

**Fiat Chrysler Finance Europe S.A.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AT 31 DECEMBER 2016**

**Fiat Chrysler Finance Europe S.A.**  
Registered Office: 24, Boulevard Royal  
L-2449 Luxembourg  
Share Capital: €251,494,000  
R.C.S. Luxembourg: B 59500

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# Board of Directors and Auditors

## BOARD OF DIRECTORS

### Chairman

Leonardo Cecchetti

### Directors

Marella Moretti  
Jacques Loesch

## INDEPENDENT AUDITOR

Ernst & Young S.A.

# REPORT ON OPERATIONS

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## OPERATING ENVIRONMENT

### GENERAL ECONOMIC ENVIRONMENT AND PERFORMANCE OF FINANCIAL MARKETS

Global growth for 2016 is estimated at 3.1 percent, in line with the previous year. This stable average growth rate, however, masks divergent developments in different country groups.

Economic growth in the USA progressed at a slower pace compared to last year. In 2016 growth stands at 1.9 down from 2.6 percent recorded in 2015. The economic cycle was positively affected by the considerable expansion in consumer spending, whilst investments continued to stagnate.

In Japan, weak consumption and investments continue to put undue strain on the economic cycle, the national GDP slowed down by 0.9 percent year on year (from 1.2 percent).

In the UK growth is estimated at a 2.2 percent (in line with the previous year), uncertainty about the future direction of policy, the relationship between the United Kingdom and the European Union, and the reaction of the economy remains high.

In the Eurozone economic growth continues to grow at a moderate pace, thanks to the support of internal components of demand. Growth in the Eurozone is expected to report a 1.8 percent growth in 2016, down compared to 2 percent registered in the previous year.

In China, economic growth remained stable, also due to the fiscal and monetary stimulus. In 2016 the activity should register a 6.7 percent improvement, a slight drop compared to 6.9 percent of the previous year.

Emerging countries continue to experience growth even if with different trends. In 2016, economic activity is expected to grow by 4.1 percent on average (a slight increase compared to 4 percent of the previous year).

In 2016 the average growth rate of retail prices should increase by 0,7 percent compared to the previous year even if it falls short of the objectives of central banks. A slight increase is expected in advanced economies, thanks to a slowdown in the reduction in energy prices. In the USA, inflation is expected to be 2.1 percent whilst the Eurozone should be around 1,1 percent.

The Federal Reserve continued its monetary policy normalization process by raising the Federal Funds target rate to 0.50-0.75 percent. The yield curve remained positive in line with previous year. Long-term yields dropped slightly, the 10-year swap rate equal to at 2.3 percent at year end (from 2.2 percent at the end of 2015) whereas the 3-month Libor rate up to 1 percent (from 0.6 percent of the previous year).

The Central European Bank has maintained an expansionary monetary policy approach, reducing the interest rate on bank deposits with the Eurosystem deposit facility by 5 basis points (bringing it down to zero) in 2016 and has extended the duration of the Asset Purchase Programme up to December 2017. The Eonia and 3-month Euribor rates registered new all-time-lows. Compared to the end of 2015 the rate curve has become moderately flat, the 3-month Euribor rate at the end of the year being -0.32 percent (from -0.13 at the end of 2015) and the 10-year swap rate 0.7 percent (compared to 1 percent). The short-term forward rates quoted by the market for the end of 2017 show stability expectations compared to the current level of spot rates.

The depreciation of the Euro continued in 2016 with the continued expansionary monetary policy by the ECB and expectations of new interest rate increases in the USA. The Euro reported a loss against the US dollar, exchange rate fell from 1.09 at the start of the year to 1.054 at the end of the year (-3 percent) and the Japanese yen (6 percent) but registered a gain against the British Pound (17 percent). With respect to the currencies of emerging countries, the Euro has gained against the Polish Zloty (3 percent), the Chinese Yuan (4 percent) and the Turkish Lira (17 percent). On the contrary, the performance of the Euro against the Brazilian Real was rather negative (-20 percent).

## CORPORATE OBJECTIVES AND STRATEGIES

The Fiat Chrysler Finance Europe S.A. and its subsidiaries ("the Group") act as the main treasury and financing vehicle of the Fiat Chrysler Group companies outside Italy. The Group finances its activity through bond issuance under the Global Medium Term Notes (GMTN), credit lines with leading international banks and intercompany loans.

In relation to the management of financial risks (liquidity, currency and interest rate), the Group follows the guidelines established by the relevant internal policies ("General aspects and credit risk management policies" Note 20).

For liquidity management in particular, the primary investment objective is the protection and ready convertibility to cash of capital invested, maintaining an adequate level of portfolio diversification.

In keeping with these general requirements, during the year the Group's surplus liquidity was placed in short-term deposits, remunerated current account and Liquidity Funds with major financial institutions. With regard to exposure to currency risk, the Group's exposure arises mainly due to the geographical diversity of the Group's activities and Fiat Chrysler Group companies to which cash management and other treasury services are provided. The Group seeks to minimize this exposure mainly by the use of forward foreign exchange contracts and currency swaps.

The Group manages interest rate risk substantially through matching the interest rate periods of financial assets and liabilities, thereby minimizing the risk arising from changes in the relevant rates.

## MAIN RISKS AND UNCERTAINTIES TO WHICH THE FIAT CHRYSLER GROUP IS EXPOSED

The Group provides cash management and treasury services to Fiat Chrysler Automobiles N.V. Group subsidiaries and is one of the main treasury affiliates of the Group operating on the international financial market. Its primary goal is to ensure that funds are available to support the operations of Fiat Chrysler Automobiles N.V. Group subsidiaries, that liquidity, cash flows and the exposure to financial risks are properly managed. As a consequence, earnings and financial position may be impacted by various macroeconomic factors – including increases or decreases in gross domestic product, the level of consumer and business confidence, changes in interest rates on consumer and business credit, the energy prices, the cost of commodities or other raw materials and the rate of unemployment – within the various countries in which it operates.

These potential developments could adversely affect the businesses and operations of the Fiat Chrysler Automobiles N.V. Group. In general, the sector in which the Fiat Chrysler Automobiles N.V. Group operates have historically been subject to highly cyclical demand and tend to reflect the overall performance of the economy, in certain cases even amplifying the effects of economic trends. Given the difficulty in predicting the magnitude and duration of economic cycles, there can be no assurances as to future trends in the demand for or supply of products sold by the Fiat Chrysler Automobiles N.V. Group in any of the markets in which it operates (For more details refer to Note 20).

## HUMAN RESOURCES

To meet its objectives, the Group employs highly-qualified personnel and during 2016 it continued its training activities, which are considered essential to the provision of qualified professional services.

At December 31, 2016, the Group had 11 employees.

## **CORPORATE GOVERNANCE STATEMENT**

Direction and coordination activities consist in the definition and updating of Group-wide models for the system of internal control, corporate governance and organizational structure, the dissemination of a Code of Conduct, which is adopted throughout the Group, and the establishment of general policies for the management of human and financial resources. Group coordination also includes centralized management of corporate, administrative, tax and internal audit services through specialized companies

Consistent with the above, the Company, which retains full management and operating autonomy, adopted a Code of Conduct that sets out the principles of professional conduct adhered to by the Company and the Group. The Company has also established a model of corporate governance and internal control through its organizational and reporting structure, a Compliance Program, which is continually revised to reflect legislative changes.

### **INTERNAL CONTROL SYSTEM**

The various corporate departments, with the support of Group Internal Audit, acted to ensure compliance with best management practices and the adequacy of the organizational structure and internal procedures. The Compliance Officer and the Compliance Program Supervisory Body at Group level (the institutional roles with responsibility for control) perform their activities in close collaboration with the management keeping them constantly apprised of the outcome of audits conducted and any need for improvement.

Overall, the Internal Control System operated alongside core business processes to enhance operating activities and manage the related risks, supporting management in the pursuit of its corporate objectives, in accordance with law and internal policies and procedures.

### **CODE OF CONDUCT**

The Board of Directors formally adopted the Group's Code of Conduct that reinforces the principles of sustainability, making express reference to compliance with the United Nations' Universal Declaration of Human Rights, the principal Conventions of the International Labor Organization (I.L.O.), the OECD Guidelines for Multinational Enterprises, and the United States Foreign Corrupt Practices Act (FCPA). Greater attention has been dedicated to issues relating to health and safety in the workplace and protection of the environment, with an emphasis on preventive risk assessment together with definition of the specific responsibilities of employees. The main issues addressed in the Code are set out in specific guidelines. The Code can be publicly consulted on the internet web site of Fiat Chrysler Automobiles N.V.

