CNH INDUSTRIAL

ANNUAL REPORT

US GAAP

AT DECEMBER 31, 2018

CNH INDUSTRIAL

ANNUAL REPORT

US GAAP

AT DECEMBER 31, 2018


CNH
INDU
STRIAL

CONTENTS

01

02

This 2018 U.S. GAAP annual report provides an overview of key figures and other information relating to CNH Industrial N.V, its subsidiaries, and their operations. For a detailed description of CNH Industrial N.V.'s business, including the risks and uncertainties CNH Industrial N.V. faces, you are encouraged to review CNH Industrial N.V.'s Annual Report on Form 20-F for the year ended December 31, 2018 filed with the United States Securities and Exchange Commission on March 1, 2019 (http://www.cnhindustrial.com/en-us/investor_relations/financial_information/Pages/annual_reports.aspx) and to Annual Report for the year ended December 31, 2018 prepared under EU-IFRS filed with the Autoriteit Financiële Markten on March 1, 2019 (http://www.cnhindustrial.com/en-us/investor_relations/financial_information/Pages/annual_reports.aspx).

LETTER FROM THE CHAIRPERSON AND THE CHIEF EXECUTIVE OFFICER

DEAR SHAREHOLDERS,

The last year has been a time of significant change for our Company as we managed a leadership transition and embarked on the first steps of our transformation. Despite these challenges, the business has continued to deliver strong results, quarter after quarter.

The sudden and unexpected passing of our Chairman Sergio Marchionne, halfway through the year, marked a personal and professional loss. It was, however, Sergio himself who assured an uninterrupted transition, having invested time and effort in building a strong management team, which provided leadership through the transition, delivering the results that we summarize in this Annual Report. We would particularly like to thank Derek Neilson, President Agriculture, whose leadership as our interim CEO for four months in 2018 ensured that the Company successfully navigated this period of transition.

We closed the year on a very positive note, with improved financials and outstanding accomplishments. All our segments recorded continued positive performance, confirming our leading position in the markets where we compete.

Financial Highlights

The key highlights from CNH Industrial's 2018 results were as follows:

- Consolidated revenues of $29.7 billion;
- Adjusted EBIT[(1)] of Industrial Activities of $1,585 million, with a 5.7% margin;
- Net industrial debt[(1)] of $0.6 billion.

For the full year, Industrial Activities net sales were up 8% with adjusted EBIT up almost 40% and both adjusted net income[(1)] and adjusted diluted EPS[(1)] were up by over 70% to $1.1 billion or $0.80 per share, a historical record for the Company since its inception in 2013.

We saw continued margin improvement in all industrial segments with strong operating leverage in all business segments. Furthermore, we met our guidance for net sales of Industrial Activities, adjusted diluted EPS and net industrial debt.

Our consistently strong performance saw us earn improved credit ratings from Moody's, which upgraded CNH Industrial N.V. to Baa3 (investment grade), and S&P Global Ratings, which raised its rating to BBB (an improvement to our existing investment grade rating). These add to the long-term investment grade rating of BBB- assigned by Fitch Ratings in October 2017. The outlook for all three of the major ratings agencies is stable.

Commercial Developments

It was an intense year for CNH Industrial and its brands with more than 50 new product launches. From new advanced features for equipment to precision farming technologies and alternative fuels products, our Brands put their best foot forward, introducing innovative and customer-centric developments.

In particular, CNH Industrial launched its new Precision Farming aftermarket brand and business incubator AGXTEND, focused exclusively on precision farming technology solutions in partnership with promising start-up companies.

We also signed important partnership agreements to further advance our digital capabilities in agricultural equipment to deliver two-way data sharing and a portfolio of connectivity and agronomic solutions to Case IH, STEYR and New Holland customers.

And with a nod to the past, we celebrated anniversaries for a number of products from our Brands, which have evolved and stood the test of time, continuing to maintain market share:

- New Holland marked the 100th anniversary since its legacy Fiat brand began tractor mass production;
- CASE Construction Equipment marked the 60th anniversary of Wheel Loader manufacturing;
- IVECO celebrated the 40th anniversary of the Daily, its light commercial vehicle.

(1) This item is a non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures" section of this annual report for additional information.

Achievements

We are proud of the many achievements that we made as a Company in 2018. These included:

- The Dow Jones Sustainability Indices, World and Europe, named CNH Industrial as Industry Leader for the 8th consecutive year;
- CDP recognized CNH Industrial as a global leader in sustainable water management, naming it as one of only 27 companies included in the CDP Water Security A-List. Furthermore, CNH Industrial scored an A- in the CDP Climate Change program and, for the first time, was invited to participate in the CDP Forests program, receiving a C score;
- Continued World Class Manufacturing (WCM) achievements for our plants with one gold, 17 silver and 25 bronze plants within the end of 2018;
- The Case IH Maxxum 145 Multicontroller was awarded Tractor of the Year 2019;
- CASE Construction Equipment won Construction Equipment's Top 100 New Products of 2018 Award with its TV370 Compact Track Loader;
- New Holland T6.175 Dynamic Command™ Tractor won the Machine of the Year 2018 Award in the Mid Class Tractor category;
- The IVECO Stralis NP 460 was named as Sustainable Truck of the Year;
- IVECO BUS won the Sustainable Bus of the Year 2019 for the second year in a row, with its On-Motion-Charging Crealis, a fully-electric bus;
- FPT Industrial's marine diesel Cursor 16 engine broke the Guinness world powerboat speed record.

The Year Ahead

2019 marks our first full year of leadership and we are committed to taking the best of what this Company has already demonstrated by its strong year-over-year performance and enhancing its strengths to make it the world's leading capital goods provider.

Our industry is experiencing an ever-accelerating rate and growing magnitude of change fueled by trends such as electrification, digitalization, automation, and servitization. Companies need to adapt, change and revitalize themselves to meet these business challenges and generate long-term value.

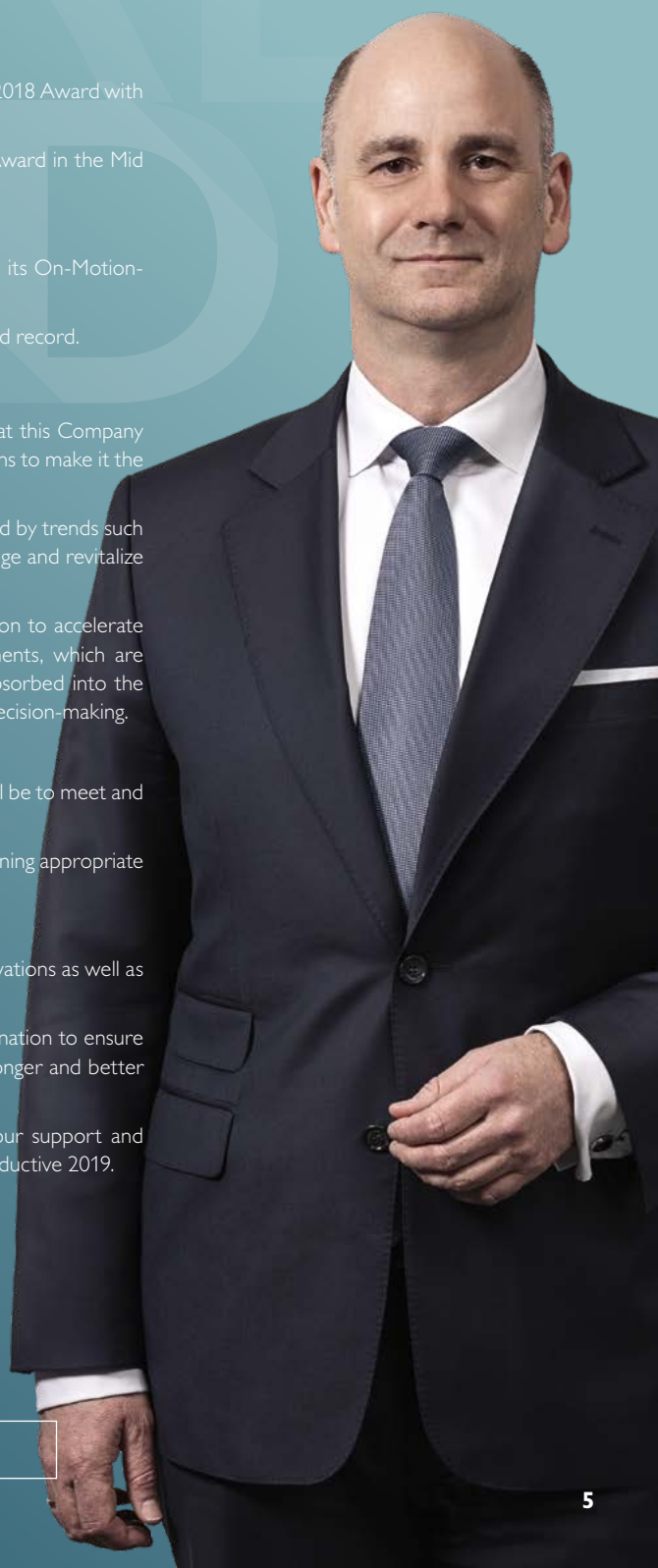
We have identified opportunities for improvement, including the launch of a new organization to accelerate global growth and profitability. Our new structure is based around our five global segments, which are supported by streamlined global functions. The former regional structure will be largely absorbed into the operating segments, thus bringing the businesses closer to their customers and accelerating decision-making.

Through the organizational changes announced, CNH Industrial intends to become:

- More customer centric, by focusing on its five strong operating segments whose mission will be to meet and exceed customers' expectations;
- More entrepreneurial, by simplifying and empowering these operating segments, while retaining appropriate corporate control;
- More lean and agile, by streamlining decision processes and the organizational structure;
- More innovative, by enabling faster and more market focused hardware and software innovations as well as new business models.

The steps already taken demonstrate our commitment to our stakeholders and our determination to ensure our targets are met and exceeded. With our new trajectory, we are poised to become stronger and better able to meet the demands of our customers.

Our gratitude goes out to you, our shareholders and stakeholders. We thank you for your support and confidence in this time of transformation. We look forward to delivering a rewarding and productive 2019.



Suzanne Heywood

CHAIRPERSON

Hubertus M. Mühlhäuser

CHIEF EXECUTIVE OFFICER

ABOUT CNH INDUSTRIAL KEY FIGURES

WE ARE A **LEADING GLOBAL CAPITAL GOODS COMPANY** ENGAGED IN THE DESIGN, PRODUCTION, MARKETING AND SALE OF EQUIPMENT FOR AGRICULTURE, CONSTRUCTION, COMMERCIAL & SPECIALTY VEHICLES AND ENGINES FOR THIS EQUIPMENT AND FOR MARINE AND POWER GENERATION APPLICATIONS. WE ALSO PROVIDE COMPREHENSIVE SOLUTIONS FOR FINANCING AND AFTERMARKET SERVICES.

WITH A **PRESENCE IN 180 COUNTRIES**, WE ARE UNIQUELY DIVERSIFIED ACROSS SEGMENTS AND GEOGRAPHIES.

BRANDS

12

R&D CENTERS

54

EMPLOYEES

64,625

PLANTS

66

CONSOLIDATED REVENUES

$ 29.7 BILLION

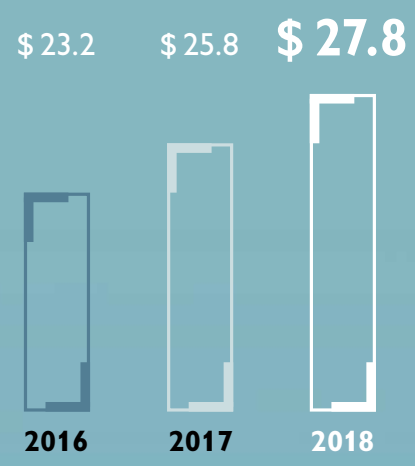
NATIONAL MARKETS

180

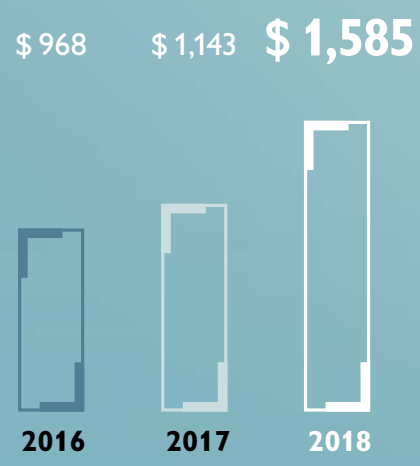
R&D SPENDING

$ 1.1 BILLION

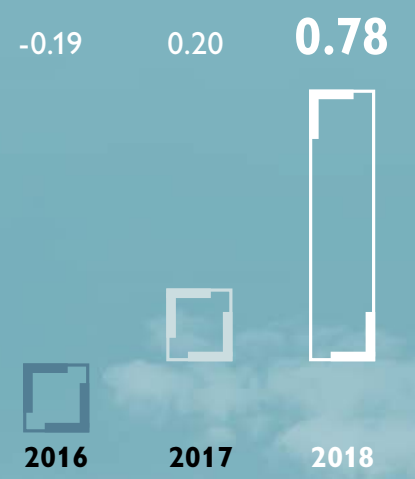
FINANCIAL HIGHLIGHTS



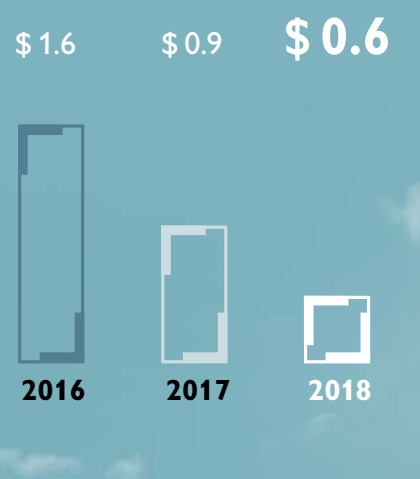
NET SALES OF INDUSTRIAL ACTIVITIES
(BILLION)



ADJUSTED EBIT OF INDUSTRIAL ACTIVITIES *
(MILLION)



DILUTED EPS
($)



NET INDUSTRIAL **DEBT** *
(BILLION)

Note: all figures provided herein are on a US GAAP basis and expressed in US $. 2016 and 2017 figures have been recast following the retrospective adoption, on January 1, 2018, of the updated accounting standards for revenue recognition (ASC 606) and retirement benefits accounting (ASU 2017-07).

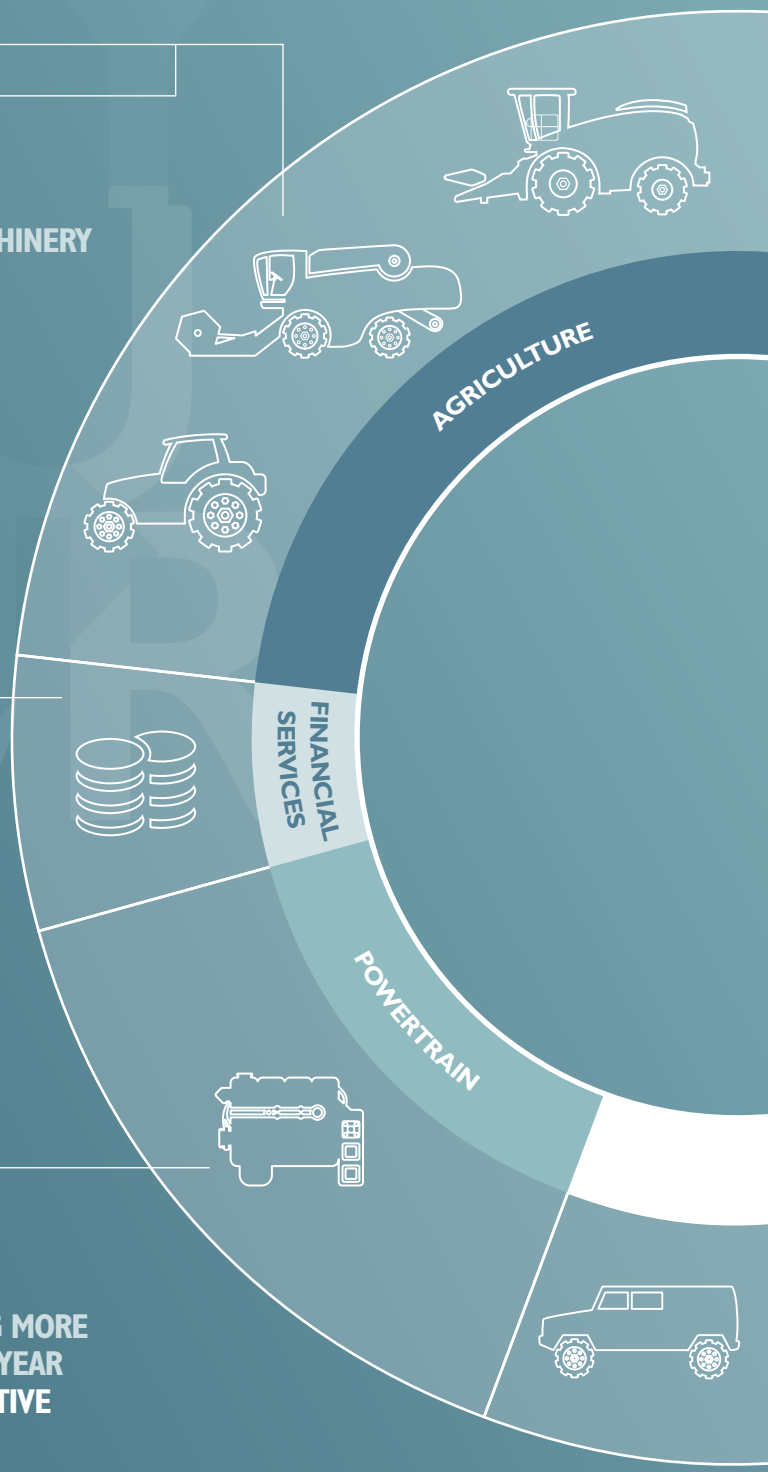
* Item is a non-GAAP measure, see section "Non-GAAP Financial Measures" for details.

COMPANY STRUCTURE: SEGMENTS AND KEY FEATURES

CASE IH AGRICULTURE · STEYR TRAKTOREN · NEW HOLLAND AGRICULTURE

AGRICULTURE

SECOND LARGEST MANUFACTURER OF AGRICULTURAL MACHINERY



CNH INDUSTRIAL CAPITAL

FINANCIAL SERVICES

A GLOBAL LEADER IN EQUIPMENT FINANCE, SUPPORTING CUSTOMERS AND DEALERS WITH TAILOR MADE SOLUTIONS

FPT POWERTRAIN TECHNOLOGIES

POWERTRAIN

GLOBAL NUMBER ONE IN HIGHLY REGULATED MARKETS, PRODUCING MORE THAN HALF A MILLION ENGINES A YEAR AND MARKET LEADER IN ALTERNATIVE FUELS POWERTRAINS

WE OPERATE THROUGH FIVE GLOBAL SEGMENTS: AGRICULTURE, CONSTRUCTION, COMMERCIAL & SPECIALTY VEHICLES, POWERTRAIN AND FINANCIAL SERVICES.

CASE CONSTRUCTION

NEW HOLLAND CONSTRUCTION

CONSTRUCTION

A GLOBAL PLAYER IN THE MANUFACTURING OF CONSTRUCTION EQUIPMENT

IVECO

IVECO ASTRA

IVECO BUS

HEULIEZBUS

MAGIRUS

IVECO DEFENCE VEHICLES

COMMERCIAL & SPECIALTY VEHICLES

FIFTH LARGEST MANUFACTURER OF COMMERCIAL VEHICLES AND THE EUROPEAN MARKET LEADER IN NATURAL GAS COMMERCIAL VEHICLES AND BUSES

OUR BRANDS

CASE IH

Instantly identified by its machines' signature red color, **Case IH** builds upon a tradition of **leadership in agricultural equipment** which stretches back more than 175 years. A **global provider of powerful**, **reliable** and **high performance equipment**, for crops ranging from corn to sugarcane, the brand offers a full range of agricultural equipment including **tractors**, **combine harvesters** and **implements**. Case IH and its employees are dedicated to helping professional farmers overcome the challenges of modern farming by providing industry leading technologies.

www.caseih.com

STEYR

Since 1947, the **STEYR** brand's iconic red and white tractors have been synonymous with **high quality and reliability**. STEYR tractors have not only set innovation benchmarks in their native Austria, but have gone on to support growth in important European markets such as Germany, Italy, Poland, Belgium, Luxembourg and the Netherlands. With its **top-of-the-range tractors from 55 to more than 300 horsepowers**, STEYR offers specialized solutions in agricultural, municipal and forestry segments. Continous investement in the St. Valentin plant are ensuring premium "**made in Austria**" quality for future STEYR customers.

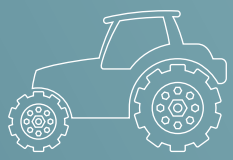
www.steyr-traktoren.com

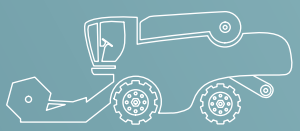
NEW HOLLAND AGRICULTURE

Since 1895, **New Holland** is the dependable **partner the world's farmers and growers can rely on** and has been **continually developing innovative farming technology** for generations. In 2006, the **Clean Energy Leader® strategy** was launched, with the clear goal of supporting the introduction of renewable fuels, clean engine technology and sustainable agricultural practices. New Holland offers cash crop producers, livestock farmers, contractors, vineyards and ground care professionals the broadest choice of easy-to-operate tractors, harvesters, foraging equipment, balers, material handlers, sprayers, tillage, seeding and planting equipment with **more than 100 product lines and over 400 models**. New Holland complements the widest agricultural equipment offering in the world with a range of advanced Precision Land Management solutions. New Holland is open and responsive, ready to understand customers' changing needs and on hand to help farmers simply get the job done.

www.newholland.com

AGRICULTURE





CASE

In the business of earth moving for more than 175 years, **CASE** sells and supports a **full line of construction equipment** around the world, including the **first ever factory integrated backhoe loader** right through to today's **excavators**, **motor graders**, **wheel loaders**, **vibratory compaction rollers**, **crawler dozers**, **skid steers**, **compact track loaders** and **rough-terrain forklifts**. CASE dealers support the brand purpose to help build communities by distributing world-class equipment, aftermarket support, industry-leading warranties and flexible financing.

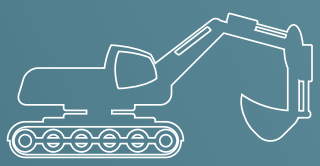
▸ **www.casece.com**

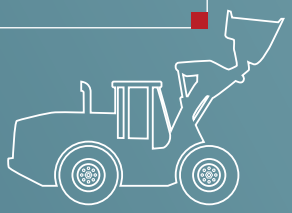
NEW HOLLAND CONSTRUCTION

New Holland Construction brings together the strength and resources of its worldwide commercial, industrial and finance organizations. Thanks to the experience of its foundation heritage brands, New Holland can proudly **point to quality, technologically state-of-the-art products that are fully compliant with safety standards and environmental regulations**.

▸ **www.newholland.com**

CONSTRUCTION





IVECO

IVECO

A global manufacturer of light, medium and heavy commercial vehicles, **IVECO** designs, manufactures and markets a wide **range of light**, **medium** and **heavy commercial vehicles for road** and **off-road use**. The key players in the brand's product line-up are the Daily, a vehicle that covers the 3.3 – 7.2 ton gross vehicle weight segment, the Eurocargo from 6 – 16 tons, the Trakker (dedicated to off-road missions) and the Stralis, both over 16 tons. Committed to safe, efficient and sustainable mobility, IVECO has been investing in the development of alternative drive systems for over 20 years. It offers engines running on diesel as well as compressed natural gas on its entire range.

▸ **www.iveco.com**

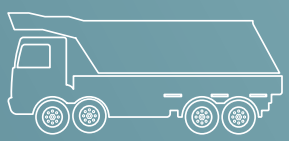
IVECO ASTRA

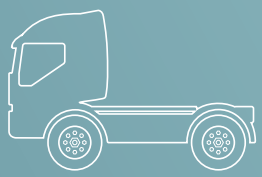
IVECO ASTRA

A premium manufacturer of **construction** and **mining equipment**, **IVECO ASTRA** has 70 years' experience building machines for the global construction sector. It develops robust, reliable and versatile trucks that include **heavy trucks for heavy off road missions** of over 60 ton gross vehicle weight and **specialized vehicles**. These vehicles are customized to meet specific client needs and are built to operate on challenging and remote work sites such as quarries and mines. Ongoing research at the brand has led to the development of efficient technologies and the reduction of emission levels.

▸ **www.iveco-astra.com**

COMMERCIAL & SPECIALTY VEHICLES





IVECO BUS

One of the major European manufacturers in the **collective passenger transport sector**, **IVECO BUS** is steadily expanding its activities globally with a presence **in more than 40 countries**. The brand offers a complete range of vehicles for transporting people: from **urban** and **intercity buses** to **tourism coaches** and **mini-buses**. IVECO BUS promotes ongoing synergies with both public and private players in the transport sector and is highly committed to sustainable mobility and to the development of a low-carbon Public Transport system, offering a **full range of alternative fuels and tractions**.

www.iveco.com

HEULIEZ BUS

Creativity, excellence and commitment: these are the strengths of this premium **French bus manufacturer**. Founded more than 90 years ago by **Louis Heuliez**, the brand started off by manufacturing coaches, later adding **urban transport buses** to its portfolio. From there, **Heuliez Bus** has continued to grow, becoming a leader in the French market and continuing to expand its reach throughout Europe.

www.heuliezbus.com

COMMERCIAL & SPECIALTY VEHICLES

MAGIRUS

MAGIRUS

An international authority on **firefighting** and **disaster control vehicles**, **Magirus** provides tailored solutions to firefighters around the world. Founded in 1864 by the German fire chief and pioneer **Conrad Dietrich Magirus**, the **inventor of the turntable ladder**, the company has continuously shaped the firefighting industry and the approach to firefighting. Continuous innovation and commitment to excellence have distinguished the company since its inception. With its highly reliable product range and innovative solutions, Magirus is a global leader in its field and the partner of choice for firefighters in the most challenging missions.

▸ **www.magirusgroup.com**

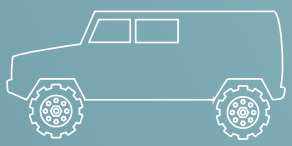
IVECO DEFENCE VEHICLES

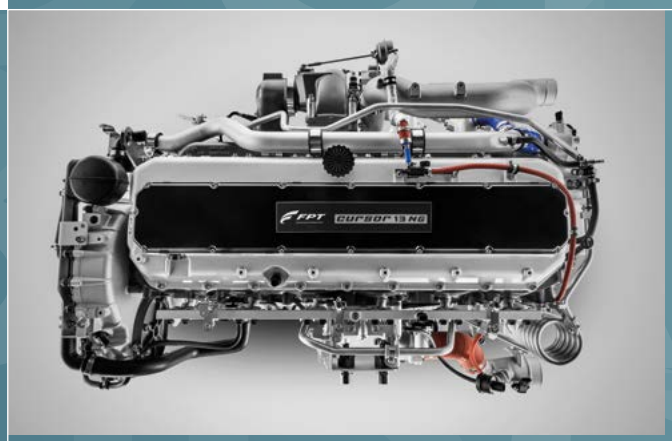
IVECO DEFENCE VEHICLES

Iveco Defence Vehicles is dedicated to delivering innovative **special purpose vehicles for defense and civil protection applications**.
The brand manufactures **logistic**, **multirole** and **armored vehicles** at its facility in Northern Italy, as well as marketing IVECO's full commercial range, adapted as necessary to meet the demands of military and civil defense users worldwide. All vehicles are designed to offer exceptional mobility, with protected variants exploiting state-of-the-art protection technologies. Among these, the **Light Multirole Vehicle** (LMV) has become the light protected vehicle of choice in Europe, with sales to thirteen countries to date.

▸ **www.ivecodefencevehicles.com**

COMMERCIAL & SPECIALTY VEHICLES





FPT INDUSTRIAL

FPT Industrial is a brand of CNH Industrial, dedicated to the **design**, **production** and **sale of powertrains for on** and **off-road vehicles**, **marine** and **power generation applications**, as well as **axles** and **transmissions**. The brand numbers more than **8,000 people** worldwide, at ten manufacturing plants and **seven R&D Centers**. The FPT Industrial sales network consists of more than **70 dealers** and about **800 service centers** in almost 100 countries. A **wide product offering**, including six engine ranges from 42 up to 1,006 horsepowers, transmissions with maximum torque of 200 Nm up to 500 Nm, front and rear axles from 2 to 32 ton GAW (Gross Axle Weight). This extensive offer and a close focus on R&D activities make FPT Industrial a world leader in industrial powertrains.

www.fptindustrial.com

POWERTRAIN

CNH INDUSTRIAL CAPITAL

CNH Industrial Capital is a **global Financial Services player in the Agricultural, Construction Equipment and Commercial & Specialty Vehicles segments**. CNH Industrial Capital operates around the Globe with **more than $26 billion in Managed Assets** (including unconsolidated joint ventures). CNH Industrial Capital supports the CNH Industrial brands' customers and dealers with a dedicated suite of financial solutions through various wholly owned subsidiaries, joint ventures and vendor programs around the world.

www.cnhindustrialcapital.com

FINANCIAL SERVICES


PETRONAS
Urania
GOODYEAR

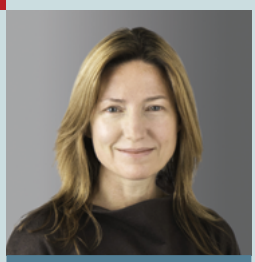
LEADERSHIP TEAM*

CNH INDUSTRIAL'S LEADERSHIP TEAM INCLUDES THE BOARD OF DIRECTORS AND THE GLOBAL EXECUTIVE COMMITTEE (GEC).

THE **BOARD** IS RESPONSIBLE FOR CREATING A CULTURE AIMED AT LONG-TERM VALUE CREATION FOR CNH INDUSTRIAL AND ALL OF ITS STAKEHOLDERS.

THE **GEC** IS AN OPERATIONAL DECISION-MAKING BODY OF CNH INDUSTRIAL WHICH IS RESPONSIBLE FOR REVIEWING THE OPERATING PERFORMANCE OF THE SEGMENTS AND MAKING DECISIONS ON CERTAIN OPERATIONAL MATTERS.

BOARD OF DIRECTORS



Suzanne Heywood
Chairperson

Hubertus M. Mühlhäuser
Chief Executive Officer

Léo W. Houle
Independent Director and Senior Non-Executive Director

Mina Gerowin
Independent Director

Peter Kalantzis
Independent Director

John Lanaway
Independent Director

Silke C. Scheiber
Independent Director

Guido Tabellini
Independent Director

Jacqueline A. Tammenoms Bakker
Independent Director

Jacques Theurillat
Independent Director

* at March 1st, 2019 (filing date of CNH Industrial Annual Report on Form 20-F)

GLOBAL EXECUTIVE COMMITTEE (GEC)

CHIEF EXECUTIVE OFFICER

Hubertus M. Mühlhäuser

OPERATING SEGMENTS

Derek Neilson
President Agriculture

Carl Gustaf Göransson
President Construction

Gerrit Marx
President Commercial and Specialty Vehicles

Annalisa Stupenengo
President Powertrain

Oddone Incisa
President Financial Services

FUNCTIONS

Massimiliano Chiara
Chief Financial Officer and Chief Sustainability Officer

Andreas Weishaar
Chief Strategy, Talent, ICT and Digital Officer

Alan Berger
Chief Technology Officer

Tom Verbaeten
Chief Supply Chain Officer

Stefano Pampalone
General Manager Asia, Middle East and Africa

Vilmar Fistarol
General Manager South America

Luc Billiet
General Manager Aftermarket Solutions

MAIN AWARDS AND ACKNOWLEDGEMENTS

CNH INDUSTRIAL BELIEVES INNOVATION IS ESSENTIAL TO BE ABLE TO OFFER CUSTOMERS TECHNOLOGICALLY ADVANCED, ECO-FRIENDLY, SAFE, EFFICIENT AND ERGONOMIC PRODUCTS WITH A LOW TOTAL COST OF OWNERSHIP.

