co.) Ltd.(1)	People's Rep.of China	50.00%
Name of Associate		
CNH Industrial Capital Europe S.a.S.	France	24.95%(2)

(1) During the first half of 2021, Iveco Group and the partner (SAIC Group) completed the regulatory filings required for the finalization of the sale of our 30.1% to SAIC Group. Closing of the transaction occurred in the third quarter of 2021.

(2) This percentage represents the interest held by Iveco Group N.V. through its 50% interest in FS-Sub-Holding.

Iveco Group N.V.

Combined financial statements as at December 31, 2020, 2019 and 2018

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Building a better working world

Independent auditor's report

To the Board of Directors of

Iveco Group N.V.

Report on the audit of the combined financial statements

Opinion

We have audited the combined financial statements of the Iveco Group Business of CNH Industrial N.V. and its subsidiaries (the "Group"), which comprise the combined statement of financial position as at December 31, 2020, 2019 and 2018, and the combined income statement, combined statement of comprehensive income, cash flows and changes in invested equity for each of the three years in the period ended December 31, 2020, and notes to the combined financial statements, including a summary of significant accounting policies (collectively referred to as the "Combined Financial Statements").

In our opinion, the Combined Financial Statements give a true and fair view of the combined financial position of the Group as at December 31, 2020, 2019 and 2018, and of its combined financial performance and its combined cash flows for each of the three years in the period ended December 31, 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Combined Financial Statements section of our report. We are independent of the Iveco Group N.V. in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the combined financial statements in Italy, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The Combined Financial Statements were prepared solely for the purpose of its inclusion in the Prospectus to be filed in connection with the proposed separation of the Iveco Group Business from CNH Industrial N.V. and the admission to listing and trading of all the common shares of Iveco Group N.V. on the Euronext Milan, a regulated market operated by Borsa Italiana S.p.A..

Responsibilities of management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the Combined Financial Statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of Combined Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the Combined 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 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Combined Financial Statements

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Combined 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 Group'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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 Combined 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 the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Combined Financial Statements, including the disclosures, and whether the Combined Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Combined Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with management (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.

Turin, October 29, 2021

EY S.p.A.

Roberto Grossi

(Auditor)

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