## **TRANSACTIONS WITH RELATED PARTIES**

In keeping with the by-laws, the Group acts as the treasury and financing vehicle of the Fiat Chrysler Group companies outside Italy.

Information on related-party transactions is contained in a separate note to the financial statements. At December 31, 2016, the Group did not hold, either directly or through third parties, its own shares or shares in its parent company, or buy and/or sell such shares during the year.

## OPERATING PERFORMANCE AND FINANCIAL REVIEW

The Group provides treasury services to local Fiat Chrysler Group companies, as explained in more detail in the notes to the financial statements.

These companies operate autonomously in their local market, equipped with an adequate organizational structure, and conduct their treasury activities in adherence with Fiat Chrysler Group's risk management policies.

The Group is active on the financial market in order to finance its activity or refinance position coming to maturity.

In 2016 FCFE repaid three notes coming to maturity, while no new notes were issued. The net cash flow related to capital market operation was negative for approximately EUR 2,4 billion

The Group's liquidity over the year has been mainly invested in short term bank deposits with a wide number of reputable financial institutions.

The Group closed 2016 with a loss of € 0.5 million.



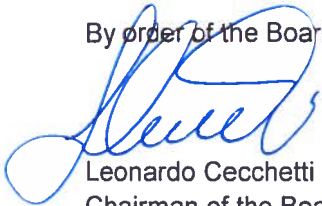
## Legal and Financial Information

### DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

1. the annual Consolidated Financial Statements of Fiat Chrysler Finance Europe S.A. presented in this Annual Report and established in conformity with measurement and recognition criteria of IFRS adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit of Fiat Chrysler Finance Europe S.A. and its subsidiaries at 31 December 2016; and
2. the Consolidated Management report includes a fair review of the development and performance of the business and position of Fiat Chrysler Finance Europe S.A. and its subsidiaries at 31 December 2016 and a description of the principal risks and uncertainties they face.

By order of the Board of Directors



Leonardo Cecchetti  
Chairman of the Board

February 23<sup>rd</sup>, 2017

# FIAT CHRYSLER FINANCE EUROPE S.A. CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2016

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2016**

(figures in €)	Notes	2016	2015
Revenue from services	1	180,170	943,118
Personnel costs	3	(1,324,825)	(1,882,531)
Other operating costs	4	(4,406,017)	(4,260,800)
Amortisation and depreciation		(178,038)	(185,304)
Financial income	5	628,871,514	721,571,167
Financial expense	6	(640,506,540)	(731,828,137)
Net gain on derivatives financial instruments	7	17,564,276	20,943,642
<b>PROFIT OR (LOSS) BEFORE TAXES</b>		<b>200,540</b>	<b>5,301,155</b>
Income taxes	8	(650,817)	(1,417,226)
<b>PROFIT OR (LOSS) FOR THE YEAR, ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>(450,277)</b>	<b>3,883,929</b>
 <b>OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS</b>			
Translation reserve		7,611,304	18,742,608
Cash flow hedges (net of tax)	9	(3,376,140)	13,303,995
Gain/(Losses) on cash flow hedge (net effect)		(4,606,189)	(33,069,321)
Transfer from cash flow hedge reserve (net effect)		1,230,049	46,373,316
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX</b>		<b>4,235,164</b>	<b>32,046,603</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS), NET OF TAX, ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>3,784,887</b>	<b>35,930,532</b>

The accompanying notes form an integral part of the consolidated financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

(figures in €)	Notes	2016	2015
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Non-current loans	10	220,847,197	-
Tangible assets		4,039	48,209
Intangible assets		162,111	248,060
Deferred tax asset	8	3,710,704	-
Escrow account	11	34,609,840	-
<b>Total non-current assets</b>		<b>259,333,891</b>	<b>296,269</b>
<b>CURRENT ASSETS</b>			
Current loans	12	8,799,132,824	11,595,328,724
Derivative financial instruments	13	205,569,783	237,401,722
Prepayments		38,937,409	54,240,650
Current tax receivable		1,439,224	1,147,409
Cash and cash equivalents	14	2,288,415,301	1,943,608,117
<b>Total current assets</b>		<b>11,333,494,541</b>	<b>13,831,726,622</b>
<b>TOTAL ASSETS</b>		<b>11,592,828,432</b>	<b>13,832,022,891</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital		251,494,000	251,494,000
Legal reserve		13,443,832	13,443,832
Reserves		81,533,597	77,748,709
<b>Total Equity</b>	15	<b>346,471,429</b>	<b>342,686,541</b>
<b>NON-CURRENT LIABILITIES</b>			
Non-current borrowings	16	5,689,796,350	7,953,054,454
Deferred tax liabilities	8	-	50,765
<b>Total non-current liabilities</b>		<b>5,689,796,350</b>	<b>7,953,105,219</b>
<b>CURRENT LIABILITIES</b>			
Current borrowings	17	5,322,373,269	5,366,389,637
Derivative financial instruments	18	227,511,105	161,552,204
Trade and other payables		6,676,279	8,289,290
<b>Total current liabilities</b>		<b>5,556,560,653</b>	<b>5,536,231,131</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>11,592,828,432</b>	<b>13,832,022,891</b>

The accompanying notes form an integral part of the consolidated financial statements

## CONSOLIDATED STATEMENT OF CASH FLOWS

### for the year ended 31 December 2016

(figures in €)	2016	2015
<b>Operating activities</b>		
Profit before tax	200,540	5,301,155
Adjustments to reconcile profit before tax to net cash flows:		
Net foreign exchange difference and derivatives effect	(17,564,276)	(20,943,642)
Finance income	(628,871,514)	(721,571,167)
Finance expense	640,506,540	731,828,137
Depreciation and amortisation of tangible and intangible assets	178,038	185,304
Working capital adjustments:		
(Decrease)/ increase in trade and other payables	(172,915)	889,745
Income tax paid	(942,633)	(1,421,206)
<b>Net cash flow generated by/(used in) operating activities</b>	<b>(6,666,220)</b>	<b>(5,731,674)</b>
<b>Investing activities</b>		
Loans (granted)/reimbursed	2,672,497,466	(864,871,022)
Interest received	631,256,692	776,742,029
Purchase of equipment and other tangible/intangible assets	(47,920)	(19,511)
Payment of escrow account	(34,609,840)	-
<b>Net cash flow generated by/(used in) investing activities</b>	<b>3,269,096,398</b>	<b>(88,148,504)</b>
<b>Financing activities</b>		
Proceeds from Bonds issued	-	69,941,732
Repayments of Bonds issued	(2,458,685,523)	(1,753,034,674)
Proceeds from other borrowings	356,470,861	290,492,787
Repayments of other borrowings	(106,034,662)	(205,000,000)
Transaction cost on credit line	-	(46,078,000)
Interest paid	(724,773,239)	(836,677,197)
<b>Net cash flow generated by/(used in) financing activities</b>	<b>(2,933,022,563)</b>	<b>(2,480,355,352)</b>
Effect of exchange rate adjustments on cash and bank balances	15,399,568	(31,142,242)
Net increase in cash and cash equivalents	344,807,184	(2,605,377,772)
Cash and cash equivalents at the beginning of the year	1,943,608,117	4,548,985,889
<b>Cash and cash equivalents at the end of the year/period</b>	<b>2,288,415,301</b>	<b>1,943,608,117</b>

The accompanying notes form an integral part of the consolidated financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016  
(€ thousand)