INDUSTRY ACKNOWLEDGEMENTS FURTHER CONFIRM OUR COMMITMENT IN THE SEGMENTS WHERE WE OPERATE.

CASE TV370 COMPACT TRACK LOADER
TOP 100 NEW PRODUCTS OF 2018
- CONSTRUCTION EQUIPMENT MAGAZINE

CASE IH MAXXUM 145 MULTICONTROLLER
"TRACTOR OF THE YEAR 2019"
- EIMA INTERNATIONAL SHOW

STEYR S–BRAKE SYSTEM
"GOLD INNOVATION AWARD"
- AUSTRO AGRAR TULLN 2018

IVECO STRALIS NP 460
"SUSTAINABLE TRUCK OF THE YEAR 2019"
- ECOMONDO TRADE SHOW

IVECO NEW CHINA DAILY
"VAN OF THE YEAR CHINA 2018"
- COMMERCIAL VEHICLE MAGAZINE

FPT INDUSTRIAL DIESEL CURSOR 16 ENGINE
2018 POWERBOAT WATER SPEED RECORD, THE GUINNESS WORLD RECORDS™

IVECO BUS URBANWAY AND CREALIS
"PUBLIC TRANSPORT INNOVATION AWARD"
- EUROPEAN MOBILITY WEEK, PARIS

IVECO BUS CREALIS ELETRIC BUS
"SUSTAINABLE BUS OF THE YEAR 2019"
- IAA COMMERCIAL VEHICLES TRADE SHOW

CASE IH MAXXUM 145 MULTICONTROLLER
"BEST DESIGN 2019"
- EIMA INTERNATIONAL SHOW

CASE CX145D SR EXCAVATOR
CONTRACTORS' TOP 50 NEW PRODUCTS OF 2018
- EQUIPMENT TODAY MAGAZINE

NEW HOLLAND CR REVELATION COMBINE'S INTELLISENSE™ SYSTEM
AE50 AWARD
- ASABE

NEW HOLLAND T6.175 DYNAMIC COMMAND™
"MACHINE OF THE YEAR 2018"
- AGRITECHNICA TRADE SHOW

RECOGNITION AS A SOCIALLY RESPONSIBLE COMPANY

CNH INDUSTRIAL
INDUSTRY LEADER IN THE DOW JONES SUSTAINABILITY INDICES, WORLD AND EUROPE

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

CNH INDUSTRIAL
IN THE CDP WATER SECURITY A LIST

CDP
DISCLOSURE INSIGHT ACTION
A LIST
2018
WATER SECURITY

NON-GAAP FINANCIAL MEASURES

CNH Industrial monitors its operations through the use of several non-GAAP financial measures. CNH Industrial's management believes that these non-GAAP financial measures provide useful and relevant information regarding its operating results and enhance the reader's ability to assess CNH Industrial's financial performance and financial position. Management uses these non-GAAP measures to identify operational trends, as well as make decisions regarding future spending, resource allocations and other operational decisions as they provide additional transparency with respect to our core operations. These non-GAAP financial measures have no standardized meaning under U.S. GAAP and are unlikely to be comparable to other similarly titled measures used by other companies and are not intended to be substitutes for measures of financial performance and financial position as prepared in accordance with U.S. GAAP.

CNH Industrial's primary non-GAAP financial measures are defined as follows:

- Adjusted EBIT: is defined as net income (loss) before income taxes, interest expenses of Industrial Activities, net, restructuring expenses, the finance and non-service component of pension and other post-employment benefit costs, foreign exchange gains/(losses), and certain non-recurring items. In particular, non-recurring items are specifically disclosed items that management considers rare or discrete events that are infrequent in nature and not reflective of on-going operational activities.
- Adjusted EBITDA: is defined as Adjusted EBIT plus depreciation and amortization including on assets sold under operating leases and assets sold under buy-back commitments. CNH Industrial provides a reconciliation of Net Income (Loss), the most directly comparable U.S. GAAP Financial measures included in our consolidated statements of operations to Adjusted EBIT and Adjusted EBITDA.
- Adjusted Net Income (Loss): is defined as net income (loss), less restructuring charges and non-recurring items, after tax.
- Adjusted Diluted EPS: is computed by dividing Adjusted Net Income (loss) attributable to CNH Industrial N.V. by a weighted-average number of common shares outstanding during the period that takes into consideration potential common shares outstanding deriving from the CNH Industrial share-based payment awards, when inclusion is not anti-dilutive. When we provide guidance for adjusted diluted EPS, we do not provide guidance on a earnings per share basis because the GAAP measure will include potentially significant items that have not yet occurred and are difficult to predict with reasonable certainty prior to year-end.
- Net Debt and Net Debt of Industrial Activities (or Net Industrial Debt): Net Debt is defined as total debt less intersegment notes receivable, cash and cash equivalents, restricted cash and derivative hedging debt. CNH Industrial provides the reconciliation of Net Debt to Total Debt, which is the most directly comparable measure included in the consolidated balance sheets. Due to different sources of cash flows used for the repayment of the debt between Industrial Activities and Financial Services (by cash from operations for Industrial Activities and by collection of financing receivables for Financial Services), management separately evaluates the cash flow performance of Industrial Activities using Net Debt of Industrial Activities.
- Revenues on a Constant Currency Basis: CNH Industrial discusses the fluctuations in revenues on a constant currency basis by applying the prior-year average exchange rates to current year's revenue expressed in local currency in order to eliminate the impact of foreign exchange ("FX") rate fluctuations.

The following table includes the reconciliation of Adjusted net income and Adjusted income tax (expense), non-GAAP financial measures, to Net income and Income tax (expense), the most comparable U.S. GAAP financial measures, and calculation of Adjusted diluted EPS, (non-GAAP financial measure):

	2018	2017
	(in millions, except per share data)	
Net income	$ 1,099	$ 290
Adjustments impacting Income before income tax (expense) and equity in income of unconsolidated subsidiaries and affiliates (a)	3	249
Adjustments impacting Income tax (expense) (b)	15	112
Adjusted net income	$ 1,117	$ 651
Adjusted net income attributable to CNH Industrial N.V.	1,085	633
Weighted average shares outstanding – diluted (million)	1,361	1,367
Adjusted diluted EPS ($)	$ 0.80	$ 0.46
(a) Adjustments impacting Income before income tax (expense) and equity in income of unconsolidated subsidiaries and affiliates		
Restructuring expenses	$ 61	$ 93
Cost of repurchase/early redemption of notes	22	64
Pre-tax gain related to the modification of a healthcare plan in the U.S.	(80)	—
2017 year-end deconsolidation of Venezuelan operations	—	92
Total	$ 3	$ 249
(b) Adjustments impacting Income tax (expense)		
Tax effect of adjustments impacting Income before income tax (expense) and equity in income of unconsolidated subsidiaries and affiliates	$ 11	$ (16)
Valuation allowance on deferred tax assets	12	—
Tax charges due to the U.S. Act and tax legislation changes in the UK and certain other countries	(8)	128
Total	$ 15	$ 112

Refer to the specific tables in section "Report on Operations - Operating and Financial Review" for the reconciliation of Adjusted EBIT and Adjusted EBITDA, non-GAAP financial measures, to Net Income, the most comparable U.S. GAAP financial measure. Refer to the same section also for the reconciliation of Net Industrial Debt, non-GAAP financial measure, to Total Debt of Industrial Activities, the most comparable U.S. GAAP financial measure.

REPORT ON OPERATIONS

1

REPORT ON OPERATIONS

PAGES 24-57

OPERATING AND FINANCIAL REVIEW

The results presented in this annual report are prepared with the U.S. dollar as the reporting currency and in accordance with U.S. GAAP.

2017 and 2016 figures included in the following section have been recast following the retrospective adoption, on January 1, 2018, of the updated accounting standard for revenue recognition (ASC 606), retirement benefit accounting (ASU 2017-07) and statement of cash flows - restricted cash (ASU 2016-18).

This discussion includes forward-looking statements, which, although based on assumptions that we consider reasonable, are subject to risks and uncertainties which could cause actual events or conditions to differ materially from those expressed or implied by the forward-looking statements.

Overview

We are a leading global capital goods company engaged in the design, production, marketing, sale and financing of agricultural equipment, construction equipment, trucks, commercial vehicles, buses and specialty vehicles for firefighting, defense and civil protection, as well as engines, transmissions and axles for those equipment and vehicles and engines for marine and power generation applications.

The Company's segments consist of: (i) Agricultural Equipment, (ii) Construction Equipment, (iii) Commercial Vehicles, (iv) Powertrain, and (v) Financial Services. Our Industrial Activities include Agricultural Equipment, Construction Equipment, Commercial Vehicles, and Powertrain, as well as corporate functions.

We generate revenues and cash flows principally from the sale of equipment and vehicles to dealers and distributors. Financial Services provides a range of financial products focused on financing the sale and lease of equipment and vehicles by our dealers and their customers.

Revenues of Industrial Activities are presented net of discounts, allowances, settlement discounts and rebates, as well as costs for sales incentive programs, determined on the basis of historical costs, country by country, and charged against profit for the period in which the corresponding sales are recognized. Our sales incentive programs include the granting of retail financing at discounts to market interest rates. The corresponding cost to Industrial Activities is recognized at the time of the initial sale and the revenues of Financial Services are recognized on a pro rata basis in order to match the cost of funding.

Principal Factors Affecting Results

Our operating performance is highly correlated to sales volumes, which are influenced by several different factors that vary across our segments.

For Agricultural Equipment, the key factors influencing sales are the level of net farm income which is influenced by commodity prices, and, to a lesser extent, general economic conditions, interest rates and the availability of financing and related subsidy programs. Variations by region and product are also attributable to differences in typical climate and farming calendars, as well as extraordinary weather conditions.

For Construction Equipment, segmentation varies by regional market: in developed markets, demand is oriented toward more sophisticated machines that increase operator productivity, while in developing markets, demand is oriented toward more utilitarian models with greater perceived durability. Sales levels for heavy construction equipment are particularly dependent on the expected level of major infrastructure construction and repair projects, which is a function of expected economic growth and government spending. For light construction equipment, the principal factor influencing demand is the level of residential and commercial construction, remodeling and renovation, which is influenced in turn by interest rates and availability of financing, as well as, in the residential sector, levels of disposable income and, in the commercial sector, the broader economic cycle.

Regional variations in demand for commercial vehicles are influenced by differences in economic conditions, levels of infrastructure development and physical geography, all of which lead to differing transport requirements. Demand for medium and heavy trucks tends to be closely aligned with the economic and capital investment cycle including the general level of interest rates and, in certain countries, governmental subsidy programs, particularly in more developed markets. In developing countries, the processes of industrialization and infrastructure development generally drive long-term growth trends. In the short term, however, demand for light vehicles is closely correlated to the level of economic activity which drives levels of vehicle utilization and, accordingly, the need for new vehicles.

Powertrain is highly dependent on the market segments in which its propulsion systems are used, with developments in engine emissions regulations playing a significant role. For vehicle applications, product development is driven by regulatory considerations, as well as the need of customers to reduce operating costs.

Demand for services and service-related products, including parts, is a function of the nature and extent of the use of the related agricultural and construction equipment or commercial vehicles. The after-sales market is historically less volatile than the new market and, therefore, helps reduce the impact on operating results of fluctuations in new sales.

Our segments (or our principal businesses) have a different geographic mix. As a result, the performance of Agricultural Equipment and Construction Equipment correlates more closely to the U.S. economic cycle, while the performance of Commercial Vehicles is more directly tied to the European economic cycle.

Our cost base principally comprises the cost of raw materials and personnel costs.

Raw material costs are closely linked to commodities markets and largely outside of our control, although we are making a targeted effort to increase production efficiencies. Historically, we have been able to pass on to our customers most of the increase in the cost of raw materials through increases in product pricing. Nevertheless, even when we are able to do so, there is usually a time lag between an increase in materials cost and a realized increase in product prices and, accordingly, our results are typically adversely affected at least in the short term until price increases are accepted in the market.

Personnel costs change over time and are impacted by the terms of collective bargaining agreements, inflation and average number of employees. A significant proportion of our employees are based in countries where labor laws impose significant restrictions on employers' rights and, accordingly, we have limited ability to downsize our personnel in response to a decrease in production during periods of market downturn.

Our results are also affected by changes in foreign exchange rates from period to period, mainly due to the difference in geographic distribution between our manufacturing activities and our commercial activities, resulting in cash flows from exports denominated in currencies that differ from those associated with production costs. In addition, our consolidated financial statements are expressed in U.S. dollars and are therefore subject to movements in exchange rates upon translation of the financial statements of subsidiaries whose functional currency is not the U.S. dollar. Generally, a strengthening of the euro against the U.S. dollar has a positive translation impact on the consolidated revenues of CNH Industrial because a significant portion arise from European operations, particularly the operations of Agricultural Equipment, Commercial Vehicles and Powertrain. However, the positive translation impact on revenue is significantly offset by the negative exchange transaction impact on costs since purchases are predominantly denominated in Euro for our worldwide operations. The reverse impact to revenues and cost occurs with a weakening of the euro against the U.S. dollar.

Finally, our results may be materially affected, directly or indirectly, by governmental policies, including monetary and fiscal policies and policies on international trade and investment.

Operating Results

The operations and key financial measures and financial analysis differ significantly for manufacturing and distribution businesses and financial services businesses; therefore, management believes that certain supplemental disclosures are important in understanding our consolidated operations and financial results. For further information, see "Note 22: Supplemental Information" to our consolidated financial statements for the year ended December 31, 2018, where we present supplemental consolidating data split by Industrial Activities and Financial Services. Industrial Activities include the Financial Services business on the equity basis of accounting. Transactions between Industrial Activities and Financial Services have been eliminated to arrive at the consolidated data.

2018 Compared to 2017

Consolidated Results of Operations

	2018	2017
	(in millions)	
Revenues:		
Net sales	$ 27,831	$ 25,769
Finance and interest income	1,875	1,932
Total Revenues	29,706	27,701
Costs and Expenses:		
Cost of goods sold	22,958	21,572
Selling, general and administrative expenses	2,351	2,315
Research and development expenses	1,061	957
Restructuring expenses	61	93
Interest expense	812	940
Other, net	997	1,165
Total Costs and Expenses	28,240	27,042
Income (loss) before income taxes and equity in income of unconsolidated subsidiaries and affiliates	**1,466**	**659**
Income taxes	(417)	(457)
Equity in income of unconsolidated subsidiaries and affiliates	50	88
Net income (loss)	**1,099**	**290**
Net income attributable to noncontrolling interests	31	18
Net income (loss) attributable to CNH Industrial N.V.	**$ 1,068**	**$ 272**

Revenues

We recorded revenues of $29,706 million in 2018, an increase of 7.2% (up 6.7% on a constant currency basis) compared to 2017. This increase is primarily due to an increase in net sales in each segment of Industrial Activities which were $27,831 million in 2018, an increase of 8.0% (an increase of 7.3% on a constant currency basis) compared to the prior year.

Cost of Goods Sold

Cost of goods sold were $22,958 million in 2018 compared with $21,572 million in 2017, an increase year over year due to the increase in revenues. As a percentage of net sales of Industrial Activities, cost of goods sold was 82.5% in 2018 compared with 83.7% in 2017.

Selling, General and Administrative Expenses

SG&A expenses amounted to $2,351 million in 2018 (7.9% of revenues) compared to $2,315 million in 2017 (8.4% of revenues).

Research and Development Expenses

In 2018, R&D expenses were $1,061 million compared to $957 million in 2017. The expense in both years was primarily attributable to spending on engine development costs associated with emission requirements and continued investment in new products.

Restructuring Expenses

The Company incurred restructuring costs of $61 million and $93 million for the years ended December 31, 2018 and 2017, respectively. These costs were as follows:

- In 2018, Commercial Vehicles and Agricultural Equipment recorded $30 million and $26 million respectively, which were primarily attributable to actions as part of the Company's Efficiency Program launched in 2014.
- In 2017, Commercial Vehicles recorded $69 million mainly due to additional capacity realignment in the firefighting business and actions to reduce selling, general and administrative expenses as part of the Efficiency Program. Agricultural Equipment recorded $14 million, mainly as a result of footprint rationalization actions included in the Efficiency Program.

Interest Expense

Interest expense was $812 million in 2018 compared to $940 million in 2017. The interest expense attributable to Industrial Activities, net of interest income and eliminations, was $368 million in 2018 compared to $482 million in 2017, a decrease of $114 million over 2017. In 2018, interest expense includes a charge of $22 million related to the repurchase of a portion of the CNH Industrial Finance Europe S.A. 2.875% Notes due 2021. In 2017, interest expense included a charge of $56 million related to the repurchase/early redemption of notes. Excluding these changes, the decrease in 2018 was primarily attributable to refinancing and early retirement of certain high yield debt as well as lower average indebtedness.

Other, net

Other, net expenses were $997 million and includes a pre-tax gain of $80 million as a result of the amortization over approximately 4.5 years of the $527 million positive impact from a healthcare plan modification following a judgement in favor of the Company issued by the United States Supreme Court in April 2018. In 2017, Other, net expenses were $1,165 million which included a non-cash pre- and after-tax charge of $92 million due to the deconsolidation of our Venezuelan operations. Excluding the impacts of these charges in both years, Other, net expenses were flat. For more information on the deconsolidation of our Venezuelan operations, see "Note 2: Summary of Significant Accounting Policies - Venezuela Currency Regulations, Re-measurement and Deconsolidation".

Income Taxes

	2018	2017
	(in millions, except percentages)	
Income before income taxes and equity in income of unconsolidated subsidiaries and affiliates	$ 1,466	$ 659
Income taxes	$ 417	$ 457
Effective tax rate	28.4%	69.3%

Income taxes totaled $417 million in 2018, including a tax benefit of $8 million due to the U.S. Tax Cuts and Jobs Act (the "U.S. Tax Act") as well as the tax on restructuring costs of $61 million ($52 million after tax). The effective tax rate was also affected by charges for the repurchase and early redemption of notes of $22 million ($22 million after tax). Excluding the impact of these items and the $12 million impact of placing a valuation allowance against deferred tax assets in certain jurisdictions during the year, the effective tax rate for 2018 would have been 27%. The effective tax rate reduction in 2018 was primarily caused by the difference in tax accruals attributable to the U.S. Tax Act and other tax law changes, a reduced negative impact of recording valuation allowances against certain of our deferred tax assets, a more favorable geographic mix of pre-tax earnings, and a reduced U.S. tax rate pursuant to the U.S. Tax Act.

In 2017, income taxes totaled $457 million, including a tax charge of $128 million due to the U.S. Tax Act and tax legislation changes in the U.K. and certain other countries enacted in the fourth quarter of 2017 as well as the tax on restructuring costs of $93 million ($86 million after tax), charges for the repurchase and early redemption of notes of $64 million ($55 million after tax). The effective tax rate was also affected by the deconsolidation of our Venezuelan operations of $92 million ($92 million after tax). Excluding the impact of these items, the effective tax rate for 2017 would have been 38%.

Equity in Income of Unconsolidated Subsidiaries and Affiliates

Equity in income of unconsolidated subsidiaries and affiliates was $50 million in 2018, compared to $88 million in 2017. The decrease in equity in income of unconsolidated subsidiaries and affiliates was mainly due to lower results of the joint ventures in APAC.

Industrial Activities and Business Segments

The following tables show revenues, Adjusted EBIT and Adjusted EBITDA by segment. We have also included a discussion of our results by Industrial Activities and each of our segments.

	2018	2017	% Change	% Change excl. FX
	(in millions, except percentages)			
Revenues:				
Agricultural Equipment	$ 11,682	$ 10,683	9.4 %	10.4 %
Construction Equipment	3,021	2,530	19.4 %	20.2 %
Commercial Vehicles	10,939	10,562	3.6 %	1.3 %
Powertrain	4,565	4,369	4.5 %	1.4 %
Eliminations and other	(2,376)	(2,375)		
Total Net sales of Industrial Activities	27,831	25,769	8.0 %	7.3 %
Financial Services	1,989	2,028	(1.9)%	(0.5)%
Eliminations and other	(114)	(96)		
Total Revenues	$ 29,706	$ 27,701	7.2 %	6.7 %

	2018	2017	$ Change	2018 Adj EBIT Margin	2017 Adj EBIT Margin
	(in millions, except percentages)				
Adjusted EBIT by segment:					
Agricultural Equipment	$ 1,036	$ 791	$ 245	8.9%	7.4 %
Construction Equipment	91	(16)	107	3.0%	(0.6)%
Commercial Vehicles	299	195	104	2.7%	1.8 %
Powertrain	406	360	46	8.9%	8.2 %
Eliminations and other	(247)	(187)	(60)		
Total Industrial Activities	$ 1,585	$ 1,143	$ 442	5.7%	4.4 %
Financial Services	516	497	19	25.9%	24.5 %
Total Adjusted EBIT	$ 2,101	$ 1,640	$ 461	7.1%	5.9 %

	2018	2017	$ Change	2018 Adj EBITDA Margin	2017 Adj EBITDA Margin
	(in millions, except percentages)				
Adjusted EBITDA by segment:					
Agricultural Equipment	$ 1,339	$ 1,106	$ 233	11.5%	10.4%
Construction Equipment	152	49	103	5.0%	1.9%
Commercial Vehicles	890	735	155	8.1%	7.0%
Powertrain	536	488	48	11.7%	11.2%
Eliminations and other	(246)	(187)	(59)		
Total Industrial Activities	$ 2,671	$ 2,191	$ 480	9.6%	8.5%
Financial Services	767	799	(32)	38.6%	39.4%
Total Adjusted EBITDA	$ 3,438	$ 2,990	$ 448	11.6%	10.8%

Net sales of Industrial Activities were $27,831 million in 2018, an 8.0% increase (up 7.3% on a constant currency basis) as compared to the prior year driven by increased revenues in each Industrial Activities segment.

Adjusted EBIT of Industrial Activities was up 39% to $1,585 million in 2018, compared to $1,143 million in 2017, with an Adjusted EBIT margin of 5.7%, up 1.3 percentage points ("p.p.") compared to 2017.

Adjusted EBITDA of Industrial Activities was $2,671 million in 2018, an increase of $480 million (or up 22%) compared to 2017, with an Adjusted EBITDA margin of 9.6%, up 1.1 p.p. compared to 2017.

Business Segment Performance

Agricultural Equipment

Net Sales

The following table shows Agricultural Equipment net sales by geographic region in 2018 compared to 2017:

Agricultural Equipment Sales – by geographic region:

($ million)	2018	2017	% Change
North America	$ 4,037	$ 3,568	13.1 %
EMEA	4,321	3,847	12.3 %
LATAM	1,625	1,657	(1.9)%
APAC	1,699	1,611	5.5 %
Total	$ 11,682	$ 10,683	9.4 %

Net sales for Agricultural Equipment were $11,682 million in 2018, a 9.4% increase (up 10.4% on a constant currency basis) compared to 2017. The increase was driven by a sustained price realization performance, coupled with a stabilization of end-user demand in most of our markets, including emerging evidence of a replacement cycle in the row crop sector in North America.

For 2018, worldwide agricultural equipment industry unit sales increased 3%. In North America, industry volumes in the over 140 h.p. tractor market sector were up 5% and combines were up 10%. Industry volumes for under 140 h.p. segment were up 6%. EMEA markets were down 8% for tractors and up 4% for combines. LATAM tractor industry volumes decreased 1% and combine industry volumes increased 10%. APAC markets increased 3% for tractors and 2% for combines.

Adjusted EBIT

Adjusted EBIT was $1,036 million in 2018 ($791 million in 2017). The increase was mainly due to positive net price realization and favorable volume in most of our regions, partially offset by the sustained investment in product development, related primarily to precision farming and compliance with Stage V emission regulations. Adjusted EBIT margin increased 1.5 p.p. to 8.9%.

Construction Equipment

Net Sales

The following table shows Construction Equipment net sales by geographic region in 2018 compared to 2017:

Construction Equipment Sales – by geographic region:

($ million)	2018	2017	% Change
North America	$ 1,525	$ 1,307	16.7%
EMEA	594	511	16.2%
LATAM	345	300	15.0%
APAC	557	412	35.2%
Total	$ 3,021	$ 2,530	19.4%

Net sales for Construction Equipment were $3,021 million in 2018, a 19.4% increase (up 20.2% on a constant currency basis) compared to 2017, primarily due to increased end-user demand in all regions and favorable net price realization.

In 2018, Construction Equipment's worldwide heavy industry volumes were up 20% and light industry volumes were up 17% compared to 2017. Overall industry volumes increased in all regions.

Adjusted EBIT

Adjusted EBIT was $91 million in 2018 (up $107 million compared to 2017). Adjusted EBIT margin increased 3.6 p.p. to 3.0%. The increase was due to higher sales volume, favorable mix, and positive net price realization, more than offsetting raw material cost increases, mainly in North America.

Commercial Vehicles

Net Sales

The following table shows Commercial Vehicles net sales by geographic region in 2018 compared to 2017:

Commercial Vehicles Sales – by geographic region:

($ million)	2018	2017	% Change
North America	$ 25	$ 20	n.m.
EMEA	9,402	8,705	8.0 %
LATAM	710	837	(15.2)%
APAC	802	1,000	(19.8)%
Total	$ 10,939	$ 10,562	3.6 %

n.m. – not meaningful

Commercial Vehicles net sales were $10,939 million in 2018, an increase of 3.6% from 2017 (up 1.3% on a constant currency basis), as a result of positive pricing and a favorable product mix.

In 2018, the European truck market (GVW ≥3.5 tons), excluding U.K. and Ireland, grew by 8% compared to 2017. The light vehicles market ("LCV") (GVW 3.5-7.49 tons) increased 11%, while the Medium and Heavy ("M&H") Truck market (GVW ≥7.5 tons) increased 5%. In LATAM, new truck registrations (GVW ≥3.5 tons) increased 24% compared to 2017, with an increase of 46% in Brazil, partially offset by a decrease of 17% in Argentina. In APAC, new truck registrations slightly increased (up 1%) compared with 2017.

The Company's estimated market share in the European truck market (GVW ≥3.5 tons), excluding U.K. and Ireland, was 11.6%, down 1.2 p.p. compared with 2017. In LATAM in 2018, the Company's market share decreased 2.3 p.p. to 9.6%.

During 2018, Commercial Vehicles delivered approximately 144,900 vehicles (including buses and specialty vehicles), representing a 5% decrease from 2017. Volumes increased 2% in LCV and decreased 20% in M&H truck segments. Commercial Vehicles' deliveries decreased 4% in EMEA, 7% in LATAM and 17% in APAC.

In 2018, Commercial Vehicles' ratio of orders received to units shipped and billed, or book-to-bill ratio, for the European truck market was 0.98, a decrease of 5% compared to 2017. In 2018, truck order intake in Europe decreased 7% compared to previous year.

The following tables show our unit deliveries by geographic area and by product in 2018 compared to 2017:

Commercial Vehicles Deliveries – by geographic area:

(units in thousands)	2018	2017	% Change
France	24.9	22.9	8.7 %
Germany & Switzerland	19.5	20.7	(5.8)%
U.K.	6.5	7.2	(9.7)%
Italy	24.0	23.9	0.4 %
Iberia (Spain & Portugal)	11.4	14.2	(19.7)%
Rest of EMEA	36.1	38.2	(5.5)%
EMEA	122.4	127.1	(3.7)%
LATAM	12.9	13.8	(6.5)%
APAC	9.6	11.5	(16.5)%
Total Sales	144.9	152.4	(4.9)%
Naveco*	31.0	31.3	(1.0)%
Total	175.9	183.7	(4.2)%

(*) Joint ventures accounted for under the equity method

Commercial Vehicles Deliveries– by product:

(units in thousands)	2018	2017	% Change
Medium & Heavy	38.7	48.4	(20.0)%
Light	93.1	91.0	2.3 %
Buses	10.3	10.3	0.0 %
Specialty vehicles**	2.8	2.7	3.7 %
Total	144.9	152.4	(4.9)%

(**) Defense and firefighting vehicles

Adjusted EBIT

Adjusted EBIT was $299 million in 2018 ($195 million in 2017), mainly due to a favorable product mix in light duty trucks and buses, and to the focus on sales of alternative propulsion solutions in heavy duty trucks. Positive price realization in trucks and manufacturing efficiencies also contributed to the improved results. Adjusted EBIT margin increased 0.9 p.p. to 2.7%.

Powertrain

Net Sales

Powertrain net sales were $4,565 million in 2018, an increase of 4.5% (up 1.4% on a constant currency basis) compared to 2017, due to higher sales volume in engine applications. Sales to external customers accounted for 50% of total net sales in 2018, up from 48% in 2017.

During 2018, Powertrain sold approximately 613,000 engines, an increase of 1% compared to 2017. By major customer, 25% of engines were supplied to Commercial Vehicles, 16% to Agricultural Equipment, 4% to Construction Equipment and the remaining 55% to external customers (units sold to third parties were up 5% compared to 2017). Additionally, Powertrain delivered approximately 72,200 transmissions, an increase of 2% compared to 2017, and 175,700 axles, a decrease of 9% over 2017.

Adjusted EBIT

Adjusted EBIT was $406 million in 2018 ($360 million in 2017). The improvement was mainly due to a favorable product mix and manufacturing efficiencies, partially offset by higher product development spending. Adjusted EBIT margin increased to 8.9%.

Financial Services Performance

Finance and Interest Income

Financial Services reported revenues of $1,989 million in 2018, down 1.9% (down 0.5% on a constant currency basis) compared to 2017, primarily due to a lower average portfolio balance in North America.

Net Income

For the year ended December 31, 2018, net income was $385 million, a $67 million decrease compared to 2017, primarily attributable to the one-time tax benefit of $118 million recorded in 2017 as a result of the write-down of deferred tax liabilities in connection with the enactment of the 2017 U.S. Tax Cut & Jobs Act (the "U.S. Tax Act").

In 2018, retail loan originations (including unconsolidated joint ventures) were $10.0 billion, up $0.9 billion compared to 2017. The managed portfolio (including unconsolidated joint ventures) was $26.3 billion (of which retail was 62% and wholesale 38%), down $0.5 billion compared to December 31, 2017. Excluding the impact of currency translation, the managed portfolio increased $0.7 billion compared to 2017.

Reconciliation of Net Income (Loss) to Adjusted EBIT and Adjusted EBITDA

The following table includes the reconciliation of Adjusted EBIT and Adjusted EBITDA, non-GAAP financial measures, to net income, the most comparable U.S. GAAP financial measure.