Attributable to equity holders of the parent

	EUR	EUR	EUR	EUR	EUR	EUR	EUR
	Issued capital	Legal reserve	Foreign currency translation reserve	Cash flow hedge reserve	Other reserves	Retained earnings	Total equity
<b>As at 1 January 2015</b>	251,494	13,438	19,784	(6,120)	4,412	23,748	306,756
Allocation of prior year result	---	6	---	---	935	(941)	---
Profit for the year	---	---	---	---	---	3,884	3,884
Other comprehensive income	---	---	18,743	13,304	---	---	32,047
Total comprehensive income	---	---	18,743	13,304	---	3,884	35,931
<b>At 31 December 2015</b>	<b>251,494</b>	<b>13,444</b>	<b>38,527</b>	<b>7,184</b>	<b>5,347</b>	<b>26,691</b>	<b>342,687</b>
Allocation of prior year result	---	---	---	---	---	---	---
Profit for the year	---	---	---	---	---	(450)	(450)
Other comprehensive income	---	---	7,611	(3,377)	---	---	4,234
Total comprehensive income	---	---	7,611	(3,377)	---	(450)	3,784
<b>At 31 December 2016</b>	<b>251,494</b>	<b>13,444</b>	<b>46,138</b>	<b>3,807</b>	<b>5,347</b>	<b>26,241</b>	<b>346,471</b>

The accompanying notes form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CORPORATE INFORMATION

Fiat Chrysler Finance Europe S.A. ("FCFE", the "Company"), was incorporated in 1997 under the laws of Luxembourg for an unlimited number of years. FCFE shares are held for 60.003% by Fiat Chrysler Finance S.p.A., and for 39.997% by Fiat Chrysler Automobiles N.V. which is also the ultimate parent company of the ultimate group (Fiat Chrysler Group). On December 15, 2011 in order to concentrate in one single entity the participations of the treasury companies operating in North America, the Company bought from Fiat Chrysler Finance S.p.A. and Fiat Chrysler Automobiles N.V. their participations in Fiat Chrysler Finance North America Inc. and from Fiat Chrysler Finance S.p.A. the participation in Fiat Chrysler Finance Canada Ltd. and became a parent company ("the Group").

The Group acts as the main treasury and financing vehicle of the Fiat Chrysler Group companies outside Italy.

The Group's parent company, Fiat Chrysler Finance Europe S.A. has its registered office at 24, Boulevard Royal, Luxembourg. The Company has two operational branches in the UK (London) and Spain (Madrid).

The consolidated financial statements as at December 31, 2016 were authorized for issue in accordance with a resolution of the Board of Directors on February 23, 2017. Under Luxembourg law the consolidated financial statement are approved by the Shareholders at the annual general meeting.

## SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and with their interpretation by the Standing Interpretations Committee (SIC) and International Financial Reporting Interpretation Committee (IFRIC), and endorsed by the European Union ("EU"). The management report and corporate governance statement are prepared pursuant to Luxembourg legal and regulatory requirements added to these financial statements.

### Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, that would otherwise be carried at amortized cost, are adjusted to record changes in the fair values attributable to the risk that is being hedged in effective hedge relationship.

The Group's accounting years starts on January 1 and ends on December 31.

The Consolidated Financial Statements are presented in Euros ("EUR"). Figures in the notes are presented in thousands of Euros.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent and its subsidiaries as at December 31, 2016. 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. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Subsidiaries are fully consolidated.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group transactions and balances are fully eliminated.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets liabilities, and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

On December 15, 2011 in order to concentrate the participations of the treasury companies operating in North America in one single entity the Company bought from Fiat Chrysler Finance S.p.A. and Fiat Chrysler Automobiles N.V. their participations in Fiat Chrysler Finance North America Inc. and from Fiat Chrysler Finance S.p.A. the participation in Fiat Chrysler Finance Canada Ltd.. Hence, this transaction qualified for a business combination under common control using the pooling of interests method, where no goodwill / badwill were recognized. Moreover no significant differences were identified between the net asset value at the date of acquisition and the acquisition price, so that this transaction did not impact the reserves of the Group.

## Foreign currency translation

### *Group companies*

The Group's consolidated financial statements are presented in EUR which is also the parent company's functional currency. Fiat Chrysler Finance North America Inc. functional currency is US dollars ("USD"), and Canadian dollars ("CAD") for Fiat Chrysler Finance Canada Ltd.. On consolidation the assets and liabilities of these two foreign subsidiaries are translated into EUR at the rate of exchange prevailing at the reporting date and their income statements are translated at average rate during the year. The exchange differences arising on translation for consolidation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## ***Transactions and balances***

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated at the exchange rate prevailing on that date.

Currency translation differences arising on the settlement of monetary items or on translation of such items at rates which differ from those used for initial recognition during the year or in a previous period are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

## **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

## **Financial assets**

### **Initial recognition and measurement**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value, plus in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

### **Subsequent measurement**

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial investments

The following categories of financial asset are defined in IAS 39 is relevant in the Group's financial statements.

### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Gains or losses on assets held for trading are recognised in the statement of profit or loss.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. This category generally applies to derivatives not designated as effective hedge instruments. For more information on derivative financial assets, refer to note 13.

## Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. Should the losses arise from impairment, they would be recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to loans. For more information on loans, refer to note 12.

## Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

## Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## Impairment of financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

#### Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

#### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied.

This category generally applies to derivatives not designated as effective hedge instruments. For more information on derivative financial liabilities, refer to note 18.

#### Loans and borrowings

This is the most relevant category to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to borrowings. For more information on borrowings, refer to notes 16 and 17.

## **Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

## **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

## **Derivative financial instruments and hedge accounting**

### **Initial recognition and subsequent measurement**

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and cross currency swaps, to hedge its foreign currency risks and interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

## **Fair value hedges**

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as finance costs. For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

## **Cash flow hedges**

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as other operating expenses.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised in finance costs.

Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

## **Cash and cash equivalents**

Cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal. Amounts on deposit, available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as cash and cash equivalent. Time deposits, current accounts and money market accounts that meet the above criteria are reported at par value on the statement of financial position, which also represents their fair value.

## **Other current assets and liabilities**

Other current assets and other liabilities consist of accrued or deferred income or expense.

## **Tangible assets**

Tangible assets include furniture, office machines and equipment.

They are initially recognized at purchase cost, inclusive of any expenses directly related to their purchase or installation, and are not subsequently revalued but are carried net of any accumulated depreciation and impairment losses, if any.

Tangible assets are depreciated on a straight-line basis over their estimated useful lives at the following rates:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Annual depreciation rate

Fixtures and furnishings	33,3%
Other Tangible fixed assets	33,3%
Electronic equipment	33,3%

The residual values, useful lives and methods of depreciation of tangible assets are reviewed at each financial year end and adjusted prospectively, if appropriate.

Tangible assets are derecognized when the assets are sold or if future economic benefits from their use are no longer expected. Any gain or loss arising on derecognition of the asset is included in the income statement when the asset is derecognized.

## Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance that are held for use for periods of more than one year. These include software developed in-house or acquired from third parties.

Software development expenses are recognized as intangible assets subject to verification that completion of the related projects is technically feasible and that they can generate future economic benefits.

Upon completion and placement in service, applications are amortized on a straight-line basis over their useful life, which is estimated at five years. If the recoverable value of these assets is less than their carrying amount, the difference is recognized in profit or loss.

Intangible assets are derecognized when they are sold or if future economic benefits from their use are no longer expected.

## Financial income and expense

Financial income and expense are recognized in profit and loss according to the matching principle. Specifically, interest is recognized on a time-proportion basis which takes into account the effective yield.

## Income taxes

### Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

### Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Fair value measurement

The Group measures financial instruments such as derivatives at fair value at each balance sheet date. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

Disclosures for valuation methods, significant estimates and assumptions	Section "Significant accounting judgments, estimates and assumptions"
Quantitative disclosures of fair value measurement hierarchy	Note 20
Financial instruments (including those carried at amortised cost)	Note 20

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability

Or

In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statement are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statement on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## **Changes in accounting policies and disclosures**

### ***New and amended standards and interpretations***

Although new amendments and standards issued and endorsed by the EU, which are effective for annual periods beginning on or after 1 January 2016, applied for the first time in 2016, they did not have any impact on the consolidated financial statements of the Group.

### **Significant accounting judgements, estimates and assumptions**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

### **Taxes**

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on taxes are disclosed in Note 8

Contingencies are disclosed in Note 19

### **Fair value measurement of financial instruments**

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

See Note 20 for further details.

### **Standards issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing includes relevant standards and interpretations not yet effective which are expected to have an impact on the Group's financial position, performance and disclosure, as the Group intends to adopt those standards when they become effective and/or adopted by EU.