	2018			2017		
	Industrial Activities	Financial Services	Total	Industrial Activities	Financial Services	Total
		(in millions)			(in millions)	
Net income[1]	**$ 714**	**$ 385**	**$ 1,099**	**$ (162)**	**$ 452**	**$ 290**
Income tax (expense)	286	131	417	415	42	457
Interest expenses of Industrial Activities, net of interest income and eliminations	368	—	368	482	—	482
Foreign exchange (gains) losses, net	171	—	171	124	—	124
Finance and non-service component of Pension and other post-employment benefit costs[2]	(15)	—	(15)	102	—	102
Restructuring expenses	61	—	61	90	3	93
Venezuelan re-measurement and impairment of assets, 2017 year-end deconsolidation of Venezuelan operations	—	—	—	92	—	92
Adjusted EBIT	**$ 1,585**	**$ 516**	**$ 2,101**	**$ 1,143**	**$ 497**	**$ 1,640**
Depreciation and Amortization	699	4	703	720	5	725
Depreciation of assets under operating leases and assets sold with buy-back commitments	387	247	634	328	297	625
Adjusted EBITDA	**$ 2,671**	**$ 767**	**$ 3,438**	**$ 2,191**	**$ 799**	**$ 2,990**

(1) For Industrial Activities, net income net of "Results from intersegment investments".

(2) In 2018, this item includes the pre-tax gain of $80 million as a result of the amortization over approximately 4.5 years of the $527 million positive impact from the modification of a healthcare plan in the U.S.

2017 Compared to 2016

Consolidated Results of Operations

	2017	2016
	(in millions)	
Revenues:		
Net sales	$ 25,769	$ 23,216
Finance and interest income	1,932	1,879
Total Revenues	27,701	25,095
Costs and Expenses:		
Cost of goods sold	21,572	19,420
Selling, general and administrative expenses	2,315	2,246
Research and development expenses	957	860
Restructuring expenses	93	44
Interest expense	940	1,026
Other, net	1,165	1,521
Total Costs and Expenses	27,042	25,117
Income before income taxes and equity in income of unconsolidated subsidiaries and affiliates	**659**	**(22)**
Income taxes	(457)	(297)
Equity in income of unconsolidated subsidiaries and affiliates	88	58
Net income	**290**	**(261)**
Net income (loss) attributable to noncontrolling interests	18	3
Net income attributable to CNH Industrial N.V.	**$ 272**	**$ (264)**

Revenues

We recorded revenues of $27,701 million in 2017, an increase of 10.4% (up 8.1% on a constant currency basis) compared to 2016. The increase was primarily due to an increase in net sales of Industrial Activities, which were $25,769 million in 2017, an increase of 11.0% (increase of 8.6% on a constant currency basis) compared to the prior year.

Cost of Goods Sold

Cost of goods sold were $21,572 million in 2017 compared with $19,420 million in 2016, an increase year over year due to the increase in net sales. As a percentage of net sales of Industrial Activities, cost of goods sold was 83.7% and 83.6% in the years ended December 31, 2017 and 2016, respectively.

Selling, General and Administrative Expenses

SG&A expenses amounted to $2,315 million in 2017 (8.4% of revenues), a 3.1% increase compared with the $2,246 million recorded in 2016 (8.9% of revenues).

Research and Development Expenses

In 2017, R&D expenses were $957 million compared to $860 million in 2016. The expense in both years was primarily attributable to continued investment in new products.

Restructuring Expenses

Restructuring expenses were $93 million in 2017 compared to $44 million in 2016. The expenses in both periods was primarily due to actions in Commercial Vehicles and Agricultural Equipment as part of the Company's Efficiency Program launched in 2014.

Interest Expense

Interest expense was $940 million in 2017 compared to $1,026 million in 2016. The interest expense attributable to Industrial Activities, net of interest income and eliminations, was $482 million in 2017 compared to $541 million in 2016. The decrease of $59 million over 2016 was primarily due to improved cost of funding and a lower average debt balance, as well as by a lesser impact from one-off items in 2017 ($56 million) compared to 2016 ($60 million) in connection with our accelerated debt redemption strategy.

Other, net

Other, net expenses were $1,165 million which includes a non-cash pre- and after-tax charge of $92 million due to the deconsolidation of our Venezuela operations. In 2016, Other, net expenses were $1,521 million which included a non-recurring non-tax deductible charge of €495 million ($551 million) as a result of the European Commission settlement as well as a $34 million charge related to the re-measurement and impairment of certain assets of our Venezuelan subsidiary. Excluding the impacts of these charges in both years, Other, net expenses increased $137 million mainly due to higher provisions. For more information on this re-measurement, see "Note 2: Summary of Significant Accounting Policies - Foreign Currency".

Income Taxes

	2017	2016
	(in millions, except percentages)	
Income before income taxes and equity in income of unconsolidated subsidiaries and affiliates	$ 659	$ (22)
Income taxes	$ 457	$ 297
Effective tax rate	69.3%	n.m.

n.m. – not meaningful

Income taxes totaled $457 million in 2017, including a tax charge of $128 million due to the U.S. Tax Act and tax legislation changes in the U.K. and certain other countries enacted in the fourth quarter of 2017 as well as the tax on restructuring costs of $93 million ($86 million after tax). The effective tax rate was also affected by charges for the repurchase and early redemption of notes of $64 million ($55 million after tax) and by the deconsolidation of our Venezuelan operations of $92 million ($92 million after tax). Excluding the impact of these items, the effective tax rate for 2017 would have been 38%.

In 2016, income taxes totaled $297 million. In 2016, the effective tax rate was significantly impacted by the non-recurring non-tax deductible charge of $551 million relating to the European Commission settlement, the $34 million non-deductible charge due to the re-measurement and impairment of certain assets in Venezuela, the restructuring costs of $44 million ($40 million after-tax) and a one-time non-cash tax charge of $59 million related to the corporate reorganization of our Latin America operations. Excluding the tax impact of these items, the effective tax rate for 2016 would have been 40%.

Equity in Income of Unconsolidated Subsidiaries and Affiliates

Equity in income of unconsolidated subsidiaries and affiliates was $88 million in 2017, compared to $58 million in 2016. In 2016, the item included a negative impact of $9 million due to the restructuring of our joint ventures in China. Excluding the 2016 negative impact, equity in income of unconsolidated subsidiaries and affiliates increased $21 million due to improved results of joint venture in APAC.

Industrial Activities and Business Segments

The following tables show revenues and operating profit broken down by segment. We have also included a discussion of our results by Industrial Activities and each of our business segments.

	2017	2016	% Change	% Change excl. FX
	(in millions, except percentages)			
Revenues:				
Agricultural Equipment	$ 10,683	$ 9,690	10.2%	8.0%
Construction Equipment	2,530	2,206	14.7%	12.8%
Commercial Vehicles	10,562	9,628	9.7%	7.0%
Powertrain	4,369	3,707	17.9%	15.9%
Eliminations and other	(2,375)	(2,015)		
Total Net sales of Industrial Activities	25,769	23,216	11.0%	8.6%
Financial Services	2,028	1,916	5.8%	1.3%
Eliminations and other	(96)	(37)		
Total Revenues	$ 27,701	$ 25,095	10.4%	8.1%

	2017	2016	$ Change	2017 Adj EBIT Margin	2016 Adj EBIT Margin
	(in millions, except percentages)				
Adjusted EBIT by segment:					
Agricultural Equipment	$ 791	$ 642	$ 149	7.4 %	6.6 %
Construction Equipment	(16)	(44)	28	(0.6)%	(2.0)%
Commercial Vehicles	195	279	(84)	1.8 %	2.9 %
Powertrain	360	233	127	8.2 %	6.3 %
Eliminations and other	(187)	(142)	(45)		
Total Industrial Activities	$ 1,143	$ 968	$ 175	4.4 %	4.2 %
Financial Services	497	496	1	24.5 %	25.9 %
Total Adjusted EBIT	$ 1,640	$ 1,464	$ 176	5.9 %	5.8 %

	2017	2016	$ Change	2017 Adj EBITDA Margin	2016 Adj EBITDA Margin
	(in millions, except percentages)				
Adjusted EBITDA by segment:					
Agricultural Equipment	$ 1,106	$ 951	$ 155	10.4%	9.8%
Construction Equipment	49	25	24	1.9%	1.1%
Commercial Vehicles	735	771	(36)	7.0%	8.0%
Powertrain	488	357	131	11.2%	9.6%
Eliminations and other	(187)	(142)	(45)		
Total Industrial Activities	$ 2,191	$ 1,962	$ 229	8.5%	8.5%
Financial Services	799	763	36	39.4%	39.8%
Total Adjusted EBITDA	$ 2,990	$ 2,725	$ 265	10.8%	10.9%

Net sales of Industrial Activities were $25,769 million in 2017, an 11.0% increase (up 8.6% on a constant currency basis) as compared to the prior year. Net sales increased with solid growth in all segments.

Adjusted EBIT of Industrial Activities was $1,143 million in 2017, a $175 million increase as compared to the prior year, with an Adjusted EBIT margin of 4.4%, up 0.2 p.p. compared to 2016.

Adjusted EBITDA of Industrial Activities was up 11.7% to $2,191 million in 2017 compared to $1,962 million in 2016, with an Adjusted EBITDA margin of 8.5%, flat compared to 2016.

Industrial Activities Performance by Business

Agricultural Equipment

Net Sales

The following table shows Agricultural Equipment net sales by geographic region in 2017 compared to 2016:

Agricultural Equipment Sales – by geographic region:

($ million)	2017	2016	% Change
North America	$ 3,568	$ 3,652	(2.3)%
EMEA	3,847	3,422	12.4 %
LATAM	1,657	1,258	31.7 %
APAC	1,611	1,358	18.6 %
Total	$ 10,683	$ 9,690	10.2 %

Net sales for Agricultural Equipment were $10,683 million in 2017, a 10.2% increase (up 8.0% on a constant currency basis) compared to 2016. In LATAM, the increase was mainly due to higher industry volume, market share gains, a favorable mix of higher horsepower products and net price realization. Net sales increased in APAC mainly driven by favorable volume in Australia, Russia, India, China and South East Asia. In EMEA, net sales increased due to higher industry volume, a favorable product mix and net price realization. In North America, net sales decreased as a result of de-stocking actions in our dealer network, primarily in the high horsepower tractors and the hay and forage product lines. North America industry volumes were flat overall with the row crop sector higher, offset by lower livestock sector volumes.

For the full year 2017, worldwide agricultural equipment industry unit sales up 6% compared to 2016 with global demand for tractors up 5%, primarily driven by recovery in Brazil and India, with EMEA flat and North America slightly down, combines up 6%, driven by Brazil and North America, while other agricultural equipment demand was flat. In 2017, we have seen a stabilization of the North America market especially in the cash crop segment driven by a reduction of used machines inventories and a recovery in replacement demand. Industry volumes in the North America row crop sector were slightly up with tractors over 140 h.p. up 2% and 10% for combines. The North America tractor under 140 h.p. segment was up 6% in the lifestyle tractors product line of 0-40 h.p., while the 60-140 h.p. livestock segment was down. EMEA markets were up 2% for tractors and flat for combines. LATAM tractor and combine sales both increased 13%. APAC markets increased 6% for tractors and 5% for combines.

For 2017, Agricultural Equipment's worldwide market share performance was slightly up compared to 2016 for tractors and flat for combines. In an effort to reduce dealer inventory levels, the Company's wholesale shipments to dealers were less than dealer retail sales to end customers.

Adjusted EBIT

Adjusted EBIT was $791 million in 2017 ($642 million in 2016). Adjusted EBIT margin increased 0.8 p.p. to 7.4% compared to 2016. The increase was mainly due to the favorable volume and product mix in all regions except NAFTA. One percent net price realization more than offset increases in raw material cost and unfavorable foreign exchange fluctuations. Agricultural Equipment also increased spending in research and development, primarily related to our new precision farming solutions, and in selling, general and administrative costs, primarily associated with the increase in sales activity.

Construction Equipment

Net Sales

The following table shows Construction Equipment net sales by geographic region in 2017 compared to 2016:

Construction Equipment Sales – by geographic region:

($ million)	2017	2016	% Change
North America	$ 1,307	$ 1,137	15.0%
EMEA	511	505	1.2%
LATAM	300	246	22.0%
APAC	412	318	29.6%
Total	$ 2,530	$ 2,206	14.7%

Net sales for Construction Equipment were $2,530 million in 2017, a 14.7% increase (up 12.8% on a constant currency basis) compared to 2016 due to higher industry volume in all regions except EMEA and net price realization primarily in North America and LATAM.

In 2017, Construction Equipment's worldwide heavy industry sales were up 34% while light industry sales were up 16%, compared to 2016. Overall industry volumes increased in both product categories and in all regions with above average growth rates in APAC.

Construction Equipment's worldwide market share for both light and heavy construction equipment was slightly down overall compared with 2016.

Adjusted EBIT

Adjusted EBIT was $(16) million in 2017 ($(44) million in 2016). Adjusted EBIT margin increased 1.4 p.p. to (0.6)% compared to 2016. The increase was due to higher volume, with a positive overhead absorption and net price realization partially offset by increases in raw material cost, unfavorable foreign exchange impacts on product components, and increased production costs driven by the increased volume.

Commercial Vehicles

Net Sales

The following table shows Commercial Vehicles net sales by geographic region in 2017 compared to 2016:

Commercial Vehicles Sales – by geographic region:

($ million)	2017	2016	% Change
North America	$ 20	$ 40	n.m.
EMEA	8,705	8,113	7.3%
LATAM	837	736	13.7%
APAC	1,000	739	35.3%
Total	$ 10,562	$ 9,628	9.7%

Commercial Vehicles net sales were $10,562 million in 2017, increased 9.7% from 2016 (up 7.0% on a constant currency basis), as a result of higher truck and bus sales in EMEA, higher volume and better product mix in APAC and recovering truck sales in LATAM, mainly Argentina.

In 2017, the European truck market (GVW ≥3.5 tons) excluding U.K. and Ireland, grew by 5% compared to 2016. The light vehicles market (GVW 3.5-7.49 tons) increased 6%, while the medium and heavy truck market (GVW ≥ 7.5 tons) increased 2%. In LATAM, new truck registrations (GVW ≥3.5 tons) increased 16% compared to 2016, with an increase of 54% in Argentina and 4% in Brazil. In APAC, new truck registrations increased 8% compared with 2016.

The Company's estimated market share in the European truck market (GVW ≥3.5 tons), excluding U.K. and Ireland, was 12.8%, down 0.3 p.p. compared with 2016. In LATAM, in 2017, the Company's market share decreased 0.2 p.p. to 11.9%.

During 2017, Commercial Vehicles delivered approximately 152,400 vehicles (including buses and specialty vehicles), representing a 4% increase from 2016. Volumes increased 4% in both LCV and M&H truck segments. Commercial Vehicles' deliveries increased 1% in EMEA, 28% in LATAM and 14% in APAC.

Commercial Vehicles' 2017 ratio of units shipped and billed, or book-to-bill ratio, was 1.02, an increase of 3% compared to 2016. In 2017, truck order intake in Europe increased 7% compared to previous year.

The following tables show our unit deliveries by geographic area and by product in 2017 compared to 2016:

Commercial Vehicles Deliveries – by geographic area:

(units in thousands)	2017	2016	% Change
France	22.9	22.6	1.3 %
Germany & Switzerland	20.7	19.8	4.5 %
U.K.	7.2	8.2	(12.2)%
Italy	23.9	23.3	2.6 %
Iberia (Spain & Portugal)	14.2	13.3	6.8 %
Rest of EMEA	38.2	38.7	(1.3)%
EMEA	127.1	125.9	1.0 %
LATAM	13.8	10.8	27.8 %
APAC	11.5	10.1	13.9 %
Total Sales	152.4	146.8	3.8 %
Naveco*	31.3	75.8	(58.7)%
SAIC Iveco Hongyan*	—	15.5	(100.0)%
Total	183.7	238.1	(22.8)%

(*) Joint ventures accounted for under the equity method

Commercial Vehicles Deliveries – by product:

(units in thousands)	2017	2016	% Change
Medium & Heavy	48.4	46.5	4.1%
Light	91.0	87.8	3.6%
Buses	10.3	10.0	3.0%
Specialty vehicles**	2.7	2.5	8.0%
Total	152.4	146.8	3.8%

(**) Defense and firefighting vehicles

Adjusted EBIT

Adjusted EBIT was $195 million in 2017 ($279 million in 2016). Adjusted EBIT margin decreased 1.1 p.p. to 1.8% compared to 2016. Adjusted EBIT increased in LATAM and APAC, mainly due to higher volume and favorable pricing. In EMEA, adjusted EBIT decreased as favorable volumes were more than offset by unfavorable mix, primarily associated with fleet-related channel sales, Euro 6 emission content costs, and the negative impact of the British pound devaluation. Increased spending in research and development on new product programs was more than offset by favorable manufacturing efficiencies.

Powertrain

Net Sales

Powertrain net sales were $4,369 million in 2017, an increase of 17.9% (up 15.9% on a constant currency basis) compared to 2016. The increase was primarily attributable to higher volumes. Sales to external customers accounted for 48% of total net sales in 2017, up from 47% in 2016.

During 2017, Powertrain sold approximately 606,700 engines, an increase of 13% compared to 2016. By major customer, 26% of engines were supplied to Commercial Vehicles, 17% to Agricultural Equipment, 3% to Construction Equipment, and the remaining 54% to external customers (units sold to third parties were up 7% compared to 2016). Additionally, Powertrain delivered approximately 70,400 transmissions, a decrease of 6% compared to 2016, and 193,900 axles, an increase of 2% over 2016.

Adjusted EBIT

Adjusted EBIT was $360 million in 2017 ($233 million in 2016). Adjusted EBIT margin increased 1.9 p.p. to 8.2% compared to 2016. The increase was due to higher volumes and manufacturing efficiencies.

Financial Services

Finance and Interest Income

Financial Services reported revenues of $2,028 million in 2017, up 5.8% (up 1.3% on a constant currency basis) relative to 2016 primarily due to higher activity in all regions except North America.

Net Income

For the year ended December 31, 2017, net income was $452 million, compared to $334 million in 2016. The increase was primarily attributable to an improvement in income taxes as a result of the write-down of deferred tax liabilities in connection with the enactment of the U.S. Tax Act. Excluding the favorable tax impact, net income was flat compared to 2016 as stronger performances in EMEA, LATAM and APAC regions were offset by a weaker result in North America.

Retail loan originations (including unconsolidated joint ventures) were $9.1 billion, flat compared to 2016. The managed portfolio (including unconsolidated joint ventures) of $26.8 billion (of which retail was 61% and wholesale 39%) was up $2.0 billion compared to December 31, 2016. Excluding the impact of currency translation, the managed portfolio increased $0.6 billion compared to 2016.

Reconciliation of Net Income (Loss) to Adjusted EBIT and Adjusted EBITDA

The following table includes the reconciliation of Adjusted EBIT and Adjusted EBITDA, non-GAAP financial measures, to net income, the most comparable U.S. GAAP financial measure.

	2017	2016	$ Change
		(in millions)	
Net income	$ 290	$ (261)	$ 551
Income tax (expense)	457	297	160
Interest expenses of Industrial Activities, net of interest income and eliminations	482	541	(59)
Foreign exchange (gains) losses, net	124	142	(18)
Finance and non-service component of Pension and other post-employment benefit costs	102	107	(5)
Restructuring expenses	93	44	49
Venezuelan re-measurement and impairment of assets, and 2017 year-end deconsolidation of Venezuelan operations	92	34	58
Chinese joint venture restructuring	—	9	(9)
European Commission settlement	—	551	(551)
Adjusted EBIT	$ 1,640	$ 1,464	$ 176
Depreciation and Amortization	725	716	9
Depreciation of assets under operating leases and assets sold with buy-back commitments	625	545	80
Adjusted EBITDA	$ 2,990	$ 2,725	$ 265

Application of Critical Accounting Estimates

The financial statements included in this annual report and related disclosures have been prepared in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. The estimates and related assumptions are based on available information at the date of preparation of the financial statements, historical experience and other relevant factors. Actual results may differ from the estimates.

Particularly in light of the current economic uncertainty, developments may occur which may differ from our estimates and assumptions, and therefore might require significant adjustments to the carrying amounts of certain items, which as of the date of this annual report cannot be accurately estimated or predicted. The principal items affected by estimates are the allowances for doubtful accounts receivable and inventories, long-lived assets (tangible and intangible assets), the residual values of vehicles leased out under operating lease arrangements or sold with buy-back commitments, sales allowances, product warranties, pension and other postemployment benefits, deferred tax assets and contingent liabilities.

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

The following are the critical judgments and the key assumptions concerning the future that we have made in the process of applying our accounting policies and that may have the most significant effect on the amounts recognized in our consolidated financial statements included in this annual report or that represent a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects our estimate of losses inherent in the wholesale and retail credit portfolios. This allowance is based on our estimate of the losses to be incurred, which derives from past experience with similar receivables, current and historical past due amounts, dealer termination rates, write-offs and collections, the careful monitoring of portfolio credit quality and current and projected economic and market conditions. Should the present economic and financial situation persist or worsen, there could be a further deterioration in the financial situation of our debtors compared to that taken into consideration in calculating the allowances recognized in the financial statements.

Allowance for Obsolete and Slow-moving Inventory

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

Recoverability of Long-lived Assets (including Goodwill)

Long-lived assets include property, plant and equipment, goodwill and other intangible assets such as patents and trademarks. We evaluate the recoverability of property, plant and equipment and finite-lived other intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. We assess the recoverability of property, plant and equipment and finite-lived other intangible assets by comparing the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If the carrying amount of the long-lived asset is not recoverable in full on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value.

Goodwill and indefinite-lived other intangible assets are tested for impairment at least annually. In 2018 and 2017, we performed our annual impairment review as of December 31 and concluded that there was no impairment in either year. We evaluate events and changes in circumstances to determine if additional testing may be required.

We have identified five reporting units for the purpose of goodwill impairment testing: Agricultural Equipment, Construction Equipment, Commercial Vehicles, Powertrain, and Financial Services. Impairment testing for goodwill is done at a reporting unit level. Under the goodwill impairment test, CNH Industrial's estimate of the fair value of the reporting unit is compared with its carrying value. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. CNH Industrial has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

The vast majority of goodwill, representing approximately 97% of the total, as of December 31, 2018, related to Agricultural Equipment (67%), Construction Equipment (24%) and Financial Services (6%) and as such, the impairment testing of these reporting units is discussed in detail below.

The carrying values for each reporting unit include material allocations of our assets and liabilities and costs and expenses that are common to all of the reporting units. We believe that the basis for such allocations has been consistently applied and is reasonable.

We determine the fair value of our reporting units using multiple valuation methodologies, relying largely on an income approach but also incorporating value indicators from a market approach. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. The income approach is dependent on several critical management assumptions, including estimates of future sales, gross margins, operating costs, income tax rates, terminal value growth rates, capital expenditures, changes in working capital requirements, and the weighted average cost of capital (discount rate). Discount rate assumptions include an assessment of the risk inherent in the future cash flows of the respective reporting units. Expected cash flows used under the income approach are developed in conjunction with our budgeting and forecasting process. Under the market approach, we estimate the fair value of the Agricultural Equipment and Construction Equipment reporting units using revenue and earnings before interest, tax, depreciation and amortization ("EBITDA") multiples, and estimate the fair value of the Financial Services reporting unit using book value, tangible book value and interest margin multiples. The multiples are derived from comparable publicly-traded companies with similar operating and investment characteristics as the respective reporting units. The guideline company method makes use of market price data of corporations whose

stock is actively traded in a public, free and open market, either on an exchange or over-the counter basis. Although it is clear no two companies are entirely alike, the corporations selected as guideline companies must be engaged in the same, or a similar, line of business or be subject to similar financial and business risks, including the opportunity for growth.

As of December 31, 2018, the estimated fair values of each reporting unit with goodwill exceeded the carrying value by more than 30%. Accordingly, management determined that none of the reporting units were at higher risk for impairment at December 31, 2018. The sum of the fair values of our reporting units was in excess of our market capitalization at December 31, 2018. We believe that the difference between the fair value and market capitalization is reasonable (in the context of assessing whether any asset impairment exists) when market-based control premiums are taken into consideration.

Residual Values of Assets Leased Out Under Operating Lease Arrangements or Sold with a Buy-back Commitment

We record assets rented to customers or leased to them under operating leases as tangible assets. Furthermore, new vehicle sales with a buy-back commitment are not recognized as sales at the time of delivery but are accounted for as operating leases if it is probable that the vehicle will be repurchased by us. Income from such operating leases is recognized on a straight-line basis over the term of the lease. Depreciation expense for assets subject to operating leases is recognized on a straight-line basis over the lease term in amounts necessary to reduce the cost of an asset to its estimated residual value at the end of the lease term. The estimated residual value of leased assets is calculated at the lease commencement date on the basis of published industry information and historical experience.

Realization of the residual values is dependent on our future ability to market the assets under then-prevailing market conditions. We continually evaluate whether events and circumstances have occurred which impact the estimated residual values of the assets on operating leases. The used vehicle market was carefully monitored throughout 2018 to ensure that write-downs were properly determined; however, additional write-downs may be required if market conditions should deteriorate further.

Sales Allowances

At the later of the time of sale or the time an incentive is announced to dealers, we record the estimated impact of sales allowances in the form of dealer and customer incentives as a reduction of revenue. There may be numerous types of incentives available at any particular time. The determination of sales allowances requires us to make estimates based on various factors.

Product Warranties

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

Pension and Other Postemployment Benefits

As more fully described in "Note 12: Employee Benefit Plans and Postretirement Benefits" to our consolidated financial statements for the year ended December 31, 2018, we sponsor pension, healthcare and other postemployment plans in various countries. We actuarially determine the costs and obligations relating to such plans using several statistical and judgmental factors. These assumptions include discount rates, rates for expected returns on plan assets, rates for compensation increases, mortality rates, retirement rates, and healthcare cost trend rates, as determined by us within certain guidelines. To the extent actual experiences differ from our assumptions or our assumptions change, we may experience gains and losses that we have not yet recognized in our consolidated statements of operations but would be recognized in equity. For our pension and postemployment benefit plans, we recognize net gain or loss as a component of defined benefit plan cost for the year if, as of the beginning of the year, such unrecognized net gain or loss exceeds 10% of the greater of (1) the projected benefit obligation or (2) the fair or market value of the plan assets at year end. In such case, the amount of amortization we recognize is the resulting excess divided by the average remaining service period of active employees, and by the average life expectancy for inactive employees expected to receive benefits under the plan.

In October 2014, the Society of Actuaries ("SOA") in the United States issued an updated mortality table ("RP-2014") and mortality improvement scale ("MP-2014"). Accordingly, CNH Industrial reviewed the historical mortality experience and demographic characteristics of our U.S. Pension and Healthcare plan participants and have decided to adopt variants of the Blue Collar tables of RP-2014 as the base mortality tables. The Retirement Plans Experience Committee ("RPEC") publishes annual updates to the RP-2014 model and corresponding mortality improvement scales. The latest update resulted in the 2018 version of the mortality improvement scale ("MP-2018"). In 2018, CNH Industrial adopted the MP-2018 mortality improvement scale, which better reflects the actual recent experience over the previous mortality improvement scales. Management believes the new mortality assumptions most appropriately represent its plans' experience

and characteristics. The adoption of the new mortality assumptions resulted in a total decrease of $3.6 million to the Company's benefit obligations at December 31, 2018, of which, $3.0 million was related to pension plans and $0.6 million to healthcare plans.

Beginning in 2016, the Company changed the method used to estimate the service and interest cost components of the net periodic pension and other postretirement benefit costs in order to provide a more precise measure of interest and service costs by improving the correlation between the projected benefit cash flows and the discrete spot yield curve rates. The new method uses the spot yield curve approach to estimate the service and interest costs by applying the specific spot rates along the yield curve used to determine the benefit obligations to relevant projected cash outflows. Historically, the service and interest costs were determined using a single weighted-average discount rate based on hypothetical AA yield curves used to measure the benefit obligation at the beginning of the period. The change has been accounted for as a change in estimate prospectively.

The following table shows the effects of a one percentage-point change in our primary actuarial assumptions on pension, healthcare and other postemployment benefit obligations and expense:

	2019 Benefit Cost		Year End Benefit Obligation	
	One Percentage-Point Increase	One Percentage-Point Decrease	One Percentage-Point Increase	One Percentage-Point Decrease
	(in millions)			
Pension benefits				
Assumed discount rate	$ (24)	$ 28	$ (333)	$ 412
Expected long-term rate of return on plan assets	$ (22)	$ 22	$ —	$ —
Healthcare benefits:				
Assumed discount rate	$ 1	$ 1	$ (33)	$ 40
Assumed health care cost trend rate (initial and ultimate)	$ 3	$ (1)	$ 25	$ (22)
Other benefits:				
Assumed discount rate	$ 1	$ (1)	$ (35)	$ 41

Realization of Deferred Tax Assets

At December 31, 2018, we had net deferred tax assets on temporary differences and tax benefits arising from tax loss and credit carryforwards of $2.1 billion, of which $1.6 billion is not recognized in the financial statements. The corresponding totals at December 31, 2017 were $2.6 billion and $1.8 billion, respectively.

We have recorded deferred tax assets that we believe are more likely than not to be recovered. The determination to record a valuation allowance requires significant judgement and is based on an assessment of positive and negative evidence, whereby objectively verifiable evidence takes precedence over other forms of evidence. We consider actual and forecasted results, the potential to carryback net operating losses and credits, the future reversal of certain taxable temporary differences, and planning strategies that are both prudent and feasible. We also consider risk factors, including, but not limited to, the economic conditions in the countries and, in some cases, regions in which we have significant operations as those conditions would generally impact our ability to generate taxable income in specific jurisdictions.

The above-mentioned $1.6 billion valuation allowance recorded in the consolidated financial statements at December 31, 2018 includes a full valuation allowance with respect to our Italian deferred tax assets totaling $0.7 billion. As previously disclosed, we continue to evaluate the realizability of our Italian deferred tax assets, and in accordance with the applicable guidance, at December 31, 2018, we assessed and weighed all positive and negative evidence in determining whether to maintain or release the valuation allowance currently placed against these assets. In particular, despite the positive evidence of having earned cumulative pre-tax profits over the most recent cumulative three-year period, certain other factors have been identified and considered in evaluating whether it was appropriate to maintain or release the valuation allowance. During the fourth quarter of 2018, economic data suggests a softening of the European economy in general and, in particular, of the European heavy commercial vehicle market. Further, industry forecasts estimate this trend will continue into 2019. If this softening were to occur during 2019, the results of our Italian operations would be negatively impacted. In addition, the Company has announced changes to its executive leadership team and intends to release an updated strategic business plan during the course of 2019. This strategic business plan will address how the Company approaches the mega-trends impacting the industries in which we compete -- including digitalization, electrification, and automation. The plan is also expected to define our future R&D investment and capital allocations, while also including a complete footprint assessment of our operations. As previously disclosed, the Company considers the forward-looking information included in the strategic business plan to be a significant piece of evidence in evaluating the recognition of our Italian deferred tax assets as, ultimately, their realization depends upon future taxable profits being generated in Italy. Given the negative evidence related to the softening of the European and Italian economies, the cyclicality of our business and the pending update to our strategic business plan, which is expected to address decisions as to footprint, capital allocation, R&D investments and other long-term initiatives. All of these factors may impact the profitability of our Italian operations and, accordingly we continue to maintain a full valuation allowance against our Italian deferred tax assets.