### **IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date as endorsed by the EU.

#### **(a) Classification and measurement**

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## (b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its loans and receivables, either on a 12-month or lifetime basis. The Group needs to perform a detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

## (c) Hedge accounting

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9. The Group will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

### **Amendments to IAS 7 Statement of cash flows – Disclosure Initiative**

The amendments of IAS 7 require that an entity shall provide disclosures that enable users of consolidated financial statement to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. An entity shall apply those amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted. When the entity first applies those amendments, it is not required to provide comparative information for preceding periods. This amendment has not yet been endorsed by the EU.

### **Amendments to IAS 12 Income Taxes**

The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses and how to account for deferred tax assets related to debt instruments measured at fair value. These amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. These amendments are not expected to have any impact on the Group. This amendment has not yet been endorsed by the EU.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Segment information

Operations of the Group are managed as part of the management structure of the ultimate Fiat Chrysler Group such that there is not a dedicated management structure for the Group. No dedicated management reporting information is presented for the Group to a chief decision maker; only the annual consolidated financial statements are presented to the Board of Directors in analysing the performance of the Group.

Information about services

(€ thousand)	2016	2015
Revenues from services rendered to Group companies	180	943
<b>Total revenues</b>	<b>180</b>	<b>943</b>

Revenues from services relate to financial consultancy services to Fiat Chrysler Group companies.

No single customer accounted for 10% or more of total revenue in 2016 or 2015.

Geographic information

The following tables show the distribution of revenue from services and non-current assets allocated based on the market's activities. The parent company activities are based in Europe, and its subsidiaries operate in American markets.

(€ thousand)	2016		
CONSOLIDATED STATEMENT OF PROFIT OR LOSS	EUROPE	AMERICA	Total
Revenue from services	150	30	180

(€ thousand)	2016		
NON CURRENT ASSETS	EUROPE	AMERICA	Total
Tangible assets	4	-	4
Intangible assets	162	-	162
Escrow account	34,609	-	34,609

The following tables show the segment information as disclosed as of December 31, 2015:

(€ thousand)	2015		
CONSOLIDATED STATEMENT OF PROFIT OR LOSS	EUROPE	AMERICA	Total
Revenue from services	213	730	943

(€ thousand)	2016		
NON CURRENT ASSETS	EUROPE	AMERICA	Total
Tangible assets	2	46	48
Intangible assets	248	-	248

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. Group information

Fully-controlled Subsidiaries As at December 2016 and 2015	% of share capital	% voting shares	Registered office
FIAT CHRYSLER FINANCE CANADA LTD.	100.00%	100.00%	Calgary (Canada)
FIAT CHRYSLER FINANCE NORTH AMERICA INC.	100.00%	100.00%	Wilmington (USA)

## 3. Personnel costs

(€ thousand)	2016	2015
Salary	(1,121)	(1,570)
Social Security Contributions	(125)	(248)
Other employee benefits	(79)	(65)
<b>Total</b>	<b>(1,325)</b>	<b>(1,883)</b>

## 4. Other operating costs

(€ thousand)	2016	2015
Information technology expenses	(639)	(853)
Building-related costs	(301)	(452)
Professional services and consultancy	(2,105)	(1,501)
Fees paid to independent auditors	(112)	(130)
Other personnel costs	(153)	(121)
Other management costs	(116)	(138)
Indirect Taxes & Other taxes	(980)	(1,066)
<b>Total</b>	<b>(4,406)</b>	<b>(4,261)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. Financial income

	2016	2015
(€ thousand)		
<b>Financial Income from Fiat Chrysler Group companies:</b>		
Interest income from current accounts	587,160	666,239
Interest and other income on loans	39,591	52,808
Other Interest income and similar charges	89	-
<b>Total Financial Income from Fiat Chrysler Group Company</b>	<b>626,840</b>	<b>719,047</b>
<b>Financial Income from third parties:</b>		
Interest income from current accounts	885	918
Interest income on bank deposits	975	1,473
<b>Other financial income:</b>		
Commission on guarantees and credit lines	172	133
<b>Total Financial Income from third parties</b>	<b>2,032</b>	<b>2,524</b>
<b>Total financial income</b>	<b>628,872</b>	<b>721,571</b>

Financial income relates essentially to the activity, in both euros and other currencies, carried out by the Company for the management of funding for the Group.

### 6. Financial expense

	2016	2015
(€ thousand)		
<b>Financial expense to Fiat Chrysler Group companies:</b>		
Interest expense on current accounts	(8,784)	(9,853)
Interest and other expense on loans	(10,884)	(11,115)
<b>Other financial expense:</b>		
Commission on guarantees and credit lines	(3,063)	(3,448)
<b>Total financial expense to Fiat Chrysler Group companies</b>	<b>(22,731)</b>	<b>(24,416)</b>
<b>Financial expense to third parties:</b>		
Interest expense on current accounts	(209)	(154)
Interest and other expense on borrowings	(566,145)	(654,733)
<b>Other financial expense:</b>		
Commission on guarantees and credit lines	(51,422)	(52,525)
<b>Total financial expense to third parties</b>	<b>(617,776)</b>	<b>(707,412)</b>
<b>Total financial expenses</b>	<b>(640,507)</b>	<b>(731,828)</b>

Financial expenses relates to interest on Bonds issued under GMTN, commission on credit line and intercompany activity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. Net gain on derivatives financial instruments

(€ thousand)	2016	2015
Foreign exchange rate Gain/(Losses)	(15,252)	(12,082)
Derivatives Instruments Interest and Currency rates swap Gain/(Losses)	32,816	33,026
<b>Net Gains/(Losses) on derivative financial instruments</b>	<b>17,564</b>	<b>20,944</b>

Foreign exchange rate Gain/(Losses) includes realized and unrealized gains and losses, on currency hedges (e.g., outright and forex swaps), as well as limited derivatives activity on other underlying, entered into between Fiat Chrysler Group counterparties, on one side, and international banking institutions. Derivatives Instruments Interest and Currency rates swap Gain/(Losses) includes realized and unrealized gains and losses, on interest rate and currency hedges (e.g., interest rate swaps, cross currency swaps).

## 8. Income taxes

Consolidated statement of profit or loss	2016	2015
(€ thousand)		
Current income tax:		
Current income tax charge	(358)	(2,189)
Deferred tax:		
Adjustment on prior year taxation	(416)	924
Relating to origination and reversal of temporary differences	123	(152)
<b>Income tax expense reported in the statement of profit or loss</b>	<b>(651)</b>	<b>(1,417)</b>
Consolidated statement of OCI	2016	2015
(€ thousand)		
Deferred tax related to items recognised in OCI during in the year:		
Net (gain)/loss on revaluation of CFH	590	(6,494)
<b>Deferred tax charged on OCI (Note 9)</b>	<b>590</b>	<b>(6,494)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation of tax expense and the accounting profit multiplied by Luxembourg's tax rate for 2015 and 2016:

	2016	2015
(€ thousand)		
<b>Accounting profit before income tax</b>	<b>201</b>	<b>5,301</b>
At Luxembourg statutory income tax rate of 29.22% (2015: 29.22%)	(59)	(1,549)
Adjustment on prior year taxation	(416)	924
Effect of higher tax rates in the United States	(176)	(792)
<b>At the effective income tax rate of 323% (2015: 27%)</b>	<b>(651)</b>	<b>(1,417)</b>

	Consolidated statement of financial position		Consolidated Statement of profit or loss	
	2016	2015	2016	2015
<b>Deferred tax</b>				
(€ thousand)				
Accelerated depreciation for tax purposes	(13)	(15)	2	4
Revaluation of cash flow hedges	(682)	(1,267)	-	-
Deferred tax asset on tax losses	1,072	90	982	90
Revaluation of other derivatives	978	1,141	(360)	(245)
Other temporary differences*	2,356		(501)	
<b>Deferred tax</b>	<b>3,711</b>	<b>(51)</b>	<b>123</b>	<b>(151)</b>

<b>Net deferred tax assets/(liabilities)</b>	<b>2016</b>	<b>2015</b>
(€ thousand)		
Reflected in the statement of financial position as follows:		
Deferred tax assets	3,724	-
Deferred tax liabilities	(13)	(51)
<b>Deferred tax assets, net</b>	<b>3,711</b>	<b>(51)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation of deferred tax assets, net	2016	2015
(€ thousand)		
<b>As of 1 January</b>	<b>(51)</b>	<b>6,135</b>
Tax income/(expense) during the period recognised in profit or loss	123	(151)
Tax income/(expense) during the period recognised in OCI	590	(6,494)
Other temporary differences*	2,746	-
Revaluation of other derivatives	178	-
Foreign exchange on deferred tax asset/ liabilities	125	459
<b>As at 31 December</b>	<b>3,711</b>	<b>(51)</b>

\* The amount corresponds to tax credit that FCFNA claimed in relation to withholding tax expenses, as foreseen by the applicable US tax laws. The tax credit will be used in the future fiscal years and may be carried forward during a period of 10 years.

### 9. Deferred tax on Other Comprehensive Income

In 2016, tax effect on Other Comprehensive Income is related to income recognized in the cash flow hedge reserve and transfer from cash flow hedge reserve amounted to **EUR (3,4) million** (EUR 13,3 million as at December 31, 2015), and it contains the movement on cash flow hedge reserve for Fiat Chrysler Finance Europe and its subsidiaries.

(€ thousand)	2016	2015
Net Gain/(Losses) on cash flow hedge (gross effect)	(5,660)	(18,978)
Net Gain/(Losses) on cash flow hedge (tax effect)	1,054	(14,091)
<b>Total net gain/(losses) on cash flow hedge (net effect)</b>	<b>(4,606)</b>	<b>(33,069)</b>
Movement on cash flow hedge reserve (gross effect)	1,694	38,776
Movement on cash flow hedge reserve (Tax effect)	(464)	7,597
<b>Total Movement on cash flow hedge reserve (net effect)</b>	<b>1,230</b>	<b>46,373</b>
<b>Change on Cash flow hedge reserve at December 31, 2016:</b>	<b>(3,376)</b>	<b>13,304</b>

### 10. Non-current loans

(€ thousand)	2016	2015
<b>Non-Current loans:</b>		
Loans	220,847	-
<b>Total</b>	<b>220,847</b>	<b>-</b>

The non-current loan is owed by affiliated companies due and payable after more than 1 year.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. ESCROW ACCOUNT

On 21 October 2015, the European Commission issued a decision addressed to the Grand Duchy of Luxembourg ("Luxembourg") in case SA.38375 (2014/C ex 2014 NN) stating that the tax ruling issued on 3 September 2012 in favor of FCFE constitutes state aid which is incompatible with the internal market being in breach of Article 108(3) of the TFEU.

Fiat Chrysler Finance Europe and Luxembourg brought an action seeking the annulment of the Contested Decision. This action is being heard by the Court under case number T-755/.

Waiting for the outcome of the appeal in order to fulfil Luxembourg's recovery obligation under Article 2(1) of the Contested Decision FCFE paid into an escrow account the amount of the alleged state aid that has been evaluated as follows:

2012	EUR 11.588.861
2013	EUR 11.538.263
2014	EUR 11.482.716

TOTAL EUR 34.609.840

The fiduciary assets will be retained until the General Court or the Court of Justice renders the final judgment.

## 12. Current loans

At December 31, 2016, this item consisted of amounts receivable from Fiat Chrysler Group companies, broken down as follows:

(€ thousand)	2016	2015
<b>Current loans:</b>		
Current accounts	8,524,745	10,056,452
Loans	274,388	1,538,877
<b>Total</b>	<b>8,799,133</b>	<b>11,595,329</b>

## 13. Derivative financial instruments

(€ thousand)	2016	2015
<b>Derivative financial instruments:</b>		
Back to back derivatives		
with Fiat Chrysler Group counterparties	54,039	8,570
with external counterparties	34,961	43,745
Hedging derivatives		
with Fiat Chrysler Group counterparties	-	-
with external counterparties	116,570	185,087
Fees receivable on guarantees and lines of credit	-	-
<b>Total</b>	<b>205,570</b>	<b>237,402</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

These derivatives are essentially forward transactions and swaps on currencies, interest rates, and cross currency swaps.

The aggregate fair value of the derivative financial instruments designated as fair value hedge at the end of the reporting period was a liabilities of EUR (84,6) million (2015: liabilities of EUR (38,1)million).

The aggregate fair value of the derivative financial instruments designated as cash flow hedge at the end of the reporting period was an asset of EUR 86,1 million (2015: asset of EUR 126,0 million).

### 14. Cash and cash equivalents

(€ thousand)	2016	2015
<b>Current account</b>	488,313	223,323
<b>Deposits</b>	600,001	991,950
<b>Liquidity fund</b>	1,200,101	728,335
<b>Total</b>	<b>2,288,415</b>	<b>1,943,608</b>

This item relates to Cash and cash equivalents held by the Company with major international banks.

Liquidity Funds used by the Company and its subsidiaries are money market instruments rated AAAM by S&P and/or Aaa by Moody's. The product offers same value day liquidity and an attractive yield compared with time deposits.

### 15. Equity

#### Share capital

(€ thousand)	2016	2015
13,416 shares with no nominal value	251,494	251,494

#### Subscribed capital

The share capital of the Company amounts to EUR 251,494,000 represented by 13,416 shares fully subscribed and paid up with no nominal value. The authorized capital of the Company amounts to EUR 500,000,000.

#### Capital Management

The Company is not subject to any specific constraints on equity within its course of business. Management believes that the capital structure of the Company is fully adequate to its operations.

#### Legal reserve

Under Luxembourg Law the Company must appropriate to a legal reserve a minimum of 5% of the annual net profit until such reserve is equal to 10% of the issued share capital. The legal reserve is not available for distribution.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Other reserves

In accordance with the provisions of the Luxembourg tax law, the Company opted for the reduction of the net worth tax by posting an amount equivalent to five times the net worth tax due to "Other Reserves". This reserve is to be maintained for a period of five years following the year in which the net worth tax was reduced.

## Dividend policy

Dividends payable are recognized as changes in equity for the period in which they are approved by shareholders.

## Cash flow hedge reserve

As of December 31, 2016 and 2015, a cash flow hedge reserve of € 3,8 million and € 7,2 million (net of tax) was recorded to be released upon the maturing interest portions of the notes payable.

As at December 2016 the variance on the amount of cash flow reserve of the group is € (3,4).

## Translation reserve

The net investments in overseas subsidiary undertakings are translated from their functional currency into EURO at the rate of exchange ruling at the balance sheet date. The exchange differences arising on the retranslation of opening net assets are taken directly to the translation reserve.

## 16. Non-Current Borrowings

(€ thousand)	2016	2015
<b>Non-current borrowings</b>		
<b>from third parties*</b>	<b>5,689,796</b>	<b>7,953,054</b>
<b>Total</b>	<b>5,689,796</b>	<b>7,953,054</b>

\*bonds issued outstanding as at December 31, 2016 are as follows:

- (1) Bond for which a listing at Dublin or Swiss Stock Exchange was obtained.
- (2) European Inflation Linked Notes (Harmonized Index for Computer Prices – HICP)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Currency	Face value of outstanding bonds	Maturity	Face value of outstanding amount
		(in million)		(€ million)
<b>Global Medium Term Notes:</b>				
Fiat Chrysler Finance Europe S.A. (1)	EUR	850	23 March 2017	850
Fiat Chrysler Finance North America Inc. (1)	EUR	1000	12 June 2017	1000
Fiat Chrysler Finance Europe S.A. (1)	CHF	450	22 November 2017	419
Fiat Chrysler Finance Europe S.A. (1)	EUR	600	9 July 2018	600
Fiat Chrysler Finance Europe S.A. (1)	EUR	1250	15 March 2018	1250
Fiat Chrysler Finance Europe S.A. (1)	EUR	1250	14 October 2019	1250
Fiat Chrysler Finance Europe S.A. (1)	CHF	250	30 September 2019	233
Fiat Chrysler Finance Europe S.A. (1)	EUR	1000	22 March 2021	1000
Fiat Chrysler Finance Europe S.A. (2)	EUR	7	16 February 2021	7
Fiat Chrysler Finance Europe S.A. (1)	EUR	1350	15 July 2022	1350
<b>Total Bonds*</b>				<b>7959</b>

\*for the total bonds please refer to note 18 and 19 current and non-current loans

Changes in bonds during 2016 are due to the repayment on maturity of follow bonds:

- 1<sup>st</sup> of April 2016 for a nominal value of € 1,000 million issued by Fiat Chrysler Finance Europe S.A. in 2011;
- 17<sup>th</sup> of October 2016 bond with a nominal value € 1,000 million issued by Fiat Chrysler Finance Europe S.A. in 2012;
- 23<sup>rd</sup> November 2016 repayment of bond with a nominal value of CHF 400 million issued by Fiat Chrysler Finance Europe S.A. in 2012;

All bonds and notes have been issued under a Global Medium Term Note Programme (GMTN) which increased from EUR 3 billion to EUR 6 billion on 21 February 2000, to EUR 10 billion on 27 July 2000, to EUR 15 billion on 18 May 2001 and to EUR 20 billion on 19 December 2014. At December 31, 2016 €8,0 billion have been issued (€ 10,3 billion at December 31, 2015). The Program is guaranteed by Fiat Chrysler Automobiles N.V. The issuers taking part in the program include, amongst others, Fiat Chrysler Finance Europe S.A. for an amount outstanding of € 7,0 billion and Fiat Chrysler Finance North America Inc. with a bond having a nominal value of € 1 billion.