Contingent Liabilities

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

Liquidity and Capital Resources

The following discussion of liquidity and capital resources principally focuses on our consolidated statements of cash flows and our consolidated balance sheets. Our operations are capital intensive and subject to seasonal variations in financing requirements for dealer receivables and dealer and company inventories. Whenever necessary, funds from operating activities are supplemented from external sources. We expect to have available to us cash reserves and cash generated from operations and from sources of debt and financing activities that are sufficient to fund our working capital requirements, capital expenditures and debt service at least through the end of 2019.

Cash Flow Analysis

At December 31, 2018, we had cash and cash equivalents of $5,031 million, a decrease of $399 million or 7.3% from $5,430 million at December 31, 2017. Cash and cash equivalents at December 31, 2018 did not include restricted cash of $772 million ($770 million at December 31, 2017), which is comprised of cash that was reserved principally for the servicing of securitization-related debt. The aggregate of cash and cash equivalents and restricted cash, which we consider to constitute our principal liquid assets (or "liquidity"), totaled $5,803 million at December 31, 2018, a decrease of $397 million, or 6.4%, from the total at the end of 2017 of $6,200 million.

The decrease of liquidity compared to December 31, 2017 was mainly attributable to a reduction in third party debt, dividend payments to shareholders and unfavorable exchange rate differences, partially offset by the net industrial cash flow generation. At December 31, 2018, available liquidity was $8,938 million, inclusive of $3,135 million in undrawn committed facilities ($3,180 million at December 31, 2017), compared to $9,380 million at December 31, 2017.

The following table summarizes the changes to cash flows from operating, investing and financing activities for each of the years ended December 31, 2018, 2017 and 2016.

	2018	2017	2016
	(in millions)		
Cash provided by (used in):			
Operating activities	$ 2,554	$ 2,865	$ 2,768
Investing activities	(1,920)	(1,869)	(1,656)
Financing activities	(723)	(1,045)	(1,538)
Translation exchange differences	(308)	395	(31)
Net increase (decrease) in cash and cash equivalents	$ (397)	$ 346	$ (457)

Net Cash from Operating Activities

Cash provided by operating activities in 2018 totaled $2,554 million and comprised the following elements:

- $1,099 million in net income;
- plus $1,337 million in non-cash charges for depreciation and amortization ($703 million excluding assets sold with buy-back commitments and equipment on operating leases);
- plus $160 million in losses on the disposal of assets and other non-cash items;
- plus $22 million in cost of repurchase of notes;
- less $3 million of undistributed loss of unconsolidated subsidiaries (netted against dividends received from equity investees);
- plus changes in deferred income taxes of $48 million less change in provisions of $48 million; and
- plus $(61) million in change in working capital and other operating assets and liabilities.

In 2017, $2,282 million of the $2,865 million in cash generated by operating activities during the year was from income-related cash inflows (calculated as net income plus amortization and depreciation, dividends, equity income, changes in other liabilities and deferred taxes, net of gains/losses on disposals and other non-cash items), in addition to a $583 million increase in cash resulting from a decrease in working capital and other operating assets and liabilities.

In 2016, $1,333 million of the $2,768 million in cash generated by operating activities during the year was from income-related cash inflows (calculated as net income plus amortization and depreciation, dividends, equity income, changes in other liabilities and deferred taxes, net of gains/losses on disposals and other non-cash items), in addition to a $1,435 million increase in cash resulting from a decrease in working capital and other operating assets and liabilities.

Net Cash from Investing Activities

In 2018, cash used in investing activities was $1,920 million. The negative flows were primarily generated by:

- investments in tangible and intangible assets that used $1,902 million in cash. Excluding investments for our long-term rental operations and relating to commercial vehicles sold under buy-back commitments, investments amounted to $558 million;
- $253 million employed in retail receivables, net of collections; and
- less $7 million of proceeds from the sale of assets.

In 2017, cash used in investing activities totaled $1,869 million. Expenditures on tangible and intangible assets totaled $2,235 million. Excluding investments for our long-term rental operations and relating to vehicles sold under buy-back commitments, investments amounted to $492 million in 2017. Net collections of receivables from retail financing activities amounted to $306 million, and the proceeds from the sale of assets amounted to $17 million.

In 2016, cash used in investing activities totaled $1,656 million. Expenditures on tangible and intangible assets totaled $2,134 million. Excluding investments for our long-term rental operations and relating to vehicles sold under buy-back commitments, investments amounted to $503 million in 2016. Net collections of receivables from retail financing activities amounted to $618 million, and the proceeds from the sale of assets amounted to $12 million.

The following table summarizes our investments in tangible assets by segment and intangible assets for each of the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
		(in millions)	
Agricultural Equipment	$ 148	$ 156	$ 150
Construction Equipment	24	25	26
Commercial Vehicles	170	132	150
Powertrain	85	86	92
Total Industrial Activities investments in tangible assets	427	399	418
Industrial Activities investments in intangible assets	123	89	83
Total Industrial Activities capital expenditures	550	488	501
Financial Services investments in tangible assets	—	1	—
Financial Services investments in intangible assets	8	3	2
Total Capital expenditures	$ 558	$ 492	$ 503

We incurred these capital expenditures in the regions in which we operate principally related to initiatives to introduce new products, enhance manufacturing efficiency and increase capacity, and for maintenance and engineering. The increase in capital expenditures in 2018 from 2017 is primarily related to the investment cycles of our products and increases in discretionary spending.

Net Cash from Financing Activities

In 2018, cash used in financing activities totaled $723 million, mainly attributable to a reduction in third party debt of Industrial Activities (including the repurchase of a portion of the CNH Industrial Finance Europe S.A. 2.875% notes due 2021), dividend payments to shareholders and purchase of treasury shares, partially offset by an increase in third party debt of Financial Services.

In 2017, cash used in financing activities totaled $1,045 million, mainly attributable to lower bank debt of Industrial Activities, reduction of third party debt due to the repurchase/early redemption of notes and dividend payments to shareholders, partially offset by new bond issuances.

In 2016, cash used in financing activities totaled $1,538 million, mainly attributable to a reduction in third party debt, of which $550 million primarily due to lower bank debt of Industrial Activities, including $60 million related to the repurchase of portions of Case New Holland Industrial Inc. 7.875% Notes due 2017, and $723 million mainly due to lower secured debt of Financial Services partially offset by its new bond issuances.

Capital Resources

The cash flows, funding requirements and liquidity of CNH Industrial are managed on a standard and centralized basis. This centralized system is designed to optimize the efficiency and effectiveness of our management of capital resources.

Our subsidiaries participate in a company-wide cash management system, which we operate in a number of jurisdictions. Under this system, the cash balances of all our subsidiaries are aggregated at the end of each business day to central pooling accounts. The centralized treasury management offers financial and systems expertise in managing these accounts, as well as providing related services and consulting to our business segments.

Our policy is to keep a high degree of flexibility with our funding and investment options in order to maintain our desired level of liquidity to achieve our rating targets while improving the Company's capital structure over time. In managing our liquidity requirements, we are pursuing a financing strategy that aims at extending over time our Industrial Activities debt profile by issuing long-term bonds and retiring short-term debt through opportunistic transactions, deleveraging our Industrial Activities balance sheet by reducing gross debt, and diversifying funding sources.

A summary of our strategy is set forth below:

- To fund Industrial Activities' short-term financing requirements and to ensure near-term liquidity, Industrial Activities will continue to sell certain of its receivables to Financial Services and rely on internal cash flows including managing working capital. We will also supplement our short-term financing by drawing on existing or new facilities with banks.
- To the extent funding needs of Industrial Activities are determined to be of a longer-term nature, we will access public debt markets as well as private investors and banks, as appropriate, to refinance borrowings and replenish our liquidity.
- Financial Services' funding strategy is to maintain a sufficient level of liquidity and flexible access to a wide variety of financial instruments. While we expect securitizations and sale of receivables (factoring) to continue to represent a material portion of our capital structure and intersegment borrowings to remain a marginal source of funding, we will continue to diversify our funding sources and expand our investor base within Financial Services to support our investment grade credit ratings. These diversified funding sources include committed asset-backed facilities, unsecured notes, bank facilities and, in an effort to further diversify funding sources and reduce the average cost of funding, Financial Services has implemented commercial paper programs, both in the U.S. and Europe.

On a global level, we will continue to evaluate alternatives to ensure that Financial Services has access to capital on favorable terms to support its business, including agreements with global or regional partners, new funding arrangements or a combination of the foregoing. Our access to external sources of financing, as well as the cost of financing, is dependent on various factors, including our credit ratings.

In August 2018, S&P Global Ratings raised its long-term issuer credit ratings on CNH Industrial N.V. and its subsidiary, CNH Industrial Capital LLC, to 'BBB' from 'BBB-'. The outlook is stable. Additionally, S&P Global Ratings raised the issue-level ratings on CNH Industrial N.V. and its industrial subsidiaries' debt, as well as the issue-level ratings on CNH Industrial Capital LLC's senior unsecured debt, to 'BBB' from 'BBB-'. In December 2018, Moody's Investors Service ("Moody's") upgraded the senior unsecured ratings of CNH Industrial N.V. and its subsidiaries CNH Industrial Capital LLC and CNH Industrial Finance Europe S.A. from Ba1 to Baa3. The outlook is stable. In October 2017, Fitch Ratings assigned to CNH Industrial N.V. and CNH Industrial Capital LLC long-term issuer default ratings of "BBB-". The outlook is stable. Current ratings for the Company are as follows:

	CNH Industrial N.V.[1]			CNH Industrial Capital LLC		
	Long Term	**Short Term**	**Outlook**	**Long Term**	**Short Term**	**Outlook**
S&P	BBB	A-2	Stable	BBB	A-2	Stable
Fitch	BBB-	-	Stable	BBB-	F3	Stable
Moody's	Baa3	-	Stable	Baa3	-	Stable

(1) Includes treasury subsidiary, CNH Industrial Finance Europe S.A.

Following the rating actions that occurred in 2017 and 2018, the Company's debt is now fully investment grade, which the Company believes has improved its access to funding at better rates.

A credit rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating. A deterioration in our ratings could impair our ability to obtain debt financing and would increase the cost of such financing. Ratings are influenced by a number of factors, including, among others: financial leverage on an absolute basis or relative to peers, the composition of the balance sheet and/or capital structure, material changes in earnings trends and volatility, ability to dividend monies from subsidiaries and our competitive position. Material deterioration in any one, or a combination, of these factors could result in a downgrade of our ratings, thus increasing the cost, and limiting the availability, of financing.

Consolidated Debt

As of December 31, 2018, and 2017, our consolidated Debt was as detailed in the table below:

	Consolidated		Industrial Activities		Financial Services	
	2018	2017	2018	2017	2018	2017
	(in millions)					
Total Debt	$ 24,445	$ 25,895	$ 6,347	$ 7,443	$ 20,436	$ 21,075

We believe that Net Debt, defined as total debt less intersegment notes receivable, cash and cash equivalents, restricted cash and derivatives hedging debt, is a useful analytical tool for measuring our effective borrowing requirements. This non-GAAP financial measure should neither be considered as a substitute for, nor superior to, measures of financial performance prepared in accordance with U.S. GAAP. In addition, this non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies.

We provide a separate analysis of Net Debt for Industrial Activities and Financial Services, to reflect the different cash flow management practices in the two businesses. The separation between Industrial Activities and Financial Services represents a sub-consolidation based on the core business activities (industrial activities or financial services) of each CNH Industrial legal entity. The sub-consolidation for Industrial Activities also includes legal entities that perform centralized treasury activities, such as raising funding in the market and financing CNH Industrial legal entities, but do not provide financing to third parties.

The calculation of Net Debt as of December 31, 2018 and 2017 and the reconciliation of Net Debt to Total Debt, the U.S. GAAP financial measure that we believe to be most directly comparable, are shown below:

	Consolidated		Industrial Activities		Financial Services	
	2018	2017	2018	2017	2018	2017
	(in millions)					
Third party debt *	$ 24,445	$ 25,895	$ 5,211	$ 6,461	$ 19,234	$ 19,434
Intersegment notes payable **		—	1,136	982	1,202	1,641
Total Debt ***	$ 24,445	$ 25,895	$ 6,347	$ 7,443	$ 20,436	$ 21,075
Less:						
Cash and cash equivalents	5,031	5,430	4,553	4,901	478	529
Restricted cash	772	770	—	—	772	770
Intersegment notes receivables **	—	—	1,202	1,641	1,136	982
Derivatives hedging debt	(8)	(7)	(8)	(7)	—	—
Net Debt (Cash)	$ 18,650	$ 19,702	$ 600	$ 908	$ 18,050	$ 18,794

(*) Includes adjustments related to fair value hedges.

(**) The net intersegment receivable/payable balance owed by Financial Services to Industrial Activities was $66 million and $659 million as of December 31, 2018 and 2017, respectively.

(***) Total Debt of Industrial Activities includes Intersegment notes payable to Financial Services of $1,136 million and $982 million at December 31, 2018 and 2017, respectively. Total Debt of Financial Services includes Intersegment notes payable to Industrial Activities of $1,202 million and $1,641 million at December 31, 2018 and 2017, respectively.

The decrease in the Net Debt position from December 31, 2017 to December 31, 2018 was primarily due to the decrease in the Net Debt of Financial Services, mainly due to the decrease in portfolio and to the positive foreign exchange translation impacts, and to the reduction in the Net Debt of Industrial Activities. Net Debt of Industrial Activities decreased $0.3 billion from December 31, 2017 to $0.6 billion at December 31, 2018. The decrease was primarily due to a significant cash generation from operating activities of $0.6 billion and to positive foreign exchange translation impacts on euro denominated debt, partially offset by dividend payments and by purchase of treasury shares.

The following table shows the change in Net Debt of Industrial Activities for 2018 and 2017:

($ million)	2018	2017
Net Debt of Industrial Activities at beginning of year	$ (908)	$ (1,609)
Adjusted EBITDA of Industrial Activities	2,671	2,191
Cash interest and taxes	(613)	(481)
Changes in provisions and similar*	(406)	(173)
Change in working capital	(496)	168
Operating cash flow	1,156	1,705
Investments in property, plant and equipment and intangible assets**	(550)	(488)
Other changes	(50)	73
Net industrial cash flow	556	1,290
Capital increases and dividends***	(399)	(193)
Currency translation differences and other****	151	(396)
Change in Net Debt of Industrial Activities	308	701
Net Debt of Industrial Activities at end of year	(600)	(908)

(*) Including other cash flow items related to operating lease and buy-back activities.

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

(***) Including share buy-back transactions

(****) In the year ended December 31, 2018, this item includes the charge of $22 million related to the repurchase of notes. In the year ended December 31, 2017, this item included the charge of $56 million related to the repurchase/early redemption of notes.

Industrial Activities

Capital Markets

At December 31, 2018, we had an aggregate amount of $7.9 billion in bonds outstanding, of which $4.9 billion was issued by Industrial Activities.

The capital markets debt of Industrial Activities mainly related to notes issued under the Euro Medium Term Note Programme (and the notes issued under its predecessor, the Global Medium Term Notes Programme), and senior unsecured debt securities issued by CNH Industrial N.V. described below.

Euro Medium Term Note (EMTN) Programme. We have a medium-term note programme allowing for the placement of debt securities that was established in February 2011 and has a total authorized amount of €10 billion ($11 billion). At December 31, 2018, €3,354 million ($3,840 million) was outstanding under the programme, all such debt having been issued by CNH Industrial Finance Europe S.A. and guaranteed by CNH Industrial N.V. The outstanding amount under the programme included the following notes issued in 2018: €500 million of notes, issued in September 2018, at an annual fixed rate of 1.875% due in January 2026 at an issue price of 98.944 percent of their principal amount. In December 2018, in order to manage its liabilities, CNH Industrial Finance Europe S.A. repurchased, through a public tender, an aggregate nominal amount of €268,445,000 of the outstanding €700,000,000 2.875% Notes due 27 September 2021 issued under the EMTN.

CNH Industrial N.V. Senior Notes. In the United States, CNH Industrial N.V has issued notes from time to time. In 2016, CNH Industrial N.V. issued $600 million of notes at an interest rate of 4.50% due August 2023 (the "2023 Notes") at an issue price of 100 percent of their principal amount, and, in 2017, CNH Industrial N.V. issued $500 million of notes at an interest rate of 3.850% due November 2027 (the "2027 Notes") at an issue price of 99.384% of their principal amount. The 2023 Notes and the 2027 Notes are collectively referred to as the "CNH Industrial N.V. Senior Notes".

The notes issued under the EMTN (and its predecessor the Global Medium Term Notes Programme) as well as the CNH Industrial N.V. Senior Notes impose covenants and other obligations on CNH Industrial N.V. as issuer and, in certain cases, as guarantor and CNH Industrial Finance Europe S.A. as issuer, including: (i) a negative pledge provision which requires that, if any security interest over assets of the issuer or the guarantor is granted in connection with debt that is, or is capable of being, listed or any guarantee is granted in connection with such debt, such security or guarantee must be equally and ratably extended to the outstanding notes; (ii) a status (or *pari passu*) covenant, under which the notes rank and will rank *pari passu* with all other present and future outstanding unsubordinated and unsecured obligations of the issuer and/or the guarantor (subject to mandatorily preferred obligations under applicable laws); (iii) an events of default provision setting out certain customary events (such as cross defaults, insolvency related events, etc.) the occurrence of which entitles the holders of the outstanding notes to accelerate the repayment of the notes; (iv) change of control provisions which, when combined with a rating downgrade of CNH Industrial N.V., grant the note holders the right to require immediate repayment of the notes; and (v) other clauses that are generally applicable to securities of a similar type. A breach of these obligations may require the early repayment of the notes. At December 31, 2018, CNH Industrial was in compliance with the covenants of the notes issued under the EMTN (and its predecessor the Global Medium Term Notes Programme) and the CNH Industrial N.V. Senior Notes.

Bank Debt

At December 31, 2018, Industrial Activities available committed unsecured facilities expiring after twelve months amounted to $2.6 billion ($2.7 billion at December 31, 2017).

Euro 1.75 billion Revolving Credit Facility. In 2016, we signed a renewal of a €1.75 billion ($2.0 billion at year-end 2018 exchange rate) five-year committed, unsecured revolving credit facility. The facility expires in June 2021 and includes:

- a financial covenant (Net debt/EBITDA ratio relating to Industrial Activities) and other customary covenants (including a negative pledge, a status (or *pari passu*) covenant and restrictions on the incurrence of indebtedness by certain subsidiaries);
- customary events of default (some of which are subject to minimum thresholds and customary mitigants), including cross-default provisions, failure to pay amounts due or to comply with certain provisions under the loan agreement and the occurrence of certain bankruptcy-related events; and
- mandatory prepayment obligations upon a change in control of CNH Industrial or the borrower.

CNH Industrial N.V. has guaranteed any borrowings under the revolving credit facility with cross-guarantees from each of the borrowers (*i.e.*, CNH Industrial Finance S.p.A., CNH Industrial Finance Europe S.A. and CNH Industrial Finance North America Inc.). At December 31, 2018, CNH Industrial was in compliance with the covenants of the Revolving Credit Facility.

Financial Services

Total Debt of Financial Services was $20.4 billion at December 31, 2018, compared to $21.1 billion at December 31, 2017.

Bank Debt

At December 31, 2018, Financial Services available committed, unsecured facilities expiring after twelve months amounted to $0.5 billion ($0.5 billion at December 31, 2017).

Asset-Backed Financing

At December 31, 2018, Financial Services' committed, asset-backed facilities expiring after twelve months amounted to $3.9 billion ($3.5 billion at December 31, 2017), of which $3.0 billion was utilized at December 31, 2018 ($2.3 billion at December 31, 2017).

We sell certain of our finance receivables to third parties in order to improve liquidity, to take advantage of market opportunities and, in certain circumstances, to reduce credit and concentration risk in accordance with our risk management objectives.

The sale of financial receivables is executed primarily through ABS transactions and involves mainly accounts receivable from final (retail) customers and from the network of dealers (wholesale) to our Financial Services subsidiaries.

At December 31, 2018, our receivables from financing activities included receivables sold and financed through both ABS and factoring transactions of $13.4 billion ($14.0 billion at December 31, 2017), which do not meet derecognition requirements and therefore must be recorded on our consolidated statement of financial position. These receivables are recognized as such in our financial statements even though they have been legally sold; a corresponding financial liability is recorded in the consolidated statement of financial position as debt (see "Note 4: Receivables").

Capital Markets

In August 2018, CNH Industrial Capital LLC refinanced an April 2018 maturity by issuing $500 million of notes at an annual fixed rate of 4.200% due January 2024 at an issue price of 99.701 percent of their principal amount.

Commercial Paper Programmes

In 2017, with the purpose of further diversifying Financial Services' funding structure, a commercial paper program was established in the U.S. by CNH Industrial Capital LLC's. This program had an outstanding amount of $388 million at December 31, 2018. Since 2015, CNH Industrial Financial Services S.A.in Europe has issued commercial paper under a program which had an outstanding amount of $101 million at December 31, 2018.

Support Agreement in the Interest of CNH Industrial Capital LLC

CNH Industrial Capital LLC benefits from a support agreement issued by CNH Industrial N.V., pursuant to which CNH Industrial N.V. agrees to, among other things, (a) make cash capital contributions to CNH Industrial Capital LLC, to the extent necessary to cause its ratio of net earnings available for fixed charges to fixed charges to be not less than 1.05:1.0 for each fiscal quarter (with such ratio determined, on a consolidated basis and in accordance with U.S. GAAP, for such fiscal quarter and the immediately preceding three fiscal quarters taken as a whole), (b) generally maintain an ownership of at least 51% of the voting equity interests in CNH Industrial Capital LLC and (c) cause CNH Industrial Capital LLC to have, as of the end of any fiscal quarter, a consolidated tangible net worth of at least $50 million. The support agreement is not intended to be, and is not, a guarantee by CNH Industrial N.V. of the indebtedness or other obligations of CNH Industrial Capital LLC. The obligations of CNH Industrial N.V. to CNH Industrial Capital LLC pursuant to this support agreement are to the company only and do not run to, and are not enforceable directly by, any creditor of CNH Industrial Capital LLC, including holders of the CNH Industrial Capital LLC's notes or the trustee under the indenture governing the notes. The support agreement may be modified, amended or terminated, at CNH Industrial N.V.'s election, upon thirty days' prior written notice to CNH Industrial Capital LLC and the rating agencies of CNH Industrial Capital LLC, if (a) the modification, amendment or termination would not result in a downgrade of CNH Industrial Capital LLC rated indebtedness; (b) the modification, amendment or notice of termination provides that the support agreement will continue in effect with respect to the company's rated indebtedness then outstanding; or (c) CNH Industrial Capital LLC has no long-term rated indebtedness outstanding.

For more information on our outstanding indebtedness, see "Note 10: Debt" to our consolidated financial statements for the year ended December 31, 2018.

Future Liquidity

We have adopted formal policies and decision-making processes designed to optimize the allocation of funds, cash management processes and financial risk management. Our liquidity needs could increase in the event of an extended economic slowdown or recession that would reduce our cash flow from operations and impair the ability of our dealers and retail customers to meet their payment obligations. Any reduction of our credit ratings would increase our cost of funding and potentially limit our access to the capital markets and other sources of financing.

We believe that funds available under our current liquidity facilities, those realized under existing and planned asset-backed securitization programs and issuances of debt securities and those expected from ordinary course refinancing of existing credit facilities, together with cash provided by operating activities, will allow us to satisfy our debt service requirements for the coming year. At December 31, 2018, we had available committed, unsecured facilities expiring after twelve months of $3.1 billion ($3.2 billion at December 31, 2017).

Financial Services securitized debt is repaid with the cash generated by the underlying amortizing receivables. Accordingly, additional liquidity is not normally necessary for the repayment of such debt. Financial Services has traditionally relied upon the term ABS market and committed asset-backed facilities as a primary source of funding and liquidity. At December 31, 2018, Financial Services' committed asset-backed facilities expiring after twelve months amounted to $3.9 billion ($3.5 billion at December 31, 2017), of which $3.0 billion at December 31, 2018 ($2.3 billion at December 31, 2017) were utilized.

If Financial Services were unable to obtain ABS funding at competitive rates, its ability to conduct its financial services activities would be limited.

Pension and Other Postemployment Benefits

Pension Plans

Pension plan obligations primarily comprise the obligations of our pension plans in the United States, the U.K. and Germany.

Under these plans, contributions are made to a separate fund (trust) which independently administers the plan assets. Our funding policy is to contribute amounts to the plan equal to the amounts required to satisfy the minimum funding requirements pursuant to the laws of the applicable jurisdictions. The significant pension plans that we are required to fund are in the United Sates and the U.K. In addition, we make discretionary contributions in addition to the funding requirements. To the extent that a fund is overfunded, we are not required to make further contributions to the plan in respect of minimum performance requirements so long as the fund is in surplus.

The investment strategy for the plan assets depends on the features of the plan and on the maturity of the obligations. Typically, less mature plan benefit obligations are funded by using more equity securities as they are expected to achieve long-term growth exceeding inflation. More mature plan benefit obligations are funded using more fixed income securities as they are expected to produce current income with limited volatility. Risk management practices include the use of multiple asset classes and investment managers within each asset class for diversification purposes. Specific guidelines for each asset class and investment manager are implemented and monitored.

At December 31, 2018 and 2017, the difference between the present value of the pension plan obligations and the fair value of the related plan assets was a deficit of $748 million and $848 million, respectively. In 2018, we contributed $55 million to the plan assets and made direct benefit payments of $83 million for our pension plans. Our expected total contribution to pension plan assets and direct benefit payments is estimated to be $78 million for 2019.

Healthcare Plans

Healthcare postretirement benefit plan obligations comprise obligations for healthcare and insurance plans granted to our employees working in the United States and Canada. These plans generally cover employees retiring on or after reaching the age of 55 who have completed at least 10 years of employment. United States salaried and non-represented hourly employees and Canadian employees hired after January 1, 2001 and January 1, 2002, respectively, are not eligible for postretirement healthcare and life insurance benefits under our plans. These plans are not required to be funded. Beginning in 2007, we made contributions on a voluntary basis to a separate and independently managed fund established to finance the North America healthcare plans.

At December 31, 2018 and 2017, the difference between the present value of the healthcare plan obligations and the fair value of the related plan assets was a deficit of $293 million and $936 million, respectively. In 2018, we did not contribute to the plan assets and made direct benefit payments for healthcare plans of $17 million and we expect to make direct benefit payments of $14 million in 2019.

Other Postemployment Benefits

Other postemployment benefits consist of benefits for Italian Employee Leaving Entitlements up to December 31, 2006, loyalty bonus in Italy and various other similar plans in France, Germany and Belgium. Until December 31, 2006, Italian companies with more than 50 employees were required to accrue for benefits paid to employees upon them leaving the company. The scheme has since changed to a defined contribution plan. The obligation on our consolidated balance sheet represents the residual reserve for years until to December 31, 2006. Loyalty bonuses are accrued for employees who have reached certain service seniority and are generally settled when employees leave the company. These plans are not required to be funded and, therefore, have no plan assets.

At December 31, 2018 and 2017, the present value of the obligation for other postemployment benefits amounted to $422 million and $470 million, respectively.

In 2018, we made direct benefit payments of $37 million for other postemployment benefits and expect to make direct benefit payments of $34 million in 2019.

For further information on pension and other postemployment benefits, see "Note 12: Employee Benefit Plans and Postretirement Benefits" to our consolidated financial statements for the year ended December 31, 2018.

Research and Development, Patents and Licenses, etc.

Our research, development and engineering personnel design, engineer, manufacture and test new products, components, and systems.

In a continuously and rapidly changing competitive environment, our research and development activities are a vital component in our strategic development. Our research and development activities are designed to accelerate time-to-market while taking advantage of specialization and experience in different markets.

R&D activities involved approximately 6,000 employees at 54 sites around the world during 2018.

We own a significant number of patents, trade secrets, licenses and trademarks related to our products and services, and that number is expected to grow as our R&D activities continue. At December 31, 2018, we had 11,051 active granted patents, including 2,195 new patents registered during the year (in addition to 4,009 pending applications). We file patent applications in Europe, the U.S. and in other jurisdictions around the world to protect technology and improvements considered important to the business. Certain trademarks contribute to our identity and the recognition of our products and services and are an integral part of our business, and their loss could have a material adverse effect on us.

Agricultural Equipment—We are marketing the New Holland, Case IH, Steyr and Miller brands and logos as the primary brand names for our agricultural equipment products.

Construction Equipment—For construction equipment under New Holland, we are marketing the New Holland Construction brand name and trademark. For construction equipment under Case, we are promoting the Case Construction Equipment brand name and trademark.

Commercial Vehicles—We are marketing a range of commercial vehicles under the Iveco brand, buses under the Iveco Bus and Heuliez Bus brands, and firefighting and special purpose vehicles under the Magirus, Iveco Astra and Iveco Defence Vehicles brands.

Powertrain—We are marketing engines and transmissions for commercial vehicles, agricultural equipment, construction equipment, and for marine and other industrial applications under the FPT Industrial brand.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This Annual Report includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact contained in this filing, including statements regarding our competitive strengths; business strategy; future financial position or operating results; budgets; projections with respect to revenue, income, earnings (or loss) per share, capital expenditures, dividends, capital structure or other financial items; costs; and plans and objectives of management regarding operations and products, are forward-looking statements. These statements may include terminology such as "may", "will", "expect", "could", "should", "intend", "estimate", "anticipate", "believe", "outlook", "continue", "remain", "on track", "design", "target", "objective", "goal", "forecast", "projection", "prospects", "plan", or similar terminology. Forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside our control and are difficult to predict. If any of these risks and uncertainties materialize or other assumptions underlying any of the forward-looking statements prove to be incorrect, the actual results or developments may differ materially from any future results or developments expressed or implied by the forward-looking statements.

Factors, risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements include, among others: the many interrelated factors that affect consumer confidence and worldwide demand for capital goods and capital goods-related products; general economic conditions in each of our markets; changes in government policies regarding banking, monetary and fiscal policy; legislation, particularly relating to capital goods-related issues such as agriculture, the environment, debt relief and subsidy program policies, trade and commerce and infrastructure development; government policies on international trade and investment, including sanctions, import quotas, capital controls and tariffs; actions of competitors in the various industries in which we compete; development and use of new technologies and technological difficulties; the interpretation of, or adoption of new, compliance requirements with respect to engine emissions, safety or other aspects of our products; production difficulties, including capacity and supply constraints and excess inventory levels; labor relations; interest rates and currency exchange rates; inflation and deflation; energy prices; prices for agricultural commodities; housing starts and other construction activity; our ability to obtain financing or to refinance existing debt; a decline in the price of used vehicles; the resolution of pending litigation and investigations on a wide range of topics, including dealer and supplier litigation, follow-on private litigation in various jurisdictions after the settlement of the EU antitrust investigation announced on July 19, 2016, intellectual property rights disputes, product warranty and defective product claims, and emissions and/or fuel economy regulatory and contractual issues; the Company's pension plans and other post-employment obligations; political and civil unrest; volatility and deterioration of capital and financial markets, including possible effects of "Brexit", terror attacks in Europe and elsewhere, and other similar risks and uncertainties and our success in managing the risks involved in the foregoing.