The Group intends to repay the bonds issued in cash at maturity by utilizing available liquid resources. In addition, the companies in the Fiat Chrysler Group may from time to time buy back bonds on the market that have been issued by the Group, also for purposes of their cancellation. Such buybacks, if made, depend upon market conditions, the financial situation of the Group and other factors which could affect such decisions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The prospectuses and offering circulars, or their extracts relating to the principal bond issues are available on the Group's website at [www.fcagroup.com](http://www.fcagroup.com) under "Investors". These documents are unaudited. The bonds issued by Fiat Chrysler Finance Europe S.A. and by Fiat Chrysler Finance North America Inc. impose covenants on the issuer and, in certain cases, on Fiat Chrysler Automobiles N.V. as guarantor, which is standard international practice for similar bonds issued by companies in the same industry sector as the Group. Such covenants include: (i) negative pledge clauses which require that bonds benefit from any existing or future pledges of assets of the issuer and/or Fiat Chrysler Automobiles N.V. granted in connection with other bonds or debt securities having the same ranking; (ii) pari passu clauses, under which no obligations ranking senior to the bonds in question may be assumed; (iii) periodic disclosure obligations; (iv) for bond issued under the Global Medium Term Notes programme, cross-default clauses which require immediate repayment of the bonds under certain events of default on other financial instruments issued by the Group's main entities; and, (v) other clauses that are generally applicable to securities of a similar type. A breach of these covenants can lead to the early repayment of the notes. In addition, the agreements for the bonds guaranteed by Fiat Chrysler Automobiles N.V. contain clauses which could lead to a requirement to make early repayment if there is a change of the controlling shareholder of Fiat Chrysler Automobiles N.V. which leads to a resulting downgrading by the ratings agencies.

### 17. Current borrowings

Borrowings consisted of amounts payable to Fiat Chrysler Group companies and credit institutions, as follows:

(€ thousand)	2016	2015
<b>Borrowings</b>		
<b>Current accounts :</b>		
held by Fiat Chrysler Group companies	1,273,474	1,533,008
held by third parties	83	4,869
<b>Loans:</b>		
from Fiat Chrysler Group companies	1,516,293	900,289
from third parties*	2,532,523	2,928,224
<b>Total</b>	<b>5,322,373</b>	<b>5,366,390</b>

(\* ) Including outstanding bonds with maturity within one year. Nominal values are indicated in the table in the previous page.

### 18. Derivative financial instruments

(€ thousand)	2016	2015
<b>Derivative financial instruments:</b>		
Back to back derivatives		
with Fiat Chrysler Group counterparties	5,704	1,416
with external counterparties	106,648	62,966
<b>Hedging derivatives:</b>		
with external counterparties	115,159	97,170
<b>Total</b>	<b>227,511</b>	<b>161,552</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

This item includes financial derivatives, having a negative fair value, used by the Company to hedge its own fixed-rate and foreign currency positions and trading derivatives. These derivatives are essentially forward transactions and swaps on currencies, interest rates, and cross currency swaps.

Cash flows are expected to occur between June 2007 and September 2019 and will be recognised through profit or loss at that time.

The valuation techniques applied to fair value the derivatives include the swap models, using present value calculations. The model incorporates various inputs including the credit quality of counterparties and forward rates.

## 19. Guarantees, commitments and contingencies

As of December 31, 2016, Fiat Chrysler Finance Europe S.A. has issued guarantees in favor of Fiat Chrysler Group Companies for a total amount of 3,4 EUR million (4,1 EUR million at December 31, 2015).

The subsidiary Fiat Chrysler Finance North America Inc. hadn't outstanding stand-by letters of credit issued on behalf of affiliated companies as at December 31, 2016, at December 31, 2015 subsidiary had outstanding stand-by letters of credit of 9,2 EUR million (11,2 USD million equivalent).

On June 11, 2014 the European Commission announced the opening of an investigation against the Grand Duchy of Luxembourg into the five years tax ruling issued by the Luxemburg Tax Authorities in 2012, regarding the calculation of the taxable basis of the financing activities carried out by Fiat Chrysler Finance Europe S.A. for the benefit of the FCA Group's European operations, on the ground that such ruling could yield a tax treatment for company's income in alleged violation of EU state aid rules.

On October 21, 2015 the European Commission issued a decision finding that the tax ruling granted by Luxembourg represented a state aid to Fiat Chrysler Finance Europe S.A.

On December 29, 2015 Fiat Chrysler Finance Europe S.A. appealed against the decision with the General Court of the European Union. Luxembourg state has also filed an appeal against the decision with the General Court of the European Union.

Waiting for the outcome of the appeal in order to fulfil Luxembourg's recovery obligation under Article 2(1) of the Contested Decision, FCFE paid into an escrow account the amount of the alleged state aid (NOTE 11).

Fiat Chrysler Finance Europe S.A. believes its and Luxembourg's appeals raise very strong arguments against the EC's position, that the tax ruling is consistent with OECD principles and that no provision is necessary at this stage.

## 20. Information on risks and hedging policies

### Estimated Fair Value of Financial Instruments

The following methods and significant assumptions were used to determine the fair value of financial instruments:

- cash and cash equivalent: the carrying amount is assumed to approximate fair value;
- current loans: the carrying amount is assumed to approximate fair value;
- other current assets: the carrying amount is assumed to approximate fair value;

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- non-current loans: the fair value is determined with reference to market rates, when available, or by discounting future cash flows at the market rates at the reporting date adjusted as necessary;
- current borrowings: the fair value is obtained using market rates at the reporting date; the fair value of current borrowings is determined with reference to market rates, when available, or by discounting future cash flows at the market rates at the reporting date, adjusted as necessary;
- other current liabilities: the carrying amount is assumed to approximate fair value;
- non-current borrowings: the fair value is determined, in the absence of quotations on an active market, by referring to a security with analogous financial characteristics or, in their absence, by discounting cash flows, considering any factors that can influence the value of the security in question (e.g., credit rating);
- financial derivatives are measured at fair value and recognized either in other financial assets and liabilities depending on the rights and obligations under the contract, the determination of fair value applies the value of market variables at the reporting date and uses valuation models that are widely used in the financial sector. In particular:
  - the fair value of forwards and currency swaps is computed on the basis of the exchange rate and interest rates in the two currencies at the reporting date;
  - the fair value of interest rate swaps, cross currency swaps and forward rate agreements is determined by using discounted cash flow method.