Forward-looking statements are based upon assumptions relating to the factors described in this filing, which are sometimes based upon estimates and data received from third parties. Such estimates and data are often revised. Our actual results could differ materially from those anticipated in such forward-looking statements. Forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update or revise publicly our forward-looking statements.

CORPORATE GOVERNANCE

CNH Industrial is a company, organized under the laws of the Netherlands, and results from a business combination of Fiat Industrial and CNH Global N.V. consummated on September 29, 2013. CNH Industrial qualifies as a foreign private issuer under the applicable rules of the SEC and its common shares are listed on the NYSE and on the MTA.

We are subject to, among other things, the laws of the Netherlands and the laws and regulations applicable to foreign private issuers in the U.S., the Dutch Corporate Governance Code (the "Dutch Code"), the Sarbanes Oxley Act of 2002, the Dodd-Frank Act and the NYSE listing standards, which are of particular significance to our corporate governance. In accordance with the NYSE Listed Company Manual, we are permitted to follow home country practice with regard to certain corporate governance standards.

Board of Directors

We have a one-tier management structure (i.e. management board that may be comprised of both members having responsibility for our day-to-day operations, who are referred to as "executive directors", and members not having such responsibility, who are referred to as "non-executive directors"). Pursuant to our Articles of Association, the Board of Directors may have three or more members. At the AGM held on September 9, 2013, the number of the members of the Board of Directors was set at eleven. Our executive directors, Lady Heywood and Mr. Mühlhäuser, were elected at an extraordinary general meeting of shareholders held on November 29, 2018. Our non-executive directors were elected at the last AGM on April 13, 2018. The term of office of the current Board of Directors will expire on April 12, 2019, the anticipated date of the Company's next AGM at which shareholders will elect the Company's directors for approximately a one-year term ending on the date of the AGM to be held in 2020. Each director may be re-elected at any subsequent general meeting of shareholders. None of our directors have service contracts with the Company (or any subsidiary) providing for benefits upon termination of employment as a director.

The Board as a whole is responsible for the strategy of the Company. The Board of Directors is currently composed of two executive directors (to whom the titles Chairperson and Chief Executive Officer have been granted) and eight non-executive directors. Under Article 16 of our Articles of Association, the general authority to represent CNH Industrial shall be vested in the Board of Directors, as well as in each of the executive directors to whom the title Chairperson or Chief Executive Officer has been granted.

Eight directors (80%) qualify as independent for purposes of NYSE rules, Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Dutch Code.

On September 9, 2013, the Board of Directors of the Company appointed—with effect as of the closing of the Merger – the following internal committees: (i) an Audit Committee, (ii) a Governance and Sustainability Committee, and (iii) a Compensation Committee. On April 13, 2018, the Board of Directors appointed Mr. Léo Houle Senior Non-Executive Director for purposes of best practice provision 5.1.3, and in compliance with best practice provision 2.1.9, of the Dutch Code. The Senior Non-Executive Director is responsible for the proper functioning of the Board of Directors and its Committees. On certain key operational matters, the Board of Directors is advised by the Company's Global Executive Committee (formally named the Group Executive Council, "GEC"). The GEC is an operational decision-making body that is responsible for reviewing the operating performance of the Company's businesses and making decisions on certain operational matters.

The Board is responsible for creating a culture aimed at long-term value creation for CNH Industrial and all of its stakeholders. Operating in compliance with all applicable laws and consistent with the Company's values and expectations is critical to creating such a culture. Accordingly, to clarify and make explicit the Company's values and expectations, in 2014 the Board adopted the Company's code of conduct ("Code of Conduct") and the Company issued its Supplier Code of Conduct. In addition, the Company established a compliance and ethics program that is overseen by the Global Compliance and Ethics Committee ("GCEC"). The members of the GCEC include: the Chief Executive Officer, the Chief Financial Officer, the head of Internal Audit, the Corporate General Counsel, and the Chief Compliance Officer ("CCO"). The GCEC meets at least quarterly to, among other things, review and discuss compliance and ethics trends and topics, review and discuss compliance risk assessments, discuss compliance-related training to be deployed, consider the need for new or modified compliance-related corporate policies, and review matters submitted to the Company's Compliance Helpline and related investigations. The extent to which each employee complies with and promotes such culture and values is assessed each year through the Company's performance assessment process. Among other things, employees are evaluated on their ability to lead people, act with integrity and honesty, drive collaboration through respect and openness, and hold themselves and others accountable.

The non-executive directors believe that in consideration of the size of the Company, the complexity and specific characteristics of the segments in which it operates and the geographic distribution of its businesses, the Board of Directors should be composed of individuals with skills, experience and cultural background, both general and specific, acquired in an international environment and relevant to an understanding of the macro-economy and global markets, more generally, as well as the industrial and financial sectors, more specifically. An appropriate and diversified mix of skills, professional backgrounds and diversity factors (such as gender, race, ethnicity, and country of origin or nationality) are fundamental to the proper functioning of the Board as a collegial body. There should also be an appropriate balance between the number of executive directors and non-executive directors. Moreover, independent directors have an essential role in protecting the interests of all stakeholders. Their contribution is also necessary for the proper composition and functioning of the Committees, whose advisory functions include preliminary examination and formulation of proposals relating to areas of potential risk, such as prevention of potential conflicts of interest. In addition, with regard to diversity, it is generally recognized that boards with adequate diversity are more effective in performing their monitoring and advisory activities, due to the variety of professional experience, perspectives, insights, skills and connections to the outside world that diversity can add.

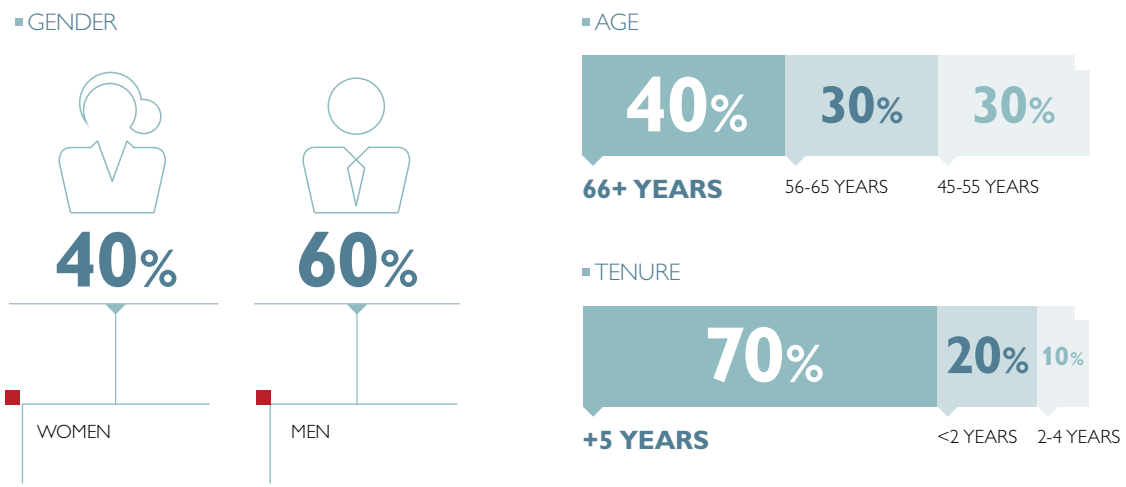
BOARD MEMBER SKILLS AND ATTRIBUTES

NAME	GENDER	BORN IN	DIRECTOR SINCE	GOVERNANCE, LEGAL, AND BOARD EXPERTISE	FINANCIAL	CONSUMER DISCRETIONARY	CONSUMER STAPLES	INDUSTRIALS & MATERIALS	TELECOM & IT	ACADEMIC POSITIONS	CHARITABLE AND ENVIRONMENTAL ENGAGEMENT	HEALTH CARE
SUZANNE HEYWOOD		1969	2016	●	●	●				●	●	
HUBERTUS M. MÜHLHÄUSER		1969	2018	●	●	●	●	●	●		●	●
LÉO W. HOULE		1947	2013	●	●	●		●	●			
MINA GEROWIN		1951	2013	●	●			●			●	
PETER KALANTZIS		1945	2013	●	●			●			●	●
JOHN LANAWAY		1950	2013	●	●	●		●	●			
SILKE C. SCHEIBER		1973	2016	●	●							
GUIDO TABELLINI		1956	2013	●	●					●		
JACQUELINE A. TAMMENOMS BAKKER		1953	2013	●	●	●	●	●			●	
JACQUES THEURILLAT		1959	2013	●	●							●

OVERVIEW

SKILLS AND EXPERIENCES

GENDER, AGE AND TENURE



The following chart shows the 2018 Board members and their attendance at Board meetings.

BOARD MEMBER ATTENDANCE (%)

Gerowin	Heywood	Houle	Kalantzis	Lanaway	Mühlhäuser	Scheiber	Tabellini	Tammenoms Bakker	Marchionne	Theurillat	Tobin
100%	87%	87%	100%	100%	100%	87%	100%	100%	100%	87%	100%

The Audit Committee

The Company's Audit Committee is responsible for assisting the Board of Directors' oversight of: (i) the integrity of the Company's financial statements, (ii) the Company's policy on tax planning, (iii) the Company's financing, (iv) the Company's application of information and communication technology, (v) the systems of internal controls that management and the Board of Directors have established, (vi) the Company's compliance with legal and regulatory requirements, (vii) the Company's compliance with recommendations and observations of internal and external auditors, (viii) the Company's policies and procedures for addressing certain actual or perceived conflicts of interest, (ix) the independent auditors' qualifications, independence, remuneration and any non-audit services for the Company, (x) the performance of the Company's internal audit function and of the independent auditors, (xi) risk management guidelines and policies, and (xii) the implementation and effectiveness of the Company's ethics and compliance program.

The Audit Committee currently consists of Messrs. Theurillat (Chairperson), Kalantzis, Lanaway and Ms. Scheiber, all of whom are independent, non-executive directors. Under the Audit Committee Charter, the Audit Committee is elected by the Board of Directors, and is comprised of at least three members who may be appointed for terms of up to two years, each of whom must be a non-executive director. Members of the Audit Committee may be reappointed. Audit Committee members are also required (i) not to have any material relationship with the Company or to serve as auditors or accountants for the Company, (ii) to be "independent", under the NYSE rules, Rule 10A-3 under the Exchange Act and the Dutch Code, and (iii) to be "financially literate" and have "accounting or selected financial management expertise" (as determined by the Board of Directors). At least one member of the Audit Committee shall be a "financial expert" as defined in the rules of the SEC and best practice provisions of the Dutch Code. No Audit Committee member may serve on more than four audit committees for other public companies, absent a waiver from the Board of Directors, which must be disclosed in the annual report on Form 20-F. Unless decided otherwise by the Audit Committee, the independent auditors of the Company, as well as the Chief Financial Officer of the Company, attend its meetings.

The Charter for the Audit Committee is available on our web site (www.cnhindustrial.com).

The following chart shows the 2018 Audit Committee members and their attendance at Committee meetings.

AUDIT COMMITTEE MEMBER ATTENDANCE (%)

Theurillat	Kalantzis	Lanaway	Scheiber
100%	100%	89%	89%

The Compensation Committee

The Company's Compensation Committee is responsible for, among other things, assisting the Board of Directors in: (i) determining executive compensation consistent with the Company's remuneration policy, (ii) reviewing and recommending for approval the compensation of executive directors, (iii) administering equity incentive plans and deferred compensation benefit plans, and (iv) discussing with management the Company's policies and practices related to compensation and issuing recommendations thereon.

The Compensation Committee currently consists of Mr. Houle (Chairperson), and Messrs, Kalantzis and Tabellini, all of whom are independent, non-executive directors. The Compensation Committee is elected by the Board of Directors, and is comprised of at least three directors. No more than one member may be non-independent under the Dutch Code. The members of the Compensation Committee are appointed for terms of up to two years. Members of the Compensation Committee may be reappointed. Unless decided otherwise by the Compensation Committee, the Company's Chief Human Resources Officer attends its meetings.

The Charter for the Compensation Committee is available on our web site (www.cnhindustrial.com).

The following chart shows the 2018 Compensation Committee members and their attendance at Committee meetings.

COMPENSATION COMMITTEE MEMBER ATTENDANCE (%)

Heywood	Houle	Kalantzis	Tabellini
100%	100%	100%	100%

The Governance and Sustainability Committee

The Governance and Sustainability Committee is responsible for, among other things, assisting the Board of Directors with: (i) the identification of the criteria, professional and personal qualifications for candidates to serve as directors of the Company, (ii) periodic assessment of the size and composition of the Board of Directors, (iii) periodic assessment of the functioning of individual Board members and reporting on this to the Board of Directors, (iv) proposals for appointment of executive and non-executive directors, (v) supervision of the selection criteria and appointment procedure for senior management, (vi) monitoring and evaluating reports on the Company's sustainable development policies and practices, management standards, strategy, performance and governance globally, and (vii) reviewing, assessing and making recommendations as to strategic guidelines for sustainability-related issues, and reviewing the Company's annual Sustainability Report.

The Governance and Sustainability Committee currently consists of Mr. Houle (Chairperson), Ms. Gerowin, and Ms. Tammenoms Bakker, all of whom are independent, non-executive directors. The Governance and Sustainability Committee is elected by the Board of Directors, and is comprised of at least three Directors. No more than two members may be non-independent, and none of the members may be executive directors. The members of the Governance and Sustainability Committee are appointed for terms of up to two years. Members of the Governance and Sustainability Committee may be reappointed.

The Charter for the Governance and Sustainability Committee is available on our web site (www.cnhindustrial.com).

The following chart shows the 2018 Governance and Sustainability Committee members and their attendance at Committee meetings.

GOVERNANCE & SUSTAINABILITY COMMITTEE MEMBER ATTENDANCE (%)

Gerowin	Heywood	Houle	Tammenoms Bakker
100%	66%	100%	100%

Indemnification of Members of the Board of Directors

Pursuant to Article 17 of the Articles of Association, the Company has committed to indemnify any and all of its directors, officers, former directors, former officers and any person who may have served at its request as a director or officer of another company in which it owns shares or of which it is a creditor, against any and all expenses actually and necessarily incurred by any of them in connection with the defense of any action, suit or proceeding in which they, or any of them, are made parties, or a party, by reason of being or having been director or officer of the Company, or of such other company, except in relation to matters as to which any such person shall be adjudged in such action, suit or proceeding to be liable for negligence or misconduct in the performance of duty. Such indemnification shall not be deemed exclusive of any other rights to which those indemnified may be entitled otherwise.

CONSOLIDATED FINANCIAL STATEMENTS

02

CNH INDUSTRIAL CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2018

PAGES 58-133

MANAGEMENT'S REPORT ON CONTROLS

(a) Disclosure Controls and Procedures

Under the supervision, and with the participation, of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2018 pursuant to Exchange Act Rule 13a-15(b). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in our Exchange Act filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control

No change to our internal control over financial reporting occurred during the year ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(c) Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018, using the criteria set forth in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management believes that, as of December 31, 2018, the Company's internal control over financial reporting was effective.

The Company's independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting. That report is included herein.

March 1, 2019

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of CNH Industrial N.V.

Opinion on Internal Control Over Financial Reporting

We have audited CNH Industrial N.V.'s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, CNH Industrial N.V. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of CNH Industrial N.V. as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, cash flows and changes in equity for each of the three years in the period ended December 31, 2018, and the related notes and our report dated March 1, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Chicago, Illinois

March 1, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of CNH Industrial N.V.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of CNH Industrial N.V. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, cash flows and changes in equity for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 1, 2019 expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for accounting for revenue from contracts with customers effective January 1, 2018 using the full retrospective approach for each of the three years in the period ended December 31, 2018.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2014.

Chicago, Illinois

March 1, 2019

CNH INDUSTRIAL N.V.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2018, 2017 and 2016

	2018	2017(*)	2016(*)
		(in millions)	
Revenues			
Net sales	$ 27,831	$ 25,769	$ 23,216
Finance and interest income	1,875	1,932	1,879
Total Revenues	$ 29,706	$ 27,701	$ 25,095
Costs and Expenses			
Cost of goods sold	$ 22,958	$ 21,572	$ 19,420
Selling, general and administrative expenses	2,351	2,315	2,246
Research and development expenses	1,061	957	860
Restructuring expenses	61	93	44
Interest expense	812	940	1,026
Other, net	997	1,165	1,521
Total Costs and Expenses	$ 28,240	$ 27,042	$ 25,117
Income (loss) before income taxes and equity in income of unconsolidated subsidiaries and affiliates	1,466	659	(22)
Income tax (expense)	(417)	(457)	(297)
Equity in income of unconsolidated subsidiaries and affiliates	50	88	58
Net income (loss)	1,099	290	(261)
Net income (loss) attributable to noncontrolling interests	31	18	3
Net income (loss) attributable to CNH Industrial N.V.	$ 1,068	$ 272	$ (264)
Earnings (loss) per share attributable to common shareholders			
Basic	$ 0.79	$ 0.20	$ (0.19)
Diluted	$ 0.78	$ 0.20	$ (0.19)
Cash dividends declared per common share	$ 0.173	$ 0.118	$ 0.148

(*) 2017 and 2016 figures have been recast following the retrospective adoption on January 1, 2018 of the updated accounting standards for revenue recognition (ASC 606) and retirement benefit accounting (ASU 2017-07).

The accompanying notes to consolidated financial statements are an integral part of these statements.

CNH INDUSTRIAL N.V.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018, 2017 and 2016

	2018	2017(*)	2016(*)
	(in millions)		
Net income (loss)	$ 1,099	$ 290	$ (261)
Other comprehensive income (loss), net of tax			
Unrealized gain (loss) on cash flow hedges	(23)	89	(91)
Changes in retirement plans' funded status	477	86	(89)
Foreign currency translation	(317)	(414)	322
Share of other comprehensive income (loss) of entities using the equity method	(35)	32	(40)
Other comprehensive income (loss), net of tax	102	(207)	102
Comprehensive income (loss)	1,201	83	(159)
Less: Comprehensive income (loss) attributable to noncontrolling interests	25	16	6
Comprehensive income (loss) attributable to CNH Industrial N.V.	$ 1,176	$ 67	$ (165)

(*) 2017 and 2016 figures have been recast following the retrospective adoption on January 1, 2018 of the updated accounting standards for revenue recognition (ASC 606) and retirement benefit accounting (ASU 2017-07).

The accompanying notes to consolidated financial statements are an integral part of these statements.

CNH INDUSTRIAL N.V.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2018 and 2017

	December 31, 2018	December 31, 2017(*)
	(in millions)	
ASSETS		
Cash and cash equivalents	$ 5,031	$ 5,430
Restricted cash	772	770
Trade receivables, net	399	496
Financing receivables, net	19,167	19,795
Inventories, net	6,726	6,452
Property, plant and equipment, net	5,901	6,831
Investments in unconsolidated subsidiaries and affiliates	526	561
Equipment under operating leases	1,774	1,845
Goodwill	2,453	2,472
Other intangible assets, net	788	792
Deferred tax assets	591	852
Derivative assets	98	77
Other assets	1,874	1,925
Total Assets	$ 46,100	$ 48,298
LIABILITIES AND EQUITY		
Debt	$ 24,445	$ 25,895
Trade payables	5,889	6,060
Deferred tax liabilities	114	94
Pension, postretirement and other postemployment benefits	1,488	2,300
Derivative liabilities	108	98
Other liabilities	8,958	9,594
Total Liabilities	$ 41,002	$ 44,041
Redeemable noncontrolling interest	30	25
Common shares, € 0.01, par value; outstanding 1,353,831,958 common shares and 388,725,624 special voting shares in 2018; and outstanding 1,363,592,506 common shares and 388,906,690 special voting shares in 2017	25	25
Treasury stock, at cost - 10,568,238 shares in 2018 and 807,690 shares in 2017	(128)	(10)
Additional paid in capital	4,409	4,412
Retained earnings	2,596	1,763
Accumulated other comprehensive loss	(1,859)	(1,966)
Noncontrolling interests	25	8
Total Equity	$ 5,068	$ 4,232
Total Liabilities and Equity	$ 46,100	$ 48,298

(*) 2017 figures have been recast following the retrospective adoption on January 1, 2018 of the updated accounting standards for revenue recognition (ASC 606).

The accompanying notes to consolidated financial statements are an integral part of these statements.

CNH INDUSTRIAL N.V.
CONSOLIDATED BALANCE SHEETS — (CONTINUED)
As of December 31, 2018 and 2017

The following table presents certain assets and liabilities of consolidated variable interest entities ("VIEs"), which are included in the consolidated balance sheets above. The assets in the table include only those assets that can be used to settle obligations of consolidated VIEs. The liabilities in the table include third party liabilities of the consolidated VIEs, for which creditors do not have recourse to the general credit of CNH Industrial.

	December 31, 2018	December 31, 2017
	(in millions)	
Restricted cash	$ 732	$ 734
Financing receivables	9,732	10,404
Total Assets	$ 10,464	$ 11,138
Debt	$ 9,692	$ 10,464
Total Liabilities	$ 9,692	$ 10,464

The accompanying notes to consolidated financial statements are an integral part of these statements.

CNH INDUSTRIAL N.V.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018, 2017 and 2016

	2018	2017(*)	2016(*)
		(in millions)	
Operating activities:			
Net income (loss)	$ 1,099	$ 290	$ (261)
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization expense, net of assets under operating lease and assets sold under buy-back commitments	703	725	716
Depreciation and amortization expense of assets under operating lease and assets sold under buy-back commitments	634	625	545
(Gain) loss from disposal of assets	2	—	3
Loss on repurchase of Notes	22	64	60
Undistributed income (loss) of unconsolidated subsidiaries	(3)	(39)	5
Other non-cash items	158	275	195
Changes in operating assets and liabilities:			
Provisions	(48)	218	6
Deferred income taxes	48	124	64
Trade and financing receivables related to sales, net	(180)	(659)	(92)
Inventories, net	112	682	769
Trade payables	280	344	96
Other assets and liabilities	(273)	216	662
Net cash provided by operating activities	2,554	2,865	2,768
Investing activities:			
Additions to retail receivables	(4,269)	(4,078)	(3,951)
Collections of retail receivables	4,016	4,384	4,569
Proceeds from the sale of assets, net of assets under operating leases and assets sold under buy-back commitments	7	17	12
Expenditures for property, plant and equipment and intangible assets, net of assets under operating lease and assets sold under buy-back commitments	(558)	(492)	(503)
Expenditures for assets under operating leases and assets sold under buy-back commitments	(1,344)	(1,743)	(1,631)
Other	228	43	(152)
Net cash used in investing activities	(1,920)	(1,869)	(1,656)
Financing activities:			
Proceeds from long-term debt	16,211	15,896	12,629
Payments of long-term debt	(16,921)	(16,802)	(13,770)
Net increase (decrease) in other financial liabilities	386	54	(132)
Dividends paid	(243)	(168)	(207)
Other	(156)	(25)	(58)
Net cash used in financing activities	(723)	(1,045)	(1,538)
Effect of foreign exchange rate changes on cash and cash equivalents	(308)	395	(31)
Increase (decrease) in cash and cash equivalents	(397)	346	(457)
Cash and cash equivalents, beginning of year	6,200	5,854	6,311
Cash and cash equivalents, end of year	$ 5,803	$ 6,200	$ 5,854

(*) 2017 and 2016 figures have been recast following the retrospective adoption on January 1, 2018 of the updated accounting standards for revenue recognition (ASC 606) and cash flow presentation (ASU 2016-18).

The accompanying notes to consolidated financial statements are an integral part of these statements.

CNH INDUSTRIAL N.V.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2018, 2017 and 2016

	Common Shares	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total	Redeemable Noncontrolling Interest
	(in millions)							
Balance, January 1, 2016 as previously reported	$ 25	$ —	$ 4,399	$ 2,241	$ (1,863)	$ 41	$ 4,843	$ 18
Adoption of ASC 606	—	—	—	(123)	2	(1)	(122)	—
Balance, January 1, 2016, as recast	25	—	4,399	2,118	(1,861)	40	4,721	18
Net income (loss)	—	—	—	(264)	—	(5)	(269)	8
Other comprehensive loss, net of tax	—	—	—	—	99	3	102	—
Dividend paid	—	—	—	(201)	—	(1)	(202)	(5)
Acquisition of treasury stock	—	(14)	—	—	—	—	(14)	—
Common shares issued from treasury stock for share-based compensation expense	—	5	(5)	—	—	—	—	—
Issuance of common shares	—	—	3	—	—	—	3	—
Other changes	—	—	11	(1)	—	(31)	(21)	—
Balance, December 31, 2016, as recast	$ 25	$ (9)	$ 4,408	$ 1,652	$ (1,762)	$ 6	$ 4,320	$ 21
Net income (loss)	—	—	—	272	—	8	280	10
Other comprehensive income, net of tax	—	—	—	—	(204)	(3)	(207)	—
Dividend paid	—	—	—	(161)	—	(1)	(162)	(6)
Acquisition of treasury stock	—	(38)	—	—	—	—	(38)	—
Common shares issued from treasury stock for share-based compensation	—	37	(8)	—	—	—	29	—
Share-based compensation expense	—	—	19	—	—	—	19	—
Other changes	—	—	(7)	—	—	(2)	(9)	—
Balance, December 31, 2017, as recast	$ 25	$ (10)	$ 4,412	$ 1,763	$ (1,966)	$ 8	$ 4,232	$ 25
Net income	—	—	—	1,068	—	19	1,087	12
Other comprehensive loss, net of tax	—	—	—	—	107	(5)	102	—
Dividend paid	—	—	—	(235)	—	(1)	(236)	(7)
Acquisition of treasury stock	—	(156)	—	—	—	—	(156)	—
Common shares issued from treasury stock for share-based compensation	—	38	(35)	—	—	—	3	—
Share-based compensation expense	—	—	35	—	—	—	35	—
Other changes	—	—	(3)	—	—	4	1	—
Balance, December 31, 2018	$ 25	$ (128)	$ 4,409	$ 2,596	$ (1,859)	$ 25	$ 5,068	$ 30

The accompanying notes to consolidated financial statements are an integral part of these statements.

CNH INDUSTRIAL N.V.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Nature of Operations

CNH Industrial N.V. ("CNH Industrial" or the "Company") is incorporated in, and under the laws of, the Netherlands. CNH Industrial is a leading company in the capital goods sector that, through its various businesses, designs, produces and sells agricultural equipment and construction equipment, trucks, commercial vehicles, buses and specialty vehicles for firefighting, defense and other uses, as well as engines, transmissions and axles for those vehicles and engines for marine and power generation applications (see "Note 20: Segment Reporting"). In addition, CNH Industrial's Financial Services segment offers an array of financial products and services, including retail financing for the purchase or lease of new and used CNH Industrial and other manufacturers' products and other retail financing programs and wholesale financing to dealers.

The Company has five reportable segments consisting of: (i) Agricultural Equipment, which designs, produces and sells agricultural equipment (ii) Construction Equipment, which designs, produces and sells construction equipment (iii) Commercial Vehicles, which designs, produces and sell trucks, commercial vehicles, buses, and specialty vehicles (iv) Powertrain, which produces and sells engines, transmissions and axles for those vehicles and engines for marine and power generation applications; and (v) Financial Services, which provides financial services to the customers of the Company's products. The Company's worldwide agricultural equipment, construction equipment, commercial vehicles, powertrain operations as well as corporate functions are collectively referred to as "Industrial Activities".

The Company was formed as a result of the mergers of Fiat Industrial and its subsidiary CNH Global with and into CNH Industrial, effective September 29, 2013.

Note 2: Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

CNH Industrial has prepared the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include CNH Industrial N.V. and its consolidated subsidiaries. The consolidated financial statements are expressed in U.S. dollars and, unless otherwise indicated, all financial data set forth in these consolidated financial statements are expressed in U.S. dollars. The consolidated financial statements include the accounts of CNH Industrial's subsidiaries in which CNH Industrial has a controlling financial interest, and reflect the noncontrolling interests of the minority owners of the subsidiaries that are not fully owned for the periods presented, as applicable. A controlling financial interest may exist based on ownership of a majority of the voting interest of an entity or based on CNH Industrial's determination that it is the primary beneficiary of a variable interest entity ("VIE"). The primary beneficiary of a VIE is the party that has the power to direct the activities that most significantly impact the economic performance of the entity and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the entity. The Company assesses whether it is the primary beneficiary on an ongoing basis, as prescribed by the accounting guidance on the consolidation of VIEs. The consolidated status of the VIEs with which the Company is involved may change as a result of such reassessments.

Certain prior period balances have been reclassified to conform to the current year presentation.

Investments in unconsolidated subsidiaries and affiliates are accounted for using the equity method when CNH Industrial does not have a controlling interest, but exercises significant influence. Under this method, the investment is initially recorded at cost and is increased or decreased by CNH Industrial's proportionate share of the entity's respective net income or loss. Dividends received from these entities reduce the carrying value of the investments.

Business Combinations

Business combinations are accounted for by applying the acquisition method. Under this method, the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred and liabilities assumed by the Company and the equity interests issued in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

There were no significant business combinations in 2017 or 2018.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses. Significant estimates in these consolidated financial statements include the realizable value of property, plant and equipment, goodwill and other intangibles; residual values of equipment on operating leases; allowance for credit losses; tax contingencies and valuation allowances; liabilities for warranties; sales allowances; and assets and obligations related to employee benefits. Actual results could differ from these estimates.

Revenue Recognition

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

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

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

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

Sales of goods

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

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

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

The cost of incentives, if any, are estimated at the inception of a contract at the amount that is expected to be paid and is recognized as a reduction to revenue at the time of the sale. If a vehicle or equipment contract transaction has multiple performance obligations, the cost of incentives is allocated entirely to vehicle or equipment as the intent of the incentives is to encourage sales of vehicles or equipment. If the estimate of the incentive changes following the sale to the customer, the change in estimate is recognized as an adjustment to revenue in the period of the change. CNH Industrial grants certain sales incentives to support sales of its products to retail customers. At the later of the time of sale or the time an incentive is announced to dealers, CNH Industrial records the estimated impact of sales allowances in the form of dealer and customer incentives as a reduction of revenue. Subsequent adjustments to sales incentive programs related to products/vehicles previously sold are recognized as an adjustment to revenues in the period the adjustment is determinable. The determination of sales allowances requires management to make estimates based upon historical data, estimated future market demand for products, field inventory levels, announced incentive programs, competitive pricing and interest rates, among other things.

With reference to the sales to dealers accompanied by "floor plan" agreements under which the Company offers wholesale financing including "interest-free" financing for specified period of time (which also vary by geographic market and product line), two separate performance obligations exist. The first performance obligation consists of the sale of the equipment/vehicle from Industrial Activities to the dealer. Concurrent with the sale of the equipment/vehicle, Industrial Activities offers to the dealer wholesale financing through loans extended by Financial Services. Industrial Activities compensates Financial Services for the cost of the interest-free period. This cost has been determined to represent a cash sale incentive on the initial sale of the good, and therefore it should be recognized upfront as a reduction of net sales of Industrial Activities. The second performance obligation consists of a credit facility extended by Financial Services to the dealer. The remuneration for this performance obligation is represented by the compensation received from Industrial Activities for the period of the interest-free financing and by the interest charged to dealer for the remaining period. This remuneration is recognized by Financial Services over the period of the outstanding exposure.

For parts sales, when the Company provides its customers with a right to return a transferred product, revenue and corresponding cost of sales are recognized for parts that are not expected to be returned. The expected returns are estimated based on an analysis of historical experience. The portion of revenue (and corresponding cost of sales) related to the parts that are expected to be returned is recognized at the end of the return period. The amount received or receivable that is expected to be returned is recognized as a refund liability, representing the obligation to return the customer's consideration.

Furthermore, at the time of the initial sale, CNH Industrial recognizes a return asset for the right to recover the goods returned by the customer. This asset is initially measured at the former carrying amount of the inventory. At each reporting date, both the refund liability and the return asset are remeasured to record for any revisions to the expected level of returns, as well as any decreases in the value of the returned products.

Rendering of services

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

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

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

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

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

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

Finance and interest income

Finance and interest income on retail and other notes receivables and finance leases is recorded using the effective yield method. Deferred costs on the origination of financing receivables are recognized as a reduction in finance revenue over the expected lives of the receivables using the effective yield method. Recognition of income on loans is suspended when management determines that collection of future income is not probable or when an account becomes 120 days delinquent, whichever occurs earlier. Interest accrual is resumed when and if the receivable becomes contractually current and collection becomes probable. Previously suspended income is recognized at that time. The Company applies cash received on nonaccrual financing receivables to first reduce any unrecognized interest and then the recorded investment and any other fees. Receivables are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Delinquency is reported on receivables greater than 30 days past due. Charge-offs of principal amounts of receivables outstanding are deducted from the allowance at the point when it is determined to be probable that all amounts due will not be collected.

Rents and other income on operating leases

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

Sales Allowances

CNH Industrial grants certain sales incentives to support sales of its products to retail customers. The expense for such incentive programs is recorded as a deduction in arriving at the net sales amount at the time of the sale of the product to the dealer. The expense for new programs is accrued at the inception of the program. The amounts of incentives to be paid are estimated based upon historical data, estimated future market demand for products, field inventory levels, announced incentive programs, competitive pricing and interest rates, among other things.

Warranty Costs

At the time a sale of equipment or parts to a dealer is recognized, CNH Industrial records the estimated future base warranty costs for the product. CNH Industrial determines its total warranty liability by applying historical claims rate experience, while considering specific contractual terms, to the park of equipment that has been sold and is still under warranty. Campaigns are formal post-production modification programs approved by management. The liabilities for such programs are recognized when approved, based on an estimate of the total cost of the program.

Advertising

CNH Industrial expenses advertising costs as incurred. Advertising expense totaled $170 million, $165 million, and $145 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Research and Development

Research and development costs are expensed as incurred.

Borrowing Costs

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

All other borrowing costs are expensed when incurred.

Government Grants

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

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

Foreign Currency

Certain of CNH Industrial's non-U.S. subsidiaries and affiliates maintain their books and accounting records using local currency as the functional currency. Assets and liabilities of these non-U.S. subsidiaries are translated into U.S. dollars at period-end exchange rates, and net exchange gains or losses resulting from such translation are included in "Accumulated other comprehensive income (loss)" in the accompanying consolidated balance sheets. Income and expense accounts of these non-U.S. subsidiaries are translated at the average exchange rates for the period. Gains and losses from foreign currency transactions are included in net income in the period during which they arise. Net foreign currency transaction gains and losses are reflected in "Other, net" in the accompanying consolidated statement of operations and also include the cost of hedging instruments. For the years ended December 31, 2018, 2017 and 2016, the Company recorded a net loss of $450 million, a net loss of $78 million and a net gain of $50 million, respectively. Included in the net gain (loss) in 2018, 2017 and 2016 were charges of $159 million, $21 million and $22 million due to the devaluation of net monetary assets of Argentinian

subsidiaries in 2018, 2017, and 2016, as well as the re-measurement charges of $5 million, and $27 million, respectively, on the Venezuelan bolivar fuerte ("Bs.F., or "bolivars") rate described below. As described in Note 15: Financial Instruments, the Company uses hedging instruments to mitigate foreign currency risk. Net of gains realized on foreign currency hedging instruments, the Company recorded a loss of $199 million, $140 million and $149 million for the three years ended December 31, 2018, 2017 and 2016, respectively.

Venezuela Currency Regulations, Re-measurement and Deconsolidation

The functional currency of CNH Industrial's Venezuelan operations is the U.S. dollar. At the end of each period, CNH Industrial re-measured its net monetary assets in Venezuela from the bolivar fuerte ("Bs.F." or "bolivars") to the U.S. dollar at the rate it believed was legally available to the Company.

In January 2014, the Venezuelan government enacted changes affecting the country's currency exchange and other controls and established a new foreign currency administration, the National Center for Foreign Commerce ("CENCOEX"). CENCOEX assumed control of the sale and purchase of foreign currency in Venezuela and established the official exchange rate. Additionally, the government expanded the types of transactions that may be subject to the weekly auction mechanism under SICAD I. Also in 2014, the Venezuelan government announced that another floating rate exchange system (SICAD II) would be initiated. In February 2015, the Venezuelan government announced that the two previously used currency conversion mechanisms (SICAD I and SICAD II) had been merged into a single mechanism called SICAD and introduced a new open market exchange rate system, SIMADI. The changes created a three-tiered system.

In March 2016, the Venezuelan government devalued its currency and reduced its existing three-tiered system to a two-tiered system by eliminating the SICAD rate. The CENCOEX rate, which was the official rate available for purchases and sales of essential items, was changed to 10 bolivars per U.S. dollar from 6.3 and is now known as DIPRO. The Venezuelan government also announced that the SIMADI rate would be replaced by the DICOM rate, which is allowed to float freely and fluctuates based on supply and demand. As a result, management determined that the DICOM rate was the most appropriate legally available rate to re-measure the net monetary assets of CNH Industrial in Venezuela, except for those cases in which CNH Industrial had a legally enforceable right of obtaining U.S. dollars at a different predetermined exchange rate. The DICOM exchange rate used by CNH Industrial at December 31, 2016, was 673.76 bolivars per U.S. dollar, resulting in a re-measurement charge of $12 million in 2016. Furthermore, at December 31, 2016, following an assessment of the recoverability of a monetary asset for which CNH Industrial had a legally enforceable right of obtaining U.S. dollars at a different predetermined exchange rate, the Group re-measured that asset at the DICOM rate, resulting in a re-measurement charge of $15 million. Additionally, CNH Industrial assessed for impairment a non-monetary asset resulting in the recognition of an impairment charge of $19 million attributable to the currency devaluation, while the market value in local currency did not decrease. As a result, in December 2016, CNH Industrial recorded a non-recurring re-measurement and impairment charge for a total of $34 million in Financial income/(expenses).

During 2017, the economic and socio-political environment in Venezuela further deteriorated, significantly impacting the Company's ability to make key operating decisions. In the fourth quarter of 2017, the further deterioration of conditions in the country and the persisting restrictive exchange control regulations, which prevent any payments out of the country, resulted in an other-than-temporary lack of exchangeability. Therefore, effective December 31, 2017, CNH Industrial determined that it no longer had the ability to control its Venezuelan operations. As a result, the Company recorded a non-cash pre- and after-tax charge of $92 million to impair and deconsolidate its operations in Venezuela and began reporting operating results under the cost method. The pretax charge includes the write-off of the Company's investment in Venezuela, including properties and all inter-company balances. The charge also includes the reversal through income statement of foreign currency translation losses previously included in Accumulated other comprehensive income. CNH Industrial will no longer include the results of its Venezuelan operations in its Consolidated Financial Statements. If cash were to be received from the Venezuelan legal entities in future periods, income will be recognized. The Company expects the current economic conditions in Venezuela to continue and does not anticipate any payments to be made in the foreseeable future. CNH Industrial's results of operations in Venezuela for the year ended December 31, 2018 and 2017 were immaterial as a percentage of both CNH Industrial's net revenues and operating profit.

Subsequent to the deconsolidation under the voting interest consolidation model, the Company determined that the Venezuelan subsidiaries are considered to be variable interest entities. As the Company does not have the power to direct the activities that most significantly affect the Venezuelan subsidiaries' economic performance, the Company is not the primary beneficiary of the variable interest entities and therefore would not consolidate the entities. Due to the lack of ability to settle U.S. dollar obligations, the Company does not intend to sell into, nor purchase inventory from, the Venezuela entities at this time. Additionally, the Company has no remaining financial commitments to the Venezuelan subsidiaries and therefore believes the exposure to future losses is not material.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with an original maturity of three months or less. The carrying value of cash equivalents approximates fair value because of the short maturity of these investments.

Restricted Cash

Restricted cash includes principal and interest payments from retail notes, wholesale receivables and commercial revolving accounts receivable owned by the consolidated VIEs that are payable to the VIEs' investors, and cash pledged as a credit enhancement to the same investors. These amounts are held by depository banks in order to comply with contractual agreements.

Cash Flow Information

All cash flows from the changes in trade accounts and notes receivable are classified as operating activities in the consolidated statements of cash flows as these receivables arise from sales to CNH Industrial's customers. Cash flows from financing receivables that are related to sales to CNH Industrial's dealers are also included in operating activities. CNH Industrial's financing of receivables related to equipment sold by dealers is included in investing activities.

CNH Industrial paid interest of $807 million, $896 million, and $930 million for the years ended December 31, 2018, 2017, and 2016, respectively. For 2018 and 2017, the amount includes a charge of $22 million and $64 million in connection with the Company's accelerated debt redemption strategy.

CNH Industrial paid taxes of $355 million, $224 million, and $104 million in 2018, 2017, and 2016, respectively.

Receivables

Receivables are recorded at amortized cost, net of allowances for credit losses and deferred fees and costs.

Periodically, the Company sells or transfers retail notes, wholesale receivables and commercial revolving accounts receivable to funding facilities or in securitization transactions. In accordance with the accounting guidance regarding transfers of financial assets and the consolidation of VIEs, the retail notes, wholesale receivables and commercial revolving accounts receivable sold in securitizations do not qualify as sales and are recorded as secured borrowings with no gains or losses recognized at the time of securitization. Receivables associated with these securitization transactions and receivables that the Company has the ability and intent to hold for the foreseeable future are classified as held for investment. The substantial majority of the Company's receivables, which include unrestricted receivables and restricted receivables for securitization investors, are classified as held for investment.

Allowance for Credit Losses

The allowance for credit losses is the Company's estimate of probable losses on receivables owned by the Company and consists of two components, depending on whether the receivable has been individually identified as being impaired. The first component of the allowance for credit losses covers the receivables specifically reviewed by management for which the Company has determined it is probable that it will not collect all of the contractual principal and interest. Receivables are individually reviewed for impairment based on, among other items, amounts outstanding, days past due and prior collection history. These receivables are subject to impairment measurement at the loan level based either on the present value of expected future cash flows discounted at the receivables' effective interest rate or the fair value of the collateral for collateral-dependent receivables.

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

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. The cost of finished goods and work-in-progress includes the cost of raw materials, other direct costs and production overheads.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs are expensed as incurred.

Property, plant and equipment also include vehicles sold with a buy-back commitment, which are recognized under the method described in the paragraph *Revenue Recognition*.

Assets held under capital leases, which the Company assumes substantially all the risks and rewards of ownership, are recognized as assets of the Company at the lower of fair value or present value of the minimum lease payments. The corresponding liability to the lessor is included in the financial statements as debt.

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

Category	Lives
Buildings and improvements	10 — 40 years
Plant, machinery and equipment	5 — 25 years
Other equipment	3 — 10 years

Equipment on Operating Leases

Financial Services purchases leases and equipment from CNH Industrial dealers and other independent third parties that have leased equipment to retail customers under operating leases. Financial Services' investment in operating leases is based on the purchase price paid for the equipment. Income from these operating leases is recognized over the term of the lease. The equipment is depreciated on a straight-line basis over the term of the lease to the estimated residual value at lease termination. Residual values are estimated at inception of the lease and are reviewed quarterly. Realization of the residual values is dependent on Financial Services' future ability to re-market the equipment under then prevailing market conditions. Model changes and updates, as well as market strength and product acceptance, are monitored and adjustments are made to residual values in accordance with the significance of any such changes. Management believes that the estimated residual values are realizable. Expenditures for maintenance and repairs of the applicable equipment are the responsibility of the lessee.

Equipment returned to the Company upon termination of leases and held for subsequent sale or lease is recorded in inventory at the lower of net book value or estimated fair value of the equipment, less cost to sell, and is not depreciated.

Goodwill and Other Intangibles

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired. Goodwill and indefinite-lived intangible assets are reviewed for impairment at least annually. During 2018 and 2017, the Company performed its annual impairment review as of December 31 and concluded that there was no impairment in either year.

Other intangibles consist primarily of acquired dealer networks, trademarks, product drawings, patents, and software. Other intangibles with indefinite lives principally consist of acquired trademarks which have no legal, regulatory, contractual, competitive, economic, or other factor that limits their useful life. Intangible assets with an indefinite useful life are not amortized. Other intangible assets with definite lives are being amortized on a straight-line basis over 5 to 25 years.

Reference is made to "Note 9: Goodwill and Other Intangibles" for further information regarding goodwill and other intangible assets.

Impairment of Long-Lived Assets, Goodwill and Other Intangible Assets

CNH Industrial evaluates the recoverability of the carrying amount of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If circumstances require a long-lived asset to be tested for possible impairment, CNH Industrial compares the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value.

Income Taxes

The provision for income taxes is determined using the asset and liability method. CNH Industrial recognizes a current tax liability or asset for the estimated taxes payable or refundable on tax returns for the current year and tax contingencies estimated to be settled with taxing authorities within one year. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and tax attributes. The measurement of current and deferred tax liabilities and assets is based on provisions of enacted tax law. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized based on available evidence.

Retirement and Postemployment Benefits

CNH Industrial sponsors numerous defined benefit and defined contribution pension plans, the assets of which are held in separate trustee-administered funds. The pension plans are funded by payments from CNH Industrial. The cost of providing defined benefit pension and other postretirement benefits is calculated based upon actuarial valuations. The liability for termination indemnities is accrued in accordance with labor legislation in each country where such benefits are required. CNH Industrial contributions to defined contribution plans are charged to the income statement during the period of the employee's service.

Derivatives

CNH Industrial's policy is to enter into derivative transactions to manage exposures that arise in the normal course of business and not for trading or speculative purposes. CNH Industrial records derivative financial instruments in the consolidated balance sheets as either an asset or a liability measured at fair value. The fair value of CNH Industrial's foreign exchange derivatives is based on quoted market exchange rates, adjusted for the respective interest rate differentials (premiums or discounts). The fair value of CNH Industrial's interest rate derivatives is based on discounting expected cash flows, using market interest rates, over the remaining term of the instrument. Changes in the fair value of derivative financial instruments are recognized in current income unless specific hedge accounting criteria are met. For derivative financial instruments designated to hedge exposure to changes in the fair value of a recognized asset or liability, the gain or loss is recognized in income in the period of change together with the offsetting loss or gain on the related hedged item. For derivative financial instruments designated to hedge exposure to variable cash flows of a forecasted transaction, the effective portion of the derivative financial instrument's gain or loss is initially reported in other comprehensive income (loss) and is subsequently reclassified into income when the forecasted transaction affects income. The ineffective portion of the gain or loss is recorded in income immediately. For derivative financial instruments that are not designated as hedges but held as economic hedges, the gain or loss is recognized immediately in income.

For derivative financial instruments designated as hedges, CNH Industrial formally documents the hedging relationship to the hedged item and its risk management strategy for all derivatives designated as hedges. This includes linking all derivatives that are designated as fair value hedges to specific assets and liabilities contained in the consolidated balance sheets and linking cash flow hedges to specific forecasted transactions or variability of cash flow. CNH Industrial assesses the effectiveness of its hedging instruments both at inception and on an ongoing basis. If a derivative is determined not to be highly effective as a hedge, or the underlying hedged transaction is no longer probable of occurring, or the derivative is terminated, the hedge accounting described above is discontinued and the derivative is marked to fair value and recorded in income through the remainder of its term.

Reference is made to "Note 15: Financial Instruments," for further information regarding CNH Industrial's use of derivative financial instruments.

Share-Based Compensation Plans

CNH Industrial recognizes all share-based compensation as an expense based on the fair value of each award on the grant date. CNH Industrial recognizes share-based compensation costs on a straight-line basis over the requisite service period for each separately vesting portion of an award.

Earnings per Share

Basic earnings per share is based on the weighted average number of shares outstanding during each period. Diluted earnings per share is based on the weighted average number of shares and dilutive share equivalents outstanding during each period. Unvested performance-based awards are considered outstanding and included in the computation of diluted earnings per share based on the number of shares that would vest if the end of the reporting period were the end of the contingency period.

New Accounting Pronouncements

Adopted

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers (ASC 606) ("ASU 2014-09"), which supersedes existing revenue recognition guidance under current U.S. GAAP. The new standard requires an entity to recognize revenue upon transfer of control of goods or services to a customer at an amount that reflects the consideration that the entity expects to receive. This new revenue recognition model defines a five-step process to achieve this objective. The new standard also

requires additional disclosures to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts with customers. Entities have the option to apply the new guidance under a retrospective approach to each prior reporting period presented, and the cumulative effect of applying the standard would be recognized at the earliest period shown or a modified retrospective approach with the cumulative effect of initially applying the new guidance recognized at the date of initial application within the consolidated statement of changes in equity.

The Company has adopted the new standard effective January 1, 2018 using the full retrospective approach. The impact of adopting the new standard on net equity at January 1, 2016 (date of first time retrospective adoption of the new standard) is a reduction of $122 million and primarily relates to certain services (mainly maintenance and repair contracts, as well as extended warranty contracts) and certain other incentives provided by CNH Industrial to customers which require a different timing of recognition of revenues and margin. Furthermore, the adoption of the new standard also resulted in changes in classification between net revenues and expenses, whose overall impact on total net revenues is not significant, as well as certain further changes in classification for certain assets and liabilities, whose overall impact on total assets and total liabilities is not significant.

As it relates to our supplemental information and segment reporting, based upon the provisions of ASC 606, we have determined that sales to dealers accompanied by "floor plan" agreements, under which the Company offers wholesale financing including "interest-free" financing for specified periods, include two separate performance obligations. In particular, concurrent with the sale of the equipment/vehicle, our Industrial Activities companies offer to the dealer wholesale financing through loans extended by financial services companies (primarily through our captive Financial Services business). Industrial Activities compensates Financial Services for the cost of the "interest-free" period. This cost has been determined to represent a cash sale incentive on the initial sale of the good (first performance obligation), and therefore should be recognized as a reduction of net sales of Industrial Activities, and not as interest compensation to Financial Services in the Industrial Activities statement of operations, as presented historically. The second performance obligation consists of a credit facility extended by our Financial Services business to the dealer: the remuneration of this performance obligation is represented by the compensation received from Industrial Activities for the period of the "interest-free" financing and by the interest charged to the dealer for the remaining period. This remuneration is recognized over the period of the outstanding exposure, consistent with the current accounting treatment. These changes did not result in any change in total revenues in the Consolidated Statement of Operations or in total operating income, as the transactions between Industrial Activities and Financial Services are eliminated on consolidation. However, the new classification of the interest compensation to Financial Services modified the allocation of total revenues between the amounts classified as Net sales (which includes only Net sales of Industrial Activities) and the Finance and Interest Income (which mainly includes income of Financial Services). Furthermore, after the adoption of ASC 606, the different classification of interest compensation to Financial Services reduced the operating profit of Industrial Activities, but did not modify the total consolidated operating profit.

In accordance with the transitional rules included in ASU 2014-09, the Company has applied the standard's practical expedient where, for all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue. No other practical expedients were applied.

Compensation – Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU 2017-07"). The amendments in this update require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. ASU 2017-07 is effective for annual reporting periods beginning after December 15, 2017, and early adoption is permitted. The Company adopted ASU 2017-07 on a retrospective basis as of January 1, 2018, which did not have a material impact on its consolidated financial statements.

Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU 2016-18") that changes the presentation of restricted cash and cash equivalents on the statement of cash flows. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017, and early adoption is permitted. The Company adopted ASU 2016-18 on a retrospective basis as of January 1, 2018, which did not have a material impact on its consolidated financial statements.

Summary of the impacts of the adoption of the new accounting standards

The impact of adoption of the new Revenue Recognition standard and the impact of ASU 2017-07 on the previously reported consolidated statement of operations for the years ended December 31, 2017 and 2016 is as follows:

	Year Ended December 31, 2017			
	As Previously Reported	Total Impact of New Revenue Recognition Standard	Impact of New Retirement Benefits Accounting	As Recast
	(in millions)			
Revenues				
Net Sales	$ 26,168	$ (399)	$ —	$ 25,769
Finance and interest income	1,193	739	—	1,932
Total Revenues	$ 27,361	$ 340	$ —	$ 27,701
Costs and Expenses				
Cost of goods sold	21,621	(40)	(9)	21,572
Selling, general and administrative expenses	2,330	—	(15)	2,315
Research and development expenses	957	—	—	957
Restructuring expenses	93	—	—	93
Interest expense	942	(2)	—	940
Other, net	738	403	24	1,165
Total Costs and Expenses	$ 26,681	$ 361	$ —	$ 27,042
Income (loss) before income taxes and equity in income of unconsolidated subsidiaries and affiliates	680	(21)	—	659
Income tax (expense)	(455)	(2)	—	(457)
Equity in income of unconsolidated subsidiaries and affiliates	88	—	—	88
Net Income (loss)	$ 313	$ (23)	$ —	$ 290
Net income (loss) attributable to noncontrolling interests	18	—	—	18
Net income/(loss) attributable to controlling interests	$ 295	$ (23)	$ —	$ 272
Earnings per share attributable to common shareholders				
Basic	$ 0.22	$ (0.02)	$ —	$ 0.20
Diluted	$ 0.22	$ (0.02)	$ —	$ 0.20

	Year Ended December 31, 2016			
	As Previously Reported	Total Impact of New Revenue Recognition Standard	Impact of New Retirement Benefits Accounting	As Recast
	(in millions)			
Revenues				
Net Sales	$ 23,669	$ (453)	$ —	$ 23,216
Finance and interest income	1,203	676	—	1,879
Total Revenues	$ 24,872	$ 223	$ —	$ 25,095
Costs and Expenses				
Cost of goods sold	19,539	(108)	(11)	19,420
Selling, general and administrative expenses	2,262	—	(16)	2,246
Research and development expenses	860	—	—	860
Restructuring expenses	44	—	—	44
Interest expense	1,028	(2)	—	1,026
Other, net	1,148	346	27	1,521
Total Costs and Expenses	$ 24,881	$ 236	$ —	$ 25,117
Income (loss) before income taxes and equity in income of unconsolidated subsidiaries and affiliates	(9)	(13)	—	(22)
Income tax (expense)	(298)	1	—	(297)
Equity in income of unconsolidated subsidiaries and affiliates	58	—	—	58
Net Income (loss)	$ (249)	$ (12)	$ —	$ (261)
Net income (loss) attributable to noncontrolling interests	3	—	—	3
Net income/(loss) attributable to controlling interests	$ (252)	$ (12)	$ —	$ (264)
Earnings per share attributable to common shareholders				
Basic	$ (0.18)	$ (0.01)	$ —	$ (0.19)
Diluted	$ (0.18)	$ (0.01)	$ —	$ (0.19)

The impact of adoption of the new Revenue Recognition standard on our previously reported consolidated balance sheet for the year ended December 31, 2017 is as follows:

	December 31, 2017		
	As Previously Reported	**Adjustment Due to Adoption of ASC 606**	**As Recast**
		(in millions)	
ASSETS			
Cash and cash equivalents	$ 5,430	$ —	$ 5,430
Restricted cash	770	—	770
Trade receivables, net	496	—	496
Financing receivables, net	19,842	(47)	19,795
Inventories, net	6,280	172	6,452
Property, plant and equipment, net	7,003	(172)	6,831
Investments in unconsolidated subsidiaries and affiliates	561	—	561
Equipment under operating leases	1,845	—	1,845
Goodwill	2,472	—	2,472
Other intangible assets, net	792	—	792
Deferred tax assets	818	34	852
Derivative assets	77	—	77
Other assets	1,889	36	1,925
Total Assets	$ 48,275	$ 23	$ 48,298
LIABILITIES AND EQUITY			
Debt	25,895	—	25,895
Trade payables	6,060	—	6,060
Deferred tax liabilities	97	(3)	94
Pension, postretirement and other postemployment benefits	2,300	—	2,300
Derivative liabilities	98	—	98
Other liabilities	9,400	194	9,594
Total Liabilities	$ 43,850	$ 191	$ 44,041
Redeemable noncontrolling interest	25	—	25
Total Equity	$ 4,400	$ (168)	$ 4,232
Total Liabilities and Equity	$ 48,275	$ 23	$ 48,298

The impact of adoption of the new Revenue Recognition standard and the impact of ASU 2016-18 on our previously reported consolidated statement of cash flows for the years ended December 31, 2017 and 2016 is as follows:

	Year Ended December 31, 2017			
	As Previously Reported	Adjustment Due to Adoption of ASC 606	Adjustment Due to ASU 2016-18	As Recast
	(in millions)			
Operating activities:				
Net income	$ 313	$ (23)	$ —	$ 290
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization expense, net of assets under operating leases and assets sold under buy-back commitments	725	—	—	725
Depreciation and amortization expense of assets under operating leases and assets sold under buy-back commitments	625	—	—	625
Loss from disposal of assets	27	(27)	—	—
Loss on repurchase/early redemption of notes	64	—	—	64
Undistributed income of unconsolidated subsidiaries	(39)	—	—	(39)
Other non-cash items	295	(20)	—	275
Changes in operating assets and liabilities:				
Provisions	233	(15)	—	218
Deferred income taxes	122	2	—	124
Trade and financing receivables related to sales, net	(657)	(2)	—	(659)
Inventories, net	(213)	895	—	682
Trade payables	344	—	—	344
Other assets and liabilities	176	40	—	216
Net cash provided by operating activities	$ 2,015	$ 850	$ —	$ 2,865
Investing activities:				
Additions to retail receivables	(4,078)	—	—	(4,078)
Collections of retail receivables	4,384	—	—	4,384
Proceeds from the sale of assets, net of assets under operating leases and assets sold under buy-back commitments	17	—	—	17
Proceeds from the sale of assets previously under operating leases and assets sold under buy-back commitments	850	(850)	—	—
Expenditures for property, plant and equipment and intangible assets, net of assets under operating leases and assets sold under buy-back commitments	(492)	—	—	(492)
Expenditures for assets under operating leases and assets sold under buy-back commitments	(1,743)	—	—	(1,743)
Other	130	—	(87)	43
Net cash used in investing activities	$ (932)	$ (850)	$ (87)	$ (1,869)
Financing activities:				
Proceeds from long-term debt	15,896	—	—	15,896
Payments of long-term debt	(16,802)	—	—	(16,802)
Net increase in other financial liabilities	54	—	—	54
Dividends paid	(168)	—	—	(168)
Other	(25)	—	—	(25)
Net cash used in financing activities	$ (1,045)	$ —	$ —	$ (1,045)
Effect of foreign exchange rate changes on cash and cash equivalents and restricted cash	375	—	20	395
Decrease in cash and cash equivalents and restricted cash	413	—	(67)	346
Cash and cash equivalents and restricted cash, beginning of year	5,017	—	837	5,854
Cash and cash equivalents and restricted cash, end of period	$ 5,430	$ —	$ 770	$ 6,200

	Year Ended December 31, 2016			
	As Previously Reported	Adjustment Due to Adoption of ASC 606	Adjustment Due to ASU 2016-18	As Recast
	(in millions)			
Operating activities:				
Net income	$ (249)	$ (12)	$ —	$ (261)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization expense, net of assets under operating leases and assets sold under buy-back commitments	716	—	—	716
Depreciation and amortization expense of assets under operating leases and assets sold under buy-back commitments	545	—	—	545
Loss from disposal of assets	4	(1)	—	3
Loss on repurchase/early redemption of notes	60	—	—	60
Undistributed income of unconsolidated subsidiaries	5	—	—	5
Other non-cash items	195	—	—	195
Changes in operating assets and liabilities:				
Provisions	46	(40)	—	6
Deferred income taxes	65	(1)	—	64
Trade and financing receivables related to sales, net	(97)	5	—	(92)
Inventories, net	106	663	—	769
Trade payables	96	—	—	96
Other assets and liabilities	616	46	—	662
Net cash provided by operating activities	$ 2,108	$ 660	$ —	$ 2,768
Investing activities:				
Additions to retail receivables	(3,951)	—	—	(3,951)
Collections of retail receivables	4,569	—	—	4,569
Proceeds from the sale of assets, net of assets under operating leases and assets sold under buy-back commitments	12	—	—	12
Proceeds from the sale of assets previously under operating leases and assets sold under buy-back commitments	660	(660)	—	—
Expenditures for property, plant and equipment and intangible assets, net of assets under operating leases and assets sold under buy-back commitments	(503)	—	—	(503)
Expenditures for assets under operating leases and assets sold under buy-back commitments	(1,631)	—	—	(1,631)
Other	(77)	—	(75)	(152)
Net cash used in investing activities	$ (921)	$ (660)	$ (75)	$ (1,656)
Financing activities:				
Proceeds from long-term debt	12,629	—	—	12,629
Payments of long-term debt	(13,770)	—	—	(13,770)
Net increase in other financial liabilities	(132)	—	—	(132)
Dividends paid	(207)	—	—	(207)
Other	(58)	—	—	(58)
Net cash used in financing activities	$ (1,538)	$ —	$ —	$ (1,538)
Effect of foreign exchange rate changes on cash and cash equivalents and restricted cash	(16)	—	(15)	(31)
Decrease in cash and cash equivalents and restricted cash	(367)	—	(90)	(457)
Cash and cash equivalents and restricted cash, beginning of year	5,384	—	927	6,311
Cash and cash equivalents and restricted cash, end of period	$ 5,017	$ —	$ 837	$ 5,854

The impact of adoption of the new Revenue Recognition standard and the impact of ASU 2017-07 on our previously reported segment reporting for the years ended December 31, 2017 and 2016 is as follows:

	Year Ended December 31, 2017		
	As Previously Reported	Total impact of New Revenue Recognition Standard	As Recast
	(in millions)		
Revenues:			
Agricultural Equipment	$ 11,130	$ (447)	$ 10,683
Construction Equipment	2,626	(96)	2,530
Commercial Vehicles	10,415	147	10,562
Powertrain	4,372	(3)	4,369
Eliminations and Other	(2,375)	—	(2,375)
Net Sales of Industrial Activities	26,168	(399)	25,769
Financial Services	1,625	403	2,028
Eliminations and Other	(432)	336	(96)
Total Revenues	$ 27,361	$ 340	$ 27,701

	Year Ended December 31, 2017			
	As Previously Reported	Total impact of New Revenue Recognition Standard	Impact of New Retirement Benefits Accounting	As Recast
	(in millions)			
Operating Profit:				
Agricultural Equipment	$ 949	$ (237)	$ 16	$ 728
Construction Equipment	21	(42)	5	(16)
Commercial Vehicles	272	(78)	3	197
Powertrain	362	(2)	—	360
Eliminations and Other	(85)	—	—	(85)
Total Operating Profit of Industrial Activities	$ 1,519	$ (359)	$ 24	$ 1,184
Financial Services	479	—	—	479
Eliminations and Other	(336)	336	—	—
Total Operating Profit	$ 1,662	$ (23)	$ 24	$ 1,663