The below fair value have been determined by reference to available market information and the above indicated methodologies:

<b>December 31, 2016</b> (€ thousand)	<b>Nominal value</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Difference</b>
<b>ASSETS</b>				
Cash and cash equivalents	2,288,415	2,288,415	2,288,415	-
Current and non-current loans (loans and receivables)	9,002,290	9,019,980	9,042,976	22,996
	<b>11,290,705</b>	<b>11,308,395</b>	<b>11,331,391</b>	<b>22,996</b>
<b>LIABILITIES</b>				
Current and non-current borrowings (other financial liabilities)	10,746,861	11,012,170	11,673,648	661,478
	<b>10,746,861</b>	<b>11,012,170</b>	<b>11,673,648</b>	<b>661,478</b>
<b>DERIVATIVES</b>				
Forward currency contracts (FVTPL)				
Interest rate swaps (FVTPL)	6,503,624	(28,750)	(28,750)	-
Interest rate swaps (FVTPL)	764,000	5,306	5,306	-
Interest rate swap (FVH)	650,000	29,969	29,969	-
Cross currency swaps (CFH)	651,592	86,155	86,155	-
Cross currency swaps (FVH)	429,793	(114,621)	(114,621)	-
	<b>8,999,009</b>	<b>(21,941)</b>	<b>(21,941)</b>	<b>-</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 (€ thousand)	Nominal value	Carrying Value	Fair Value	Difference
<b>ASSETS</b>				
Cash and cash equivalents	1,943,547	1,943,608	1,943,608	-
Current and non-current loans (loans and receivables)	11,575,254	11,595,329	11,602,408	7,079
	<b>13,518,801</b>	<b>13,538,937</b>	<b>13,546,016</b>	<b>7,079</b>
<b>LIABILITIES</b>				
Current and non-current borrowings (other financial liabilities)	12,957,149	13,319,444	13,959,452	640,008
	<b>12,957,149</b>	<b>13,319,444</b>	<b>13,959,452</b>	<b>640,008</b>
<b>DERIVATIVES</b>				
Forward currency contracts (FVTPL)	3,223,197	(21,409)	(21,409)	-
Interest rate swaps (FVTPL)	964,000	9,342	9,342	-
Interest rate swaps (FVH)	650,000	58,207	58,207	-
Cross currency swaps (CFH)	1,015,110	126,009	126,009	-
Cross currency swaps (FVH)	429,793	(96,299)	(96,299)	-
	<b>6,282,100</b>	<b>75,850</b>	<b>75,850</b>	<b>-</b>

For fair value hedges, the gains and losses arising from the valuation of interest rate and cross currency swaps and interest rate swaps to be recognized in accordance with fair value hedge accounting and the gains and losses arising from the respective hedged items are set out in the following table:

December 31, 2016 (€ thousand)	2016	2015
<b>Currency risk</b>		
Net losses on qualifying hedges	(14,108)	(49,505)
Fair value changes in hedges items (notes payable)	14,108	49,505
<b>Net gains (losses)</b>	<b>-</b>	<b>-</b>
<b>Interest rate risk</b>		
Net losses on qualifying hedges	(30,136)	(31,469)
Fair value changes in hedges items	29,966	31,627
<b>Net gains (losses)</b>	<b>(170)</b>	<b>158</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Credit risk

### General aspects and credit risk management policies

The Company's exposure to credit risk is relatively limited, due to the fact that the Group provides only cash management and treasury services. Credit risk is mitigated by the following factors:

- counterparties for financial receivables are principally companies within the Fiat Chrysler Group;
- investment of excess liquidity follows specific Fiat Chrysler Group policies that set out criteria for the selection of bank and financial counterparties, as well as the liquidity profile of investments.

Similar criteria are applied to the selection of bank and financial counterparties for derivative activities.

### Credit risk concentration

#### Counterparty Concentration by geographic location

(€ thousand)				2016
	Europe	America	Other	Total
Cash and cash equivalents	2,077,184	211,231	-	2,288,415
Current loans and non-current loan	7,342,573	1,502,871	174,536	9,019,980
Other financial assets	198,348	7,222	-	205,570
Other current and non current assets	73,519	20	8	73,547
<b>Total assets</b>	<b>9,691,624</b>	<b>1,721,344</b>	<b>174,544</b>	<b>11,587,512</b>

(€ thousand)				2015
	Europe	America	Other	Total
Cash and cash equivalents	1,745,332	198,276	-	1,943,608
Current loans and non-current loan	9,783,715	853,096	958,518	11,595,329
Other financial assets	227,042	10,360	-	237,402
Other current assets	53,493	748	-	54,241
<b>Total assets</b>	<b>11,809,582</b>	<b>1,062,480</b>	<b>958,518</b>	<b>13,830,580</b>

### Market risks

Market risks for the Company are: Interest rate and currency risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Qualitative information

### *General aspects and interest rate and currency risk management policies*

Currency risk is generated when the composition of the Company's assets and liabilities results in net positions in currencies other than the functional currency.

Under Fiat Chrysler Group policy, the Company may not take positions in currencies other than the functional currency. If activities in support of Fiat Chrysler Group companies require that the Company takes a position in a foreign currency, that position must be hedged.

Interest rate risk results from changes in interest rates that can have an adverse impact on the Company's operating performance, cash flows or financial position.

The Company regularly assesses its exposure to changes in currency and interest rates and uses derivative financial instruments as one method of hedging those risks, as established by its risk management policies.

Under those policies, the use of derivatives is limited to management's exposure to changes in currency and interest rates connected with cash flows and assets and liabilities. Speculative transactions are prohibited.

The Group uses derivatives designated as fair value and cash flow hedges, principally to manage interest rate risk on loans, borrowings and issued bonds. The principal instruments used include currency swaps, forward contracts and interest rate swaps. For cash flow hedges, in which derivatives hedge the variability of cash flows related to floating-rate assets, liabilities, or forecasted transactions, the accounting treatment will depend on the effectiveness of the hedge.

To the extent these derivatives are effective in offsetting the variability of the hedged cash flow; changes in the derivatives' fair value will not be included in current earnings but will be reported as cash flow hedge reserve (net of tax) in the Statement of Comprehensive income. These changes in fair value will be included in earnings of future periods when earnings are also affected by the variability of the hedged cash flows. On these cash flow hedges, Fiat Chrysler Finance North America Inc. and Fiat Chrysler Finance Europe S.A. currently hedge bonds denominated in foreign currencies. These hedges have been deemed highly effective. Counterparties to these derivatives are major and diverse financial institutions.

### **Sensitivity Analysis**

The quantitative data presented below are not forecasts. The sensitivity analysis of market risk, in particular, cannot reflect the complexity or reaction of markets that could result from the various scenarios assumed.

The potential loss in fair value of derivative financial instruments held for currency risk management (currency swaps/forwards, interest rate and currency swaps) at December 31, 2016 resulting from a hypothetical, unfavorable and instantaneous change of 10% in the exchange rates of the leading foreign currencies with the Euro would have been approximately € 308 million (€ 276 million in 2015). The biggest part refers to the derivatives that are hedging the Euro Bond issued by Fiat Chrysler Finance North America Inc. and Swiss Franc Bonds issued by Fiat Chrysler Finance Europe S.A. Financial receivables and payables whose hedging transactions have been analyzed were not considered in this analysis. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The potential loss in fair value of fixed rate financial instruments (including the effect of interest rate derivatives) held at December 31, 2016, resulting from a hypothetical, unfavorable and instantaneous change of 10% in market interest rates, would have been approximately € 0,5 million (€ 8 million in 2015) the impact refers to issue bonds at fixed rate. A hypothetical, adverse and sudden change of 10% in short-term interest rates applicable to variable-rate financial assets and liabilities and interest-rate derivatives at December 31, 2016 would have reduced pre-tax profit for 2016 by € 3,1 million (€ 1 million in 2015). This analysis assumes a general, sudden change of 10% in benchmark interest rates applied to similar classes of assets and liabilities, denominated in the same currency.

### Operating risks

The operating risks to which the Company is exposed are directly correlated to its activities of providing treasury services, optimization of funding and investment, and hedging financial risks for the Fiat Chrysler Group.

Activities with the highest degree of risk (management of currency and interest rate risk, investments and liquidity) are subject to policies issued at Fiat Chrysler Group level, while more specific operational aspects are governed by procedures and controls to ensure conformity with required standards of conduct.

Additionally, during 2016 as in previous year, no problematic issues emerged in relation to those operating processes.

### Liquidity risks

#### Qualitative information

The Company's liquidity risk is related to the potential difficulty which might be encountered in obtaining adequate amounts of financing, on a timely basis to fund Fiat Chrysler Group's operations or meet its own repayment obligations, in addition to risks and uncertainties, discussed in the report on operations, related to Fiat Chrysler Group's operating and financial performance.

#### Quantitative information

##### Distribution by remaining term to maturity of financial liabilities

Quantitative Information as at 31 December 2016 (€ thousand)	Within 1 Year	From 1 to 5 Years	From 5 to 10 Years
Bonds	2,269,033	4,339,796	1,350,000
Interests on bonds	463,139	646,108	64,125
Borrowings	2,788,177	-	-
Interests payable	6,309	-	-
<b>Total</b>	<b>5,526,658</b>	<b>4,985,904</b>	<b>1,414,125</b>

Quantitative Information as at 31 December 2015 (€ thousand)	Within 1 Year	From 1 to 5 Years	From 5 to 10 Years
Bonds	2,369,174	5,596,054	2,357,000
Interests on bonds	623,567	1,108,943	176,050
Borrowings	2,623,908	10,000	-
Interests payable	6,330	172	-
<b>Total</b>	<b>5,622,979</b>	<b>6,715,169</b>	<b>2,533,050</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Fair value hierarchy

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

**December 31, 2016**

(€ thousand)	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value</b>				
Loans receivable	-	8,799,132	-	8,799,132
Foreign exchange forward contracts	-	65,949	-	65,949
Embedded derivatives	-	1,206	-	1,206
Interest rate swaps	-	51,814	-	51,814
Cross currency swaps	-	86,601	-	86,601
<b>Liabilities measured at fair value</b>				
Loans payable	7,958,828	3,053,341	-	11,012,169
Foreign exchange forward contracts	-	94,698	-	94,698
Embedded derivatives	-	1,450	-	1,450
Interest rate swaps	-	16,295	-	16,295
Cross currency swaps	-	115,068	-	115,068

**December 31 , 2015**

(€ thousand)	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value</b>				
Loans receivable	-	11,595,329	-	11,595,329
Foreign exchange forward contracts	-	17,026	-	17,026
Embedded derivatives	-	1,231	-	1,231
Interest rate swaps	-	92,264	-	92,264
Cross currency swaps	-	126,880	-	126,880
<b>Liabilities measured at fair value</b>				
Loans payable	10,322,228	2,997,216	-	13,319,444
Foreign exchange forward contracts	-	38,436	-	38,436
Embedded derivatives	-	1,481	-	1,481
Interest rate swaps	-	24,465	-	24,465
Cross currency swaps	-	97,170	-	97,170

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. Related-party transactions

Intercompany and related-party transactions consist of transactions with direct and indirect subsidiaries of Fiat Chrysler Automobiles N.V. Those transactions, which were included in the statements of income and financial position for 2016 and 2015, are summarized in the following tables:

(€ thousand)	Fiat Chrysler Automobiles N.V.	Subsidiaries of Fiat Chrysler Automobiles N.V.	Other related parties to Fiat Chrysler Automobiles N.V.	Third parties	2016
Operating revenues	-	90	90	-	180
Personnel costs	-	-	-	(1,325)	(1,325)
Other operating costs	-	(116)	(6)	(4,462)	(4,584)
Financial income/(expense)	294,283	412,109	1	(700,463)	5,930
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>294,283</b>	<b>412,083</b>	<b>85</b>	<b>(706,250)</b>	<b>201</b>

(€ thousand)	Fiat Chrysler Automobiles N.V.	Subsidiaries of Fiat Chrysler Automobiles N.V.	Other related parties to Fiat Chrysler Automobiles N.V.	Third parties	2015
Operating revenues	-	134	809	-	943
Personnel costs	-	-	-	(1,883)	(1,883)
Other operating costs	-	(180)	-	(4,266)	(4,446)
Financial income/(expense)	207,957	543,470	-	(740,740)	10,687
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>207,957</b>	<b>543,424</b>	<b>809</b>	<b>(746,889)</b>	<b>5,301</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(€ thousand)	Fiat Chrysler Automobiles N.V.	Subsidiaries of Fiat Chrysler Automobiles N.V.	Other related parties to Fiat Chrysler Automobiles N.V.	Third parties	2016
<b>CURRENT ASSETS</b>					
Current loans	5,710,676	3,088,457	-	-	8,799,133
Derivatives Financial Instruments	46,714	7,325	-	151,531	205,570
Other current assets	-	63	-	38,874	38,937
Current taxes receivable	-	-	-	1,440	1,440
Cash and cash equivalents	-	-	-	2,288,415	2,288,415
<b>Total current assets</b>	<b>5,757,390</b>	<b>3,095,845</b>	<b>-</b>	<b>2,480,260</b>	<b>11,333,495</b>
<b>NON-CURRENT ASSETS</b>					
Non current Loan	220,847	-	-	-	220,847
Tangible assets	-	-	-	4	4
Intangible assets	-	-	-	162	162
Deferred tax asset	-	-	-	3,711	3,711
Escrow account	-	-	-	34,610	34,610
<b>Total non-current assets</b>	<b>220,847</b>	<b>-</b>	<b>-</b>	<b>38,487</b>	<b>259,334</b>
<b>CURRENT LIABILITIES</b>					
Borrowings	500,000	2,289,767	-	2,532,606	5,322,373
Derivatives financial instruments	4,898	807	-	221,807	227,512
Trade and other payables	3,072	100	-	3,504	6,676
<b>Total current liabilities</b>	<b>507,970</b>	<b>2,290,674</b>	<b>-</b>	<b>2,757,917</b>	<b>5,556,561</b>
<b>NON-CURRENT LIABILITIES</b>					
Non-current borrowings	-	-	-	5,689,796	5,689,796
Deferred tax liabilities	-	-	-	-	-
<b>Total non-current liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,689,796</b>	<b>5,689,796</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(€ thousand)	Fiat Chrysler Automobiles N.V.	Subsidiaries of Fiat Chrysler Automobiles N.V.	Other related parties to Fiat Chrysler Automobiles N.V.	Third parties	2015
<b>CURRENT ASSETS</b>					
Current loans	3,356,969	8,238,360	-	-	11,595,329
Derivatives Financial Instruments	5,916	2,655	-	228,831	237,402
Other current assets	433	326	12	53,470	54,241
Current taxes receivable	-	-	-	1,147	1,147
Cash and cash equivalents	-	-	-	1,943,608	1,943,608
<b>Total current assets</b>	<b>3,363,318</b>	<b>8,241,341</b>	<b>12</b>	<b>2,227,056</b>	<b>13,831,727</b>
<b>NON-CURRENT ASSETS</b>					
Tangible assets	-	-	-	48	48
Intangible assets	-	-	-	248	248
<b>Total non-current assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>296</b>	<b>296</b>
<b>CURRENT LIABILITIES</b>					
Current borrowings	-	2,433,297	-	2,933,093	5,366,390
Derivatives financial instruments	-	1,416	-	160,136	161,552
Trade and other payables	3,454	224	-	4,611	8,289
<b>Total current liabilities</b>	<b>3,454</b>	<b>2,434,937</b>	<b>-</b>	<b>3,097,840</b>	<b>5,536,231</b>
<b>NON-CURRENT LIABILITIES</b>					
Non-current borrowings	-	-	-	7,953,054	7,953,054
Deferred tax liabilities	-	-	-	51	51
<b>Total non-current liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,953,105</b>	<b>7,953,105</b>

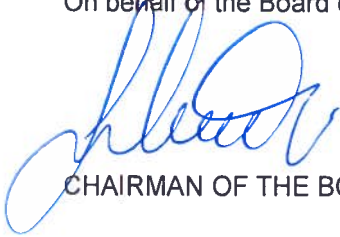
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SUBSEQUENT EVENTS

There have been no events subsequent to the statement of financial position date which require adjustment of or disclosure in the consolidated financial statements or notes.

Luxembourg, 23 February 2017

On behalf of the Board of Directors

A handwritten signature in blue ink, appearing to be 'J. B...', is written over the printed name of the Chairman of the Board.

CHAIRMAN OF THE BOARD



## Independent auditor's report

To the Shareholders of  
Fiat Chrysler Finance Europe S.A.  
24, boulevard Royal  
L-2449 Luxembourg

### Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders dated 25 February 2016, we have audited the accompanying consolidated financial statements of Fiat Chrysler Finance Europe S.A., which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Board of Directors' responsibility for the consolidated financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Responsibility of the "réviseur d'entreprises agréé"*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Fiat Chrysler Finance Europe S.A. as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Report on other legal and regulatory requirements**

The management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Ernst & Young  
Société anonyme  
Cabinet de révision agréé



Werner Weynand

Luxembourg, 23 February 2017