	Year Ended December 31, 2016		
	As Previously Reported	Total impact of New Revenue Recognition Standard	As Recast
		(in millions)	
Revenues:			
Agricultural Equipment	$ 10,120	$ (430)	$ 9,690
Construction Equipment	2,304	(98)	2,206
Commercial Vehicles	9,553	75	9,628
Powertrain	3,707	—	3,707
Eliminations and Other	(2,015)	—	(2,015)
Net Sales of Industrial Activities	$ 23,669	$ (453)	$ 23,216
Financial Services	1,570	346	1,916
Eliminations and Other	(367)	330	(37)
Total Revenues	$ 24,872	$ 223	$ 25,095

	Year Ended December 31, 2016			
	As Previously Reported	Total impact of New Revenue Recognition Standard	Impact of New Retirement Benefits Accounting	As Recast
		(in millions)		
Operating Profit:				
Agricultural Equipment	$ 818	$ (235)	$ 12	$ 595
Construction Equipment	2	(50)	4	(44)
Commercial Vehicles	333	(60)	10	283
Powertrain	232	—	1	233
Eliminations and Other	(94)	—	—	(94)
Total Operating Profit of Industrial Activities	$ 1,291	$ (345)	$ 27	$ 973
Financial Services	478	—	—	478
Eliminations and Other	(330)	330	—	—
Total Operating Profit	$ 1,439	$ (15)	$ 27	$ 1,451

The impact on Industrial Activities of adoption of the new Revenue Recognition standard, the impact of ASU 2017-07 and ASU 2016-18 on our previously reported supplemental statements of operations and supplemental statements of cash flows for the years ended December 31, 2017 and 2016 and our supplemental balance sheet as of December 31, 2017 is as follows:

	Statement of Operations		
	Industrial Activities		
	Year Ended December 31, 2017		
	As Previously Reported	Adjustment Due to Adoption of New Accounting Pronouncements	As Recast
		(in millions)	
Revenues			
Net sales	$ 26,168	$ (399)	$ 25,769
Finance and interest income	122	—	122
Total Revenues	$ 26,290	$ (399)	$ 25,891
Costs and Expenses			
Cost of goods sold	$ 21,621	$ (49)	$ 21,572
Selling, general and administrative expenses	2,071	(15)	2,056
Research and development expenses	957	—	957
Restructuring expenses	90	—	90
Interest expense	604	—	604
Interest compensation to Financial Services	338	(338)	—
Other, net	396	24	420
Total Costs and Expenses	$ 26,077	$ (378)	$ 25,699
Income before income taxes and equity in income of unconsolidated subsidiaries and affiliates	213	(21)	192
Income tax (expense) benefit	(413)	(2)	(415)
Equity in income of unconsolidated subsidiaries and affiliates	61	—	61
Results from intersegment investments	452	—	452
Net income	$ 313	$ (23)	$ 290

	Statement of Operations		
	Industrial Activities		
	Year Ended December 31, 2016		
	As Previously Reported	Adjustment Due to Adoption of New Accounting Pronouncements	As Recast
		(in millions)	
Revenues			
Net sales	$ 23,669	$ (453)	$ 23,216
Finance, interest and other income	153	—	153
Total Revenues	$ 23,822	$ (453)	$ 23,369
Costs and Expenses			
Cost of goods sold	$ 19,539	$ (119)	$ 19,420
Selling, general and administrative expenses	1,979	(16)	1,963
Research and development expenses	860	—	860
Restructuring expenses	43	—	43
Interest expense	694	—	694
Interest compensation to Financial Services	332	(332)	—
Other, net	855	27	882
Total Costs and Expenses	$ 24,302	$ (440)	$ 23,862
Loss before income taxes and equity in income of unconsolidated subsidiaries and affiliates	(480)	(13)	(493)
Income tax (expense) benefit	(137)	1	(136)
Equity in income of unconsolidated subsidiaries and affiliates	34	—	34
Results from intersegment investments	334	—	334
Net loss	$ (249)	$ (12)	$ (261)

	Balance Sheet		
	Industrial Activities		
	December 31, 2017		
	As Previously Reported	Adjustment Due to Adoption of New Accounting Pronouncements	As Recast
	(in millions)		
ASSETS			
Cash and cash equivalents	$ 4,901	$ —	$ 4,901
Restricted cash	—	—	—
Trade receivables	490	—	490
Financing receivables	1,718	—	1,718
Inventories, net	6,064	172	6,236
Property, plant and equipment, net	7,001	(172)	6,829
Investments in unconsolidated subsidiaries and affiliates	3,173	—	3,173
Equipment under operating leases	35	—	35
Goodwill	2,316	—	2,316
Other intangible assets, net	779	—	779
Deferred tax assets	835	34	869
Derivative assets	73	—	73
Other assets	1,706	36	1,742
Total Assets	$ 29,091	$ 70	$ 29,161
LIABILITIES AND EQUITY			
Debt	$ 7,396	$ 47	$ 7,443
Trade payables	5,936	—	5,936
Deferred tax liabilities	97	(3)	94
Pension, postretirement and other postemployment benefits	2,280	—	2,280
Derivative liabilities	88	—	88
Other liabilities	8,869	194	9,063
Total Liabilities	$ 24,666	$ 238	$ 24,904
Equity	4,400	(168)	4,232
Redeemable noncontrolling interest	25	—	25
Total Liabilities and Equity	$ 29,091	$ 70	$ 29,161

	Statements of Cash Flows		
	Industrial Activities		
	Year Ended December 31, 2017		
	As Previously Reported	Adjustment Due to Adoption of New Accounting Pronouncements	As Recast
	(in millions)		
Net cash provided by operating activities	$ 2,416	$ 375	$ 2,791
Net cash used in investing activities	$ (1,450)	$ (375)	$ (1,825)
Net cash used in financing activities	$ (1,075)	$ —	$ (1,075)
Effect of foreign exchange rate changes on cash and cash equivalents and restricted cash	361	—	361
Decrease in cash and cash equivalents and restricted cash	252	—	252
Cash and cash equivalents and restricted cash, beginning of year	4,649	—	4,649
Cash and cash equivalents and restricted cash, end of period	$ 4,901	$ —	$ 4,901

	Statements of Cash Flows		
	Industrial Activities		
	Year Ended December 31, 2016		
	As Previously Reported	Adjustment Due to Adoption of New Accounting Pronouncements	As Recast
	(in millions)		
Net cash provided by operating activities	$ 1,719	$ 229	$ 1,948
Net cash used in investing activities	$ (759)	$ (229)	$ (988)
Net cash used in financing activities	$ (815)	$ —	$ (815)
Effect of foreign exchange rate changes on cash and cash equivalents and restricted cash	(47)	(15)	(62)
Decrease in cash and cash equivalents and restricted cash	98	(15)	83
Cash and cash equivalents and restricted cash, beginning of year	4,551	15	4,566
Cash and cash equivalents and restricted cash, end of period	$ 4,649	$ —	$ 4,649

The impact on Financial Services of adoption of the new Revenue Recognition standard, the impact of ASU 2017-07 and ASU 2016-18 on our previously reported supplemental statements of operations and supplemental statements of cash flows for the years ended December 31, 2017 and 2016 and our supplemental balance sheet as of December 31, 2017 is as follows:

The impact of the new standards to Financial Services statement of operations was to increase Finance, interest and other income by $403 million and $346 million with a corresponding increase to Other, net for the years ended December 31, 2017 and 2016, respectively.

There was no impact to the Financial Services balance sheet for the new standards and the impact to the statement of cash flows is as follows:

	Statements of Cash Flows		
	Financial Activities		
	Year Ended December 31, 2017		
	As Previously Reported	Adjustment Due to Adoption of New Accounting Pronouncements	As Recast
	(in millions)		
Net cash provided by operating activities	$ (44)	$ 475	$ 431
Net cash used in investing activities	$ 472	$ (562)	$ (90)
Net cash used in financing activities	$ (281)	$ —	$ (281)
Effect of foreign exchange rate changes on cash and cash equivalents and restricted cash	14	20	34
Decrease in cash and cash equivalents and restricted cash	161	(67)	94
Cash and cash equivalents and restricted cash, beginning of year	368	837	1,205
Cash and cash equivalents and restricted cash, end of period	$ 529	$ 770	$ 1,299

	Statements of Cash Flows		
	Financial Activities		
	Year Ended December 31, 2016		
	As Previously Reported	Adjustment Due to Adoption of New Accounting Pronouncements	As Recast
	(in millions)		
Net cash provided by operating activities	$ 730	$ 431	$ 1,161
Net cash used in investing activities	$ (267)	$ (506)	$ (773)
Net cash used in financing activities	$ (959)	$ —	$ (959)
Effect of foreign exchange rate changes on cash and cash equivalents and restricted cash	31	—	31
Decrease in cash and cash equivalents and restricted cash	(465)	(75)	(540)
Cash and cash equivalents and restricted cash, beginning of year	833	912	1,745
Cash and cash equivalents and restricted cash, end of period	$ 368	837	$ 1,205

Impact of the adoption of the new Revenue Recognition standard and of ASU 2017-07 on 2017 amounts included in the following Notes

2016 and 2017 figures included in the following Notes have been recast following the retrospective adoption, on January 1, 2018, of the updated accounting standard for revenue recognition (ASC 606) and for retirement benefit accounting (ASU 2017-07).

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"), which amends ASC 825-10, *Financial Instruments - Overall*. This ASU changes the treatment for available-for-sale equity investments by recognizing unrealized fair value changes directly in net income, and no longer in other comprehensive income. ASU 2016-01 is effective January 1, 2018, with the cumulative-effect adjustment from initially applying the new standard recognized in the consolidated statement of financial position as of January 1, 2018. The Company adopted this standard on January 1, 2018, which did not have a material impact on its consolidated financial statements.

Not Yet Adopted

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12") and in October 2018, the FASB issued ASU 2018-16, *Inclusion of the Secured Overnight Financial Rate (SOFR) Overnight Index Swap Rate (OIS) as a Benchmark Interest Rate for Hedge Accounting Purposes* ("ASU 2018-16"), which together amend ASC 815, *Derivatives and Hedging*. The purpose of this ASU is to better align a company's risk management activities and financial reporting for hedging relationships, simplify the hedge accounting requirements and improve the disclosures of hedging arrangements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, including interim periods within these years. Early adoption is permitted in any interim period or fiscal year before the effective date. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which establishes ASC 326, *Financial Instruments - Credit Losses*. In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses* ("ASU 2018-19"), which amended ASC 326. The ASU introduced a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. Additional disclosures about significant estimates and credit quality are also required. ASU 2016-13 is effective for annual period beginning after December 15, 2019, with early adoption permitted for annual periods beginning after December 15, 2018. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which supersedes ASC 840, *Leases*. Subsequently, the FASB has issued additional ASUs which further clarify this guidance. The ASU's most prominent change is the requirement for lessees to recognize leased assets and liabilities classified as operating leases under the previous standard. The ASU does not significantly change the lessee's recognition, measurement and presentation of expenses and cash flows from the previous accounting standard. Lessors' accounting under the ASC is largely unchanged from the previous accounting standard. ASU 2016-02 also will require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. It is effective for annual reporting periods beginning after December 15, 2018 including interim periods within those fiscal years, and early adoption is permitted. We will adopt the new guidance effective January 1, 2019.

The original transition guidance in ASU 2016-02 required a modified retrospective approach. In July 2018, the FASB issued ASU 2018-11 (an amendment to ASU 2016-02) which provides entities with an additional transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. If the transition option in ASU 2018-11 is elected, reporting for the comparative periods presented in the financial statements in which the Company adopts the new leases standard will continue to be in accordance with Topic 840, Leases.

CNH Industrial will adopt the new standard effective January 1, 2019, using the modified retrospective approach which requires the Company to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, without recasting prior periods. CNH Industrial will elect certain practical expedients upon transition, including: not to reassess under the new guidance its prior conclusions about lease identification, lease classification and initial direct costs; and, those provided for short-term leases. The Company anticipates adoption of the standard will add approximately $0.5 billion in right-of-use assets and lease liabilities to its consolidated statement of financial position at January 1, 2019, without transition effect to equity. Furthermore, the adoption of the standard will not significantly impact CNH Industrial consolidated income statement and consolidated statement of cash flows.

Comprehensive Income

In February 2018, the FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ("ASU 2018-02"), which amends ASC 220, *Income Statement - Reporting Comprehensive Income*. In December 2017, the U.S. government enacted new tax legislation ("U.S. Tax Act"). Included in the provisions of the U.S. Tax Act is a reduction of the corporate income tax rate from 35 percent to 21 percent. U.S. GAAP requires that the remeasurement of deferred taxes to the new corporate tax rate occur in the period in which the legislation is enacted. The deferred tax adjustment is recorded in the provision for income taxes, including items for which the tax effects were originally recorded in Other Comprehensive Income ("OCI"). This treatment results in the items in OCI reflecting a disproportionate tax rate, a result often referred to as stranded tax effects. This ASU allows a reclassification from accumulated OCI to retained earnings for stranded tax effects resulting from the U.S. Tax Act. ASU 2018-92 is effective for annual reporting periods beginning after December 15, 2018 including interim periods within those fiscal years, and early adoption is permitted. The ASU can be adopted at the beginning of an interim or annual period or retrospectively to each period affected by the U.S. Tax Act. The Company anticipates adoption of the ASU will result in an immaterial balance sheet re-classification between Retained earnings and Accumulated other comprehensive loss, both of which are reported in the equity section of the Company's Consolidated Balance Sheet. Adopting the ASU will have no impact on the Company's Consolidated Statement of Operations or its Consolidated Statement of Cash Flows.

Fair Value Measurement

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which amends ASC 820, *Fair Value Measurement*. This ASU modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The effective date is the first quarter of fiscal year 2021, with early adoption permitted for the removed disclosures and delayed adoption until fiscal year 2021 permitted for the new disclosures. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

Compensation - Retirement Benefits

In August 2018, the FASB issued ASU No. 2018-14, *Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans* ("ASU 2018-14"), which amends ASC 715-20, *Compensation - Retirement Benefits - Defined Benefit Plans - General*. This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing and adding certain disclosures for these plans. The eliminated disclosures include (a) the amounts in accumulated OCI expected to be recognized in net periodic benefit costs over the next fiscal year and (b) the effects of a one-percentage-point change in assumed health care cost trend rates on the net periodic benefit costs and the benefit obligation for postretirement health care benefits. The new disclosures include the interest crediting rates for cash balance plans, and an explanation of significant gains and losses related to changes in benefit obligations. ASU 2018-14 is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

Intangibles - Cloud Computing Arrangements

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement* ("ASU 2018-15"), which expands upon the guidance set forth in ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU 2018-15 aligns the requirements for capitalization of implementation costs in a cloud computing service contract with those requirements for capitalization of implementation costs incurred for an internal-use software license. ASU 2018-15 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted in any interim period for which financial statements have not been issued. ASU 2018-15 may be applied prospectively from the date the guidance is first applied or retrospectively. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

Changes in Stockholders' Equity and Noncontrolling Interests

In August 2018, the SEC adopted a final rule that amends certain disclosure requirements that have become duplicative, overlapping, or outdated in light of other SEC disclosure requirements, U.S. GAAP, or changes in the information environment. However, the guidance also added requirements for registrants to include in their interim financial statements a reconciliation of changes in stockholders' equity for each period for which an income statement is required (both year-to-date and quarterly periods). The final rule is effective for all filings made on or after November 5, 2018. However, the SEC staff said it would not object to a registrant waiting to comply with the new interim disclosure requirement until the filing for the quarter that begins after the effective date. As a result, the Company plans to adopt the new interim disclosure requirement in its U.S. GAAP quarterly report for the three months ended March 31, 2019. The Company is currently evaluating the impact compliance with this rule will have on its consolidated financial statements.

Note 3: Revenue

The following tables summarize previously reported revenues for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Agricultural Equipment	$ 11,682	$ 10,683	$ 9,690
Construction Equipment	3,021	2,530	2,206
Commercial Vehicles	10,939	10,562	9,628
Powertrain	4,565	4,369	3,707
Eliminations and Other	(2,376)	(2,375)	(2,015)
Total Industrial Activities	$ 27,831	$ 25,769	$ 23,216
Financial Services	1,989	2,028	1,916
Eliminations and Other	(114)	(96)	(37)
Total Revenues	$ 29,706	$ 27,701	$ 25,095

The following table disaggregates previously reported revenues by major source for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Revenues from:			
Sales of goods	$ 26,838	$ 24,987	$ 22,426
Rendering of services	527	438	451
Rents on assets sold with a buy-back commitment	466	344	339
Revenues from sales of goods and services	$ 27,831	$ 25,769	$ 23,216
Finance and interest income	1,115	1,185	1,190
Rents and other income on operating lease	760	747	689
Finance, interest and other income	$ 1,875	$ 1,932	$ 1,879
Total Revenues	$ 29,706	$ 27,701	$ 25,095

Contract liabilities recorded in Other liabilities were $1,368 million, $1,498 million and $1,216 million at December 31, 2018, 2017 and 2016, respectively. Contract liabilities primarily relate to extended warranties/maintenance and repair contracts, and transactions for the sale of vehicles with a buy-back commitment. During the year ended December 31, 2018, 2017 and 2016, revenues included $544 million, $496 million and $428 million, respectively, relating to contract liabilities outstanding at the beginning of each period.

As of December 31, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately $2.2 billion. CNH Industrial expects to recognize revenue on approximately 40% and 84% of the remaining performance obligations over the next 12 and 36 months, respectively, with the remaining recognized thereafter.

Note 4: Receivables

Trade Receivables, net

As of December 31, 2018 and 2017, the Company had trade receivables of $399 million and $496 million, respectively. Trade receivables are shown net of allowances for doubtful accounts of $82 million and $109 million at December 31, 2018 and 2017 respectively. Trade accounts have significant concentrations of credit risk in the Agricultural Equipment, Construction Equipment and Commercial Vehicles segments. There is not a disproportionate concentration of credit risk in any geographic area.

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

Financing Receivables, net

A summary of financing receivables included in the consolidated balance sheets as of December 31, 2018 and 2017 is as follows:

	2018	2017
	(in millions)	
Retail	$ 9,350	$ 9,725
Wholesale	9,749	10,001
Other	68	69
Total	$ 19,167	$ 19,795

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

Wholesale receivables arise primarily from the sale of goods to dealers and distributors and, to a lesser extent, the financing of dealer operations. Under the standard terms of the wholesale receivable agreements, these receivables typically have "interest-free" periods of up to twelve months and stated original maturities of up to twenty-four months, with repayment accelerated upon the sale of the underlying equipment by the dealer. During the "interest free" period, Financial Services is compensated by Industrial Activities for the difference between market interest rates and the amount paid by the dealer. After the expiration of any "interest-free" period, interest is charged to dealers on outstanding balances until CNH Industrial receives payment in full. The "interest-free" periods are determined based on the type of equipment sold and the time of year of the sale. Interest rates are set based on market factors and based on Euribor or the equivalent financial market rate (e.g. FHBR, Finance House Base Rate for UK). CNH Industrial evaluates and assesses dealers on an ongoing basis as to their credit worthiness. CNH Industrial may be obligated to repurchase the dealer's equipment upon cancellation or termination of the dealer's contract for such causes as change in ownership, closeout of the business, or default. There were no significant losses in 2018, 2017 or 2016 relating to the termination of dealer contracts.

Financing receivables generally have significant concentrations of credit risk in the agriculture, construction and truck industries. On a geographic basis, there is not a disproportionate concentration of credit risk in any area. The Company typically retains as collateral a security interest in the equipment associated with retail notes, wholesale notes and finance leases.

As part of the Company's overall funding strategy, the Company periodically transfers certain receivables into VIEs that are special purposes entities ("SPEs") as part of its asset-back securitization program and are not available to the Company's general creditors. Please see the securitization discussion at the end of this footnote.

Contractual maturities of financing receivables as of December 31, 2018 are as follows:

	Amount
	(in millions)
2019	$ 12,809
2020	2,363
2021	1,691
2022	1,227
2023	859
2024 and thereafter	218
Total	$ 19,167

It has been the Company's experience that substantial portions of retail receivables are repaid before their contractual maturity dates. As a result, the above table should not be regarded as a forecast of future cash collections.

Past due balances of financing receivables still accruing finance income represent the total balance held (principal plus accrued interest) with any payment amounts greater than 30 days or more past the contractual payment due date. Non-performing financing receivables represent loans for which the Company has ceased accruing finance income. These receivables are generally 120 days delinquent. Finance income for non-performing receivables is recognized on a cash basis. Accrual of finance income is resumed when the receivable becomes contractually current and collections are reasonably assured.

The aging of financing receivables as of December 31, 2018 and 2017 is as follows (in millions):

	2018							
	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Performing	Non Performing	Total
Retail								
North America	$ 21	$ 5	$ —	$ 26	$ 6,285	$ 6,311	$ 12	$ 6,323
EMEA	1	—	10	11	164	175	40	215
LATAM	11	9	7	27	1,885	1,912	83	1,995
APAC	2	1	—	3	814	817	—	817
Total Retail	$ 35	$ 15	$ 17	$ 67	$ 9,148	$ 9,215	$ 135	$ 9,350
Wholesale								
North America	$ —	$ —	$ —	$ —	$ 3,613	$ 3,613	$ 18	$ 3,631
EMEA	20	9	—	29	4,727	4,756	—	4,756
LATAM	—	—	—	—	656	656	—	656
APAC	7	3	$ —	10	696	706	—	706
Total Wholesale	$ 27	$ 12	$ —	$ 39	$ 9,692	$ 9,731	$ 18	$ 9,749

	2017							
	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Performing	Non Performing	Total
Retail								
North America	$ 26	$ 9	$ —	$ 35	$ 6,671	$ 6,706	$ 25	$ 6,731
EMEA	3	4	4	11	261	272	—	272
LATAM	8	—	—	8	1,851	1,859	40	1,899
APAC	—	—	—	—	823	823	—	823
Total Retail	$ 37	$ 13	$ 4	$ 54	$ 9,606	$ 9,660	$ 65	$ 9,725
Wholesale								
North America	$ —	$ —	$ —	$ —	$ 3,651	$ 3,651	$ 41	$ 3,692
EMEA	23	12	4	39	5,061	5,100	9	5,109
LATAM	—	—	—	—	613	613	—	613
APAC	4	—	—	4	583	587	—	587
Total Wholesale	$ 27	$ 12	$ 4	$ 43	$ 9,908	$ 9,951	$ 50	$ 10,001

Allowance for credit losses activity for the three years ended December 31, 2018, 2017 and 2016 is as follows (in millions):

	December 31, 2018	
	Retail	Wholesale
Opening balance	$ 383	$ 200
Provision	53	(5)
Charge-offs, net of recoveries	(85)	(15)
Foreign currency translation and other	(25)	(16)
Ending balance	326	164
Ending balance: Individually evaluated for impairment	204	135
Ending balance: Collectively evaluated for impairment	122	29
Receivables:		
Ending balance	9,350	9,749
Ending balance: Individually evaluated for impairment	359	314
Ending balance: Collectively evaluated for impairment	$ 8,991	$ 9,435

	December 31, 2017	
	Retail	Wholesale
Opening balance	$ 374	$ 200
Provision	72	11
Charge-offs, net of recoveries	(103)	(15)
Foreign currency translation and other	40	4
Ending balance	383	200
Ending balance: Individually evaluated for impairment	212	164
Ending balance: Collectively evaluated for impairment	171	36
Receivables:		
Ending balance	9,725	10,001
Ending balance: Individually evaluated for impairment	347	540
Ending balance: Collectively evaluated for impairment	$ 9,378	$ 9,461

	December 31, 2016	
	Retail	Wholesale
Opening balance	$ 394	$ 158
Provision	52	60
Charge-offs, net of recoveries	(82)	(14)
Foreign currency translation and other	10	(4)
Ending balance	374	200
Ending balance: Individually evaluated for impairment	179	149
Ending balance: Collectively evaluated for impairment	195	51
Receivables:		
Ending balance	9,949	8,535
Ending balance: Individually evaluated for impairment	317	491
Ending balance: Collectively evaluated for impairment	$ 9,632	$ 8,044

Financing receivables are considered impaired when it is probable the Company will be unable to collect all amounts due according to the contractual terms. Receivables reviewed for impairment generally include those that are either past due, have provided bankruptcy notification, or require significant collection efforts. Impaired receivables are generally classified as non-performing.

	2018				2017			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Investment	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Investment
	(in millions)							
With an allowance recorded								
Retail								
North America	$ 31	$ 30	$ 16	$ 33	$ 39	$ 37	$ 18	$ 41
EMEA	$ 234	$ 234	$ 167	$ 249	$ 260	$ 260	$ 170	$ 277
LATAM	$ 91	$ 91	$ 20	$ 88	$ 45	$ 45	$ 22	$ 32
APAC	$ 3	$ 3	$ 1	$ 4	$ 3	$ 3	$ 2	$ 2
Wholesale								
North America	$ 25	$ 23	$ 5	$ 27	$ 44	$ 44	$ 3	$ 49
EMEA	$ 256	$ 256	$ 107	$ 260	$ 457	$ 457	$ 134	$ 443
LATAM	$ 23	$ 14	$ 16	$ 26	$ 30	$ 17	$ 21	$ 28
APAC	$ 10	$ 10	$ 7	$ 9	$ 9	$ 9	$ 6	$ 4
Total								
Retail	$ 359	$ 358	$ 204	$ 374	$ 347	$ 345	$ 212	$ 352
Wholesale	$ 314	$ 303	$ 135	$ 322	$ 540	$ 527	$ 164	$ 524

Troubled Debt Restructurings

A restructuring of a receivable constitutes a troubled debt restructuring ("TDR") when the lender grants a concession it would not otherwise consider to a borrower that is experiencing financial difficulties. As a collateral based lender, CNH Industrial typically will repossess collateral in lieu of restructuring receivables. As such, for retail receivables, concessions are typically provided based on bankruptcy court proceedings. For wholesale receivables, concessions granted may include extended contract maturities, inclusion of interest-only periods, modification of a contractual interest rate to a below market interest rate and waiving of interest and principal.

TDRs are reviewed along with other receivables as part of management's ongoing evaluation of the adequacy of the allowance for credit losses. The allowance for credit losses attributable to TDRs is based on the most probable source of repayment, which is normally the liquidation of the collateral. In determining collateral value, the Company estimates the current fair market value of the equipment collateral and considers credit enhancements such as additional collateral and third-party guarantees.

Before removing a receivable from TDR classification, a review of the borrower is conducted. If concerns exist about the future ability of the borrower to meet its obligations based on a credit review, the TDR classification is not removed from the receivable.

As of December 31, 2018, the Company had 254 retail and finance lease contracts classified as TDRs in North America where a court has determined the concession. The pre-modification value of these contracts was $8 million and the post-modification value was $7 million. Additionally, the Company had 371 accounts with a balance of $17 million in North America undergoing bankruptcy proceedings where a concession has not yet been determined. As of December 31, 2017, the Company had 272 retail and finance lease contracts classified as TDRs in North America where a court has determined the concession. The pre-modification value of these contracts was $9 million and the post-modification value was $8 million. Additionally, the Company had 423 accounts with a balance of $24 million in North America undergoing bankruptcy proceedings where a concession has not yet been determined. As the outcome of the bankruptcy cases is determined by the court based on available assets, subsequent re-defaults are unusual and were not material for retail and finance lease contracts that were modified in a TDR during the previous 12 months ended December 31, 2018 and 2017.

As of December 31, 2018 and 2017, CNH Industrial's wholesale TDRs were immaterial.

Transfers of Financial Assets

The Company transfers a number of its financing receivables to securitization programs or factoring transactions.

A securitization transaction entails the sale of a portfolio of receivables to a securitization vehicle. This SPE finances the purchase of the receivables by issuing asset-backed securities (i.e. securities whose repayment and interest flow depend upon the cash flow generated by the portfolio). SPEs utilized in securitizations differ from other entities included in the Company's consolidated financial statements because the assets they hold are legally isolated. For bankruptcy analysis purposes, the Company has sold the receivables to the SPEs in a true sale

and the SPEs are separate legal entities. Upon transfer of the receivables to the SPEs, the receivables and certain cash flows derived from them become restricted for use in meeting obligations to the SPEs creditors. The SPEs have ownership of cash balances that also have restrictions for the benefit of the SPEs' investors. The Company's interests in the SPEs' receivables are subordinate to the interests of third party investors. None of the receivables that are directly or indirectly sold or transferred in any of these transactions are available to pay the Company's creditors until all obligations of the SPE have been fulfilled.

These trusts were determined to be VIEs and, consequently, the Company has consolidated these trusts. In its role as servicer, the Company has the power to direct the trusts' activities. Through its retained interests, the Company has an obligation to absorb certain losses or the right to receive certain benefits that could potentially be significant to the trusts.

No recourse provisions exist that allow holders of the asset-backed securities issued by the trusts to return those securities to the Company, although the Company provides customary representations and warranties that could give rise to an obligation to repurchase from the trusts any receivables for which there is a breach of the representations and warranties. Moreover, the Company does not guarantee any securities issued by the trusts. The trusts have a limited life and generally terminate upon final distribution of amounts owed to investors or upon exercise of a cleanup-call option by the Company in its role as servicer.

Furthermore, factoring transactions may be either with recourse or without recourse; certain without recourse transfers include deferred payment clauses (for example, when the payment by the factor of a minor part of the purchase price is dependent on the total amount collected from the receivables), requiring first loss cover, meaning that the transferor takes priority participation in the losses, or require a significant exposure to the cash flows arising from the transferred receivables to be retained. These types of transactions do not qualify for the derecognition of the assets since the risks and rewards connected with collection are not substantially transferred, and accordingly the Company continues to recognize the receivables transferred by this means in its balance sheet and a financial liability of the same amount under asset-backed financing.

At December 31, 2018 and 2017, the carrying amount of such restricted assets included in financing receivables above are the following (in millions):

	Restricted Receivables	
	2018	2017
Retail note and finance lease receivables	$ 6,371	$ 6,833
Wholesale receivables	7,052	7,189
Total	$ 13,423	$ 14,022

Note 5: Inventories

Inventories (stated at the lower of cost or market, cost being determined on a FIFO basis) as of December 31, 2018 and 2017 consist of the following:

	2018	2017
	(in millions)	
Raw materials	$ 1,293	$ 1,278
Work-in-process	576	601
Finished goods	4,857	4,573
Total Inventories	$ 6,726	$ 6,452

Note 6: Property, Plant and Equipment

A summary of property, plant and equipment as of December 31, 2018 and 2017 is as follows:

	2018	2017
	(in millions)	
Land and industrial buildings	$ 3,332	$ 3,472
Plant, machinery and equipment	8,417	8,659
Assets sold with buy-back commitment	3,100	3,607
Construction in progress	162	101
Other	815	834
Gross property, plant and equipment	15,826	16,673
Accumulated depreciation	(9,925)	(9,842)
Net property, plant and equipment	$ 5,901	$ 6,831

A summary of property, plant and equipment recorded under capital leases[1] as of December 31, 2018, and 2017 is as follows:

	2018	2017
	(in millions)	
Gross capital leases[2]	$ 4	$ 100
Accumulated depreciation	—	(36)
Net capital leases	$ 4	$ 64

(1) Included in property, plant and equipment table above

(2) Consists of industrial buildings, plant, machinery and equipment

Depreciation expense on the above property, plant and equipment totaled $965 million, $929 million, and $884 million for the years ended December 31, 2018, 2017, and 2016, respectively. Excluding depreciation for assets sold with buy-back commitments, depreciation expenses totaled $587 million, $610 million, and $605 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Commercial Vehicles recognized an impairment loss on new and used vehicles of $76 million, $86 million and $56 million on assets sold with a buy-back commitment for the years ended December 31, 2018, 2017, and 2016, respectively. The losses are recognized in "Cost of goods sold."

The Company had contractual commitments of $123 million and $101 million for the acquisition of property, plant and equipment at December 31, 2018 and 2017, respectively.

Note 7: Investments in Unconsolidated Subsidiaries and Affiliates

A summary of investments in unconsolidated subsidiaries and affiliates as of December 31, 2018 and 2017 is as follows:

	2018	2017
	(in millions)	
Equity method	$ 523	$ 555
Cost method	3	6
Total	$ 526	$ 561

A summary of the combined results of operations and financial position as reported by the investees that CNH Industrial accounts for using the equity method is as follows:

	For The Years Ended December 31,		
	2018	2017	2016
	(in millions)		
Net revenue	$ 2,875	$ 3,273	$ 3,670
Income before taxes	$ 150	$ 265	$ 99
Net income	$ 109	$ 198	$ 48

	As of December 31,	
	2018	2017
	(in millions)	
Total Assets	$ 7,789	$ 7,441
Total Liabilities	$ 6,662	$ 6,216
Total Equity	$ 1,127	$ 1,225

The investees included in these tables primarily consists of Al Ghazi Tractors Ltd. (43.2% ownership), Turk Traktor re Ziraat Makineteri A.S. (37.5% ownership), New Holland HFT Japan Inc. (50.0% ownership), CNH de Mexico S.A. de C.V. (50.0% ownership), CNH Industrial Capital Europe S.A.S. (49.9% ownership), Naveco (Nanjing Iveco Motor Co.) Ltd (50.0% ownership), SAIC Iveco Commercial Vehicle Investment Company Limited (50.0% ownership) and Transolver Finance Establecimiento Financiero de Credito S.A. (49.0% ownership).

Note 8: Equipment on Operating Leases

Equipment on operating leases primarily include products leased to customers by Agricultural Equipment, Construction Equipment and Commercial Vehicles. A summary of equipment on operating leases as of December 31, 2018 and 2017 is as follows:

	2018	2017
	(in millions)	
Equipment on operating leases	$ 2,139	$ 2,240
Accumulated depreciation	(365)	(395)
Net equipment on operating leases	$ 1,774	$ 1,845

Depreciation expense on equipment on operating leases is recorded in "Other, net" and amounted to $256 million, $305 million and $267 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Lease payments owed to CNH Industrial for equipment under non-cancelable operating leases as of December 31, 2018, are as follows:

	Amount
	(in millions)
2019	$ 194
2020	145
2021	81
2022	30
2023	10
Beyond 5 years	3
Total	$ 463

Note 9: Goodwill and Other Intangibles

Changes in the carrying amount of goodwill, for the years ended December 31, 2018 and 2017 are as follows:

	Agricultural Equipment	Construction Equipment	Commercial Vehicles	Powertrain	Financial Services	Total
	(in millions)					
Balance at January 1, 2017	$ 1,648	$ 588	$ 55	$ 5	$ 153	$ 2,449
Impact of foreign exchange	6	5	9	—	3	23
Balance at December 31, 2017	$ 1,654	$ 593	$ 64	$ 5	$ 156	$ 2,472
Impact of foreign exchange and other	(8)	(6)	(2)	—	(3)	(19)
Balance at December 31, 2018	$ 1,646	$ 587	$ 62	$ 5	$ 153	$ 2,453

Goodwill and other indefinite-lived intangible assets are tested for impairment annually or more frequently if a triggering event occurs. In 2018 and 2017, CNH Industrial performed its annual impairment review as of December 31 and concluded that there were no impairments in either year.

Impairment testing for goodwill is done at a reporting unit level. Under the goodwill impairment test, CNH Industrial's estimate of the fair value of the reporting unit is compared with its carrying value. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. CNH Industrial has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

The vast majority of goodwill, representing approximately 97% of the total, as of December 31, 2018, related to Agricultural Equipment (67%), Construction Equipment (24%) and Financial Services (6%) and as such, the impairment testing of these reporting units is discussed in detail below.

The carrying values for each reporting unit include material allocations of the Company's assets and liabilities and costs and expenses that are common to all of the reporting units. CNH Industrial believes that the basis for such allocations has been consistently applied and is reasonable.

CNH Industrial determines the fair value of its reporting units using multiple valuation methodologies, relying largely on an income approach but also incorporating value indicators from a market approach, with reference to the reporting units with the most significant allocated goodwill.

Under the income approach, CNH Industrial calculates the fair value of a reporting unit based on the present value of estimated future cash flows. The income approach is dependent on several critical management assumptions, including estimates of future sales, gross margins, operating costs, income tax rates, terminal value growth rates, capital expenditures, changes in working capital requirements, and the weighted average cost of capital (discount rate). Discount rate assumptions include an assessment of the risk inherent in the future cash flows of the respective reporting units. Expected cash flows used under the income approach are developed in conjunction with CNH Industrial budgeting and forecasting process.

Under the market approach, CNH Industrial estimates the fair value of the Agricultural Equipment and Construction Equipment reporting units using revenue and EBITDA multiples and estimates the fair value of the Financial Services reporting unit using book value, tangible book value and interest margin multiples. The multiples are derived from comparable publicly-traded companies with similar operating and investment characteristics as the respective reporting units. The guideline company method makes use of market price data of corporations whose stock is actively traded in a public, free and open market, either on an exchange or over-the counter basis. Although it is clear no two companies are entirely alike, the corporations selected as guideline companies must be engaged in the same, or a similar, line of business or be subject to similar financial and business risks, including the opportunity for growth.

As of December 31, 2018, the estimated fair values of all reporting units with goodwill exceeded the carrying value by more than 30%. Accordingly, management determined that none of the reporting units were at higher risk for impairment at December 31, 2018. The sum of the fair values of CNH Industrial's reporting units was in excess of CNH Industrial's market capitalization. CNH Industrial believes that the difference between the fair value and market capitalization is reasonable (in the context of assessing whether any asset impairment exists) when market-based control premiums are taken into consideration.

As of December 31, 2018, and 2017, the Company's other intangible assets and related accumulated amortization consisted of the following:

		2018			2017		
	Weighted Avg. Life	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
				(in millions)			
Other intangible assets subject to amortization:							
Dealer networks	15	$ 320	$ 207	$ 113	$ 328	$ 199	$ 129
Patents, concessions and licenses and other	5-25	1,879	1,477	402	1,834	1,444	390
		2,199	1,684	515	2,162	1,643	519
Other intangible assets not subject to amortization:							
Trademarks		273	—	273	273	—	273
Total Other intangible assets		$ 2,472	$ 1,684	$ 788	$ 2,435	$ 1,643	$ 792

CNH Industrial recorded amortization expense of $116 million, $115 million, and $111 million during 2018, 2017, and 2016, respectively.

Based on the current amount of other intangible assets subject to amortization, the estimated annual amortization expense for each of the succeeding 5 years is expected to be as follows: $103 million in 2019; $77 million in 2020; $67 million in 2021, $57 million in 2022; and $41 million in 2023.

Note 10: Debt

Credit Facilities

Lenders of committed credit facilities have the obligation to make advances up to the facility amount. Lenders of uncommitted facilities have the right to terminate the agreement with prior notice to CNH Industrial. At December 31, 2018, CNH Industrial's available committed unsecured facilities expiring after twelve months amounted to $3.1 billion ($3.2 billion at December 31, 2017).

In 2016, we signed a renewal of a five-year committed revolving credit facility for €1.75 billion ($2.0 billion at the year-end 2018 exchange rate). The renewal extends the maturity of the previous €1.75 billion committed revolving credit facility from 2019 until 2021. The €1.75 billion facility is guaranteed by the parent company with cross-guarantees from each of the borrowers (i.e., CNH Industrial Finance S.p.A., CNH Industrial Finance Europe S.A. and CNH Industrial Finance North America Inc.), includes typical provisions for contracts of this type and size, such as: financial covenants (Net debt/EBITDA ratio relating to Industrial Activities), other covenants mainly relating to Industrial Activities including negative pledge, a status (or pari passu) covenant, restrictions on the incurrence of indebtedness by certain subsidiaries, customary events of default (some of which are subject to minimum thresholds and customary mitigants) including cross-default, failure to pay amounts due or to comply with certain provisions under the loan agreement, the occurrence of certain bankruptcy-related events and mandatory prepayment obligations upon a change in control of CNH Industrial or the borrowers. The failure to comply with these provisions, in certain cases if not suitably remedied, can lead to the requirement to make early repayment of the outstanding advances. At December 31, 2018, the Company was in compliance with all covenants in the revolving credit facility.

At December 31, 2018, Financial Services' committed asset-backed facilities expiring after twelve months amounted to $3.9 billion ($3.5 billion at December 31, 2017), of which $3.0 billion at December 31, 2018 ($2.3 billion at December 31, 2017) were utilized.

Debt

A summary of issued bonds outstanding as of December 31, 2018, is as follows:

	Currency	Face value of outstanding bonds (in millions)	Coupon	Maturity	Outstanding amount ($ millions)
Industrial Activities					
Euro Medium Term Notes:					
CNH Industrial Finance Europe S.A.[1]	EUR	547	2.750%	March 18, 2019	$ 626
CNH Industrial Finance Europe S.A.[1]	EUR	432	2.875%	September 27, 2021	494
CNH Industrial Finance Europe S.A.[1]	EUR	75	1.625%	March 29, 2022	86
CNH Industrial Finance Europe S.A.[1]	EUR	500	1.375%	May 23, 2022	573
CNH Industrial Finance Europe S.A.[1]	EUR	500	2.875%	May 17, 2023	573
CNH Industrial Finance Europe S.A.[1]	EUR	650	1.750%	September 12, 2025	744
CNH Industrial Finance Europe S.A.[1]	EUR	100	3.500%	November 12, 2025	114
CNH Industrial Finance Europe S.A.[1]	EUR	500	1.875%	January 19, 2026	573
CNH Industrial Finance Europe S.A.[1]	EUR	50	3.875%	April 21, 2028	57
Other Bonds:					
CNH Industrial N.V. [2]	USD	600	4.500%	August 15, 2023	600
CNH Industrial N.V. [2]	USD	500	3.850%	November 15, 2027	500
Hedging effects, bond premium/discount, and unamortized issuance costs					(52)
Total Industrial Activities					$ 4,888
Financial Services					
CNH Industrial Capital LLC	USD	500	3.375%	July 15, 2019	$ 500
CNH Industrial Capital LLC	USD	600	4.375%	November 6, 2020	600
CNH Industrial Capital LLC	USD	500	4.875%	April 1, 2021	500
CNH Industrial Capital LLC	USD	400	3.875%	October 15, 2021	400
CNH Industrial Capital LLC	USD	500	4.375%	April 5, 2022	500
CNH Industrial Capital LLC	USD	500	4.200%	January 15, 2024	500
Hedging effects, bond premium/discount, and unamortized issuance costs					(10)
Total Financial Services					$ 2,990

(1) Bond listed on the Irish Stock Exchange

(2) Bond listed on the New York Stock Exchange

A summary of total debt as of December 31, 2018 and 2017, is as follows:

	2018			2017		
	Industrial Activities	Financial Services	Total	Industrial Activities	Financial Services	Total
	(in millions)					
Total Bonds	$ 4,888	$ 2,990	$ 7,878	$ 5,810	$ 3,075	$ 8,885
Asset-backed debt	—	11,268	11,268	3	12,025	12,028
Other debt	323	4,976	5,299	648	4,334	4,982
Intersegment debt	1,136	1,202	—	982	1,641	—
Total Debt	$ 6,347	$ 20,436	$ 24,445	$ 7,443	$ 21,075	$ 25,895

The weighted-average interest rate on consolidated debt at December 31, 2018, and 2017 was 3.0% and 3.1%, respectively.

In April 2016, CNH Industrial Finance Europe S.A. issued €50 million of notes as a private placement, due in 2028 and bearing fixed interest at a rate of 3.875% (the "3.875% CIFE Notes"). The 3.875% CIFE Notes have been issued under the €10 billion Euro Medium Term Note Programme unconditionally and irrevocably guaranteed by CNH Industrial N.V.

In May 2016, CNH Industrial Finance Europe S.A. issued €500 million of notes at an annual fixed rate of 2.875% (the "2.875% Notes") due May 2023. The 2.875% Notes have been issued under the €10 billion Euro Medium Term Note Programme unconditionally and irrevocably guaranteed by CNH Industrial N.V.

In March 2016, CNH Industrial Capital LLC issued $500 million of debt securities at an annual fixed rate of 4.875% (the "4.875% Notes") due in April 2021. The 4.875% Notes are fully and unconditionally guaranteed by certain wholly owned subsidiaries of the issuer.

In August 2016, CNH Industrial N.V. issued $600 million of notes at an annual fixed rate of 4.500% (the "4.500% Notes") due August 2023.

In October 2016, CNH Industrial Capital LLC issued $400 million of debt securities at an annual fixed rate of 3.875% (the "3.875% Notes due 2021") due in October 2021. The 3.875% Notes due 2021 are fully and unconditionally guaranteed by certain wholly owned subsidiaries of the issuer.

In March 2017, CNH Industrial Finance Europe S.A. issued as a private placement €75 million of notes at an annual fixed rate of 1.625% due in 2022 (the "1.625% CIFE Notes") at an issue price of 99.407 percent of their principal amount. The 1.625% CIFE Notes were issued under the €10 billion Global Medium Term Note Programme (subsequently converted into the Euro Medium Term Note Programme) unconditionally and irrevocably guaranteed by CNH Industrial N.V.

In April 2017, CNH Industrial Capital LLC issued at par $500 million of notes at an annual fixed rate of 4.375% due in 2022.

In May 2017, CNH Industrial Finance Europe S.A. issued €500 million of notes at an annual fixed rate of 1.375% due in 2022 (the "1.375% CIFE Notes") at an issue price of 99.335 percent of their principal amount. The 1.375% CIFE Notes were issued under the €10 billion Euro Medium Term Note Programme unconditionally and irrevocably guaranteed by CNH Industrial N.V.

In September 2017, CNH Industrial Finance Europe S.A. issued €650 million of notes at an annual fixed rate of 1.750% due in 2025 (the "1.750% CIFE Notes") at an issue price of 99.248 percent of their principal amount. The 1.750% CIFE Notes were issued under the €10 billion Euro Medium Term Note Programme unconditionally and irrevocably guaranteed by CNH Industrial N.V.

In September 2017, CNH Industrial Finance Europe S.A. repurchased a total of €800 million in principal amount of its 6.250% Notes due 2018 and its 2.750% Notes due 2019.

On October 24, 2017, Fitch Ratings assigned to CNH Industrial N.V. and CNH Industrial Capital LLC new investment grade long-term issuer default ratings of "BBB-". This rating action and the S&P upgrade on June 15, 2017 made CNH Industrial's securities eligible for the main investment grade indices in the U.S. market, which CNH Industrial believes has improved its access to funding at better rates.

In November 2017, CNH Industrial N.V. issued $500 million of notes at an annual fixed rate of 3.850% due 2027 with an issue price of 99.384%.

In December 2017, CNH Industrial Capital LLC established a new commercial paper program to issue short-term, unsecured, unsubordinated commercial paper notes on a private placement basis. As of December 31, 2018 the aggregate principal amount of the notes outstanding was $388 million.

In August 2018, S&P Global Ratings raised its long-term issuer credit ratings on CNH Industrial N.V. and its subsidiary, CNH Industrial Capital LLC, to 'BBB' from 'BBB-'. The outlook is stable. Additionally, S&P Global Ratings raised the issue-level ratings on CNH Industrial N.V. and its industrial subsidiaries' debt, as well as the issue-level ratings on CNH Industrial Capital LLC's senior unsecured debt, to 'BBB' from 'BBB-'.

In August 2018, CNH Industrial Capital LLC refinanced an April 2018 maturity by issuing $500 million of notes at an annual fixed rate of 4.200% due in January 2024 with an issue price of 99.701 percent of their principal.

In September 2018 CNH Industrial Finance Europe S.A. issued €500 million of notes at an annual fixed rate of 1.875% due in 2026 (the "1.875% CIFE Notes") at an issue price of 98.944 percent of their principal amount. The 1.875% CIFE Notes were issued under the €10 billion Euro Medium Term Note Programme unconditionally and irrevocably guaranteed by CNH Industrial N.V.

In December 2018, Moody's Investors Service ("Moody's") upgraded the senior unsecured ratings of CNH Industrial N.V. and its subsidiaries CNH Industrial Capital LLC and CNH Industrial Finance Europe S.A from Ba1 to Baa3. The outlook is stable.

In December 2018, in order to manage its liabilities, CNH Industrial Finance Europe S.A repurchased, through a public tender, an aggregate nominal amount of €268 million of the outstanding €700 million 2.875% Notes due September 27, 2021 issued under the EMTN.

In 2017, with the purpose of further diversifying Financial Services' funding structure, a commercial paper program was established in the U.S. by CNH Industrial Capital LLC. This program had an outstanding amount of $388 million at December 31, 2018. Since 2015, CNH Industrial Financial Services S.A. in Europe has issued commercial paper under a program which had an outstanding amount of $101 million at December 31, 2018.

The bonds issued by the Group may contain commitments of the issuer, and in certain cases commitments of CNH Industrial N.V. in its capacity as guarantor, which are typical of international practice for bond issues of this type such as, in particular, negative pledge (in relation to quoted indebtedness), a status (or pari passu) covenant and cross default clauses. A breach of these commitments can lead to the early repayment of the applicable notes. The bonds guaranteed by CNH Industrial N.V. under the Euro Medium Term Note Programme (and its predecessor the Global Medium Term Notes Programme), as well as the notes issued by CNH Industrial N.V., contain clauses which could lead to early repayment if there is a change of control of CNH Industrial N.V. leading to a rating downgrading of CNH Industrial N.V.

Other debt consists primarily of borrowings from banks which are at various terms and rates. Included in Other debt of Financial Services is approximately $1.5 billion and $1.6 billion at December 31, 2018 and 2017, respectively, of funding provided by the Brazilian development agency, Banco Nacional de Desenvolvimento Econômico e Social (BNDES). The program provides subsidized funding to financial institutions to be loaned to customers to support the purchase of agricultural or construction machinery or commercial vehicles in accordance with the program.

A summary of the minimum annual repayments of debt as of December 31, 2018, for 2019 and thereafter is as follows:

	Industrial Activities	Financial Services	Consolidated
		(in millions)	
2019	$ 786	$ 9,661	$ 10,447
2020	38	4,454	4,492
2021	515	2,595	3,110
2022	678	1,478	2,156
2023	1,184	327	1,511
2024 and thereafter	2,010	719	2,729
Intersegment	1,136	1,202	—
Total	$ 6,347	$ 20,436	$ 24,445

Please refer to "Note 15: Financial Instruments" for fair value information on debt.

Note 11: Income Taxes

CNH Industrial N.V. and its subsidiaries have substantial worldwide operations. CNH Industrial N.V.'s subsidiaries incur tax obligations in the jurisdictions in which they operate. The Company's provision for income taxes as reported in its consolidated statements of operations for the year ended December 31, 2018 of $417 million consists almost entirely of the income taxes owed by the subsidiaries of CNH Industrial N.V.

The sources of income before taxes and equity in income of unconsolidated subsidiaries and affiliates for the years ended December 31, 2018, 2017, and 2016 are as follows:

	2018	2017	2016
		(in millions)	
Parent country source	$ (6)	$ (211)	$ (70)
Foreign sources	1,472	870	48
Income (loss) before taxes and equity in income of unconsolidated subsidiaries and affiliates	$ 1,466	$ 659	$ (22)

The provision for income taxes for the years ended December 31, 2018, 2017 and 2016 consisted of the following:

	2018	2017	2016
		(in millions)	
Current income taxes	$ 353	$ 354	$ 229
Deferred income taxes	64	103	68
Total income tax provision	$ 417	$ 457	$ 297

CNH Industrial N.V. is incorporated in the Netherlands, but is a tax resident of the United Kingdom ("U.K."). The reconciliation of the differences between the provision for income taxes and the statutory rate is presented on the basis of the weighted average of the U.K. statutory main corporation tax rates in force over each of the Company's calendar year reporting periods of 20% in 2016, 19.25% in 2017 and 19% in 2018. A reconciliation of CNH Industrial's income tax expense for the years ended December 31, 2018, 2017 and 2016 is as follows:

	2018	2017	2016
		(in millions)	
Tax provision at the parent statutory rate	$ 278	$ 127	$ (4)
Foreign income taxed at different rates	102	94	(12)
Change in valuation allowance	31	166	135
Italian IRAP taxes	21	17	22
Tax contingencies	29	18	(2)
Tax credits and incentives	(66)	(48)	(88)
Venezuela remeasurement, and impairment and deconsolidation charges	—	18	16
Non-deductible EC Settlement	—	—	160
Change in tax rate or law	(8)	46	14
Withholding taxes	7	6	11
Other	23	13	45
Total income tax provision	$ 417	$ 457	$ 297

The effective tax rate reduction in 2018 was primarily caused by the difference in tax accruals attributable to the U.S. Tax Act and other tax law changes, a reduced negative impact of recording valuation allowances against certain of our deferred tax assets, a more favorable geographic mix of pre-tax earnings, and a reduced U.S. tax rate pursuant to the U.S. Tax Act. As described further below, during 2017 the Company reported provisional tax impacts associated with the U.S. Tax Act, which was enacted in December 2017. In 2018 and in accordance with Staff Accounting Bulletin No. 118, the Company finalized its accounting for the impacts of the U.S. Tax Act, which resulted in an $8 million tax benefit being reported during the current year. In addition, amongst other items, the U.S. Tax Act enacted a tax upon global intangible low tax income, a so-called GILTI tax. The Company has made a policy election to account for the GILTI tax as a current period cost, rather than under the deferred tax method.

During the last quarter of 2017, new tax legislation was enacted in several jurisdictions, primarily including the U.S. and the U.K. In connection with these legislative changes, the Company reported a $46 million tax expense related to the U.S. mandatory deemed repatriation tax and the write-down of deferred tax assets in the relevant jurisdictions. In addition, also in the last quarter of 2017, the Company established an $84 million valuation allowance against deferred tax assets in its U.K. operations as a result of new tax legislation in the U.K.

The 2016 tax expense was impacted by the non-tax deductible charge of $551 million incurred in the first half of 2016 for the European Commission settlement. For more information on the European Commission Settlement, see "Note 14: Commitments and contingencies".

During December 2016, the Company completed a corporate reorganization of its Latin American operations, resulting in a $59 million charge to tax expense, comprised of $58 million related to changes in valuation allowances booked against deferred tax assets in Brazil and Argentina and $1 million related to certain other basis adjustments.

At December 31, 2018, undistributed earnings in certain subsidiaries outside the U.K. totaled approximately $4 billion for which no deferred tax liability has been recorded because the remittance of earnings from certain jurisdictions would incur no tax or such earnings are indefinitely reinvested. The Company has determined the amount of unrecognized deferred tax liability relating to the $4 billion undistributed earnings was approximately $58 million and attributable to foreign withholding taxes in certain jurisdictions. Further, the Company evaluated the undistributed earnings from its joint ventures in which it owned 50% or less, and recorded $8 million of deferred tax liabilities as of December 31, 2018. The repatriation of undistributed earnings to the U.K. is generally exempt from U.K. income taxes under a full participation exemption.

Deferred Income Tax Assets and Liabilities

The components of net deferred tax assets as of December 31, 2018 and 2017 are as follows:

	2018	2017
	(in millions)	
Deferred tax assets:		
Inventories	$ 104	$ 108
Warranty and campaigns	192	202
Allowance for credit losses	163	184
Marketing and sales incentive programs	268	259
Other risk and future charges reserve	273	312
Pension, postretirement and postemployment benefits	237	408
Measurement of derivative financial instruments	16	1
Research and development costs	420	458
Other reserves	377	394
Tax credits and loss carry forwards	616	684
Less: Valuation allowances	(1,626)	(1,762)
Total deferred tax assets	$ 1,040	$ 1,248
Deferred tax liabilities:		
Property, plant and equipment	$ 357	$ 295
Other	206	195
Total deferred tax liabilities	563	490
Net deferred tax assets	$ 477	$ 758

Net deferred tax assets are reflected in the accompanying consolidated balance sheets as of December 31, 2018 and 2017 as follows:

	2018	2017
	(in millions)	
Deferred tax assets	$ 591	$ 852
Deferred tax liabilities	(114)	(94)
Net deferred tax assets	$ 477	$ 758

Valuation Allowances

As of December 31, 2018, the Company has valuation allowances of $1,626 million against certain deferred tax assets, including tax loss carry forwards, tax credits and other deferred tax assets. These valuation allowances are primarily attributable to operations in Brazil, Germany, Italy and the U.K.

CNH Industrial has gross tax loss carry forwards in several tax jurisdictions. These tax losses expire as follows: $160 million in 2019; $9 million in 2020; $39 million in 2021; $83 million in 2022; $506 million in 2023 and beyond. CNH Industrial also has tax loss carry forwards of approximately $3 billion with indefinite lives. CNH Industrial has tax credit carry forwards. The years in which these tax credits expire are as follows: $1 million in 2020; and $52 million in 2023 and beyond.

Uncertain Tax Positions

The Company files income tax returns in multiple jurisdictions and is subject to examination by taxing authorities throughout the world. The Company has open tax years from 2002 to 2017. Due to the global nature of the Company's business, transfer pricing disputes may arise and the Company may seek correlative relief through competent authority processes.

A reconciliation of the gross amounts of tax contingencies at the beginning and end of the year is as follows:

	2018	2017
	(in millions)	
Balance, beginning of year	$ 320	$ 318
Additions based on tax positions related to the current year	22	30
Additions for tax positions of prior years	46	16
Reductions for tax positions of prior years	(60)	(21)
Reductions for tax positions as a result of lapse of statute	(24)	(8)
Settlements	(36)	(15)
Balance, end of year	$ 268	$ 320

As of December 31, 2018, there are $170 million of unrecognized tax benefits that if recognized would affect the effective tax rate.

The Company recognizes interest and penalties accrued related to tax contingencies as part of the income tax provision. During the years ended December 31, 2018, 2017 and 2016, the Company recognized expense of approximately $13 million, $(1) million and $7 million for income tax related interest and penalties, respectively. The Company had approximately $21 million, $11 million and $12 million of income tax related interest and penalties accrued at December 31, 2018, 2017 and 2016, respectively.

The Company does not believe, within the next twelve months, the resolution of any outstanding tax examinations will have a material effect on its financial position, results of operations or cash flows.

Note 12: Employee Benefit Plans and Postretirement Benefits

CNH Industrial provides pension, healthcare and insurance plans and other postemployment benefits to their employees and retirees under defined contribution and defined benefit plans.

In the case of defined contribution plans, CNH Industrial makes contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. Once the contributions have been made, the Company has no further payment obligations. CNH Industrial recognizes the contribution cost when the employees have rendered their service and includes this cost by function in cost of goods sold, SG&A expense, and R&D expense. During the years ended December 31, 2018, 2017, and 2016, CNH Industrial recorded expense of $198 million, $189 million, and $181 million, respectively, for its defined contribution plans.

Defined benefit plans are classified by CNH Industrial on the basis of the type of benefit provided as follows: pension plans, healthcare plans, and other postemployment benefit plans.

Pension Plans

Pension obligations primarily comprise the obligations of the Company's pension plans in the U.S., the U.K., and Germany.

Under these plans, contributions are made to a separate fund (trust) that independently administers the plan assets. The Company's funding policy is to meet the minimum funding requirements pursuant to the laws of the applicable jurisdictions. The Company may also choose to make discretionary contributions.

Healthcare Postretirement Benefit Plans

Healthcare postretirement benefit plan obligations comprise obligations for healthcare and insurance plans granted to employees working in the U.S. and Canada. These plans generally cover employees retiring on or after reaching the age of 55 who have completed at least 10 years of employment. CNH Industrial U.S. salaried and non-represented hourly employees and Canadian employees hired after January 1, 2001 and January 1, 2002, respectively, are not eligible for postretirement healthcare and life insurance benefits under the CNH Industrial plans. These benefits may be subject to deductibles, co-payment provisions and other limitations, and CNH Industrial has reserved the right to change or terminate these benefits, subject to the provisions of any collective bargaining agreement. These plans are not required to be funded. However, beginning in 2007, the Company began making contributions on a voluntary basis to a separate and independently managed fund established to finance the North American healthcare plans.

On February 20, 2018, CNH Industrial announced that the United States Supreme Court ruled in its favor in Reese vs. CNH Industrial N.V. and CNH Industrial America LLC. The decision allowed CNH Industrial to terminate or modify various retiree healthcare benefits previously provided to certain UAW Union represented CNH Industrial retirees. On April 16, 2018, CNH Industrial announced its determination to modify the Benefits provided to the applicable retirees ("Benefits Modification") to make them consistent with the Benefits provided to current eligible CNH Industrial retirees who had been represented by the UAW. The Benefits Modification resulted in a reduction of the plan liability by $527 million. This amount will be amortized from OCI to the income statement over approximately 4.5 years, which represents the average service period to attain eligibility conditions for active participants. For the year ended December 31, 2018, $80 million of amortization was recorded as a pre-tax gain in Other, net.

Other Postemployment Benefits

Other postemployment benefits consist of obligations for Italian Employee Leaving Entitlements up to December 31, 2006, loyalty bonus in Italy and various other similar plans in France, Germany and Belgium. Until December 31, 2006, Italian companies with more than 50 employees were required to accrue for benefits paid to employees upon them leaving the Company. The scheme has since changed to a defined contribution plan. The obligation on the Company's consolidated balance sheet represents the residual reserve for years until December 31, 2006. Loyalty bonus is accrued for employees who have reached certain service seniority and are generally settled when employees leave the Company. These plans are not required to be funded and, therefore, have no plan assets.

Obligations and Funded Status

The following summarizes data from CNH Industrial's defined benefit pension, healthcare and other postemployment plans for the years ended December 31, 2018 and 2017:

	Pension		Healthcare[1]		Other[1]	
	2018	2017	2018	2017	2018	2017
	(in millions)					
Change in benefit obligations:						
Beginning benefit obligation	$ 3,365	$ 3,188	$ 1,120	$ 1,105	$ 470	$ 418
Service cost	25	30	6	6	15	15
Interest cost	71	74	24	36	3	3
Plan participants' contributions	3	3	9	7	—	—
Actuarial loss (gain)	(140)	44	(129)	29	(8)	13
Gross benefits paid	(207)	(179)	(63)	(68)	(37)	(37)
Plan amendments	22	—	(530)	—	—	—
Currency translation adjustments and other	(110)	205	(3)	5	(21)	58
Ending benefit obligation	$ 3,029	$ 3,365	$ 434	$ 1,120	$ 422	$ 470
Change in the fair value of plan assets:						
Beginning plan assets	2,517	2,328	184	111	—	—
Actual return on plan assets	(46)	196	(6)	19	—	—
Employer contributions	55	34	—	56	—	—
Plan participants' contributions	3	3	—	—	—	—
Gross benefits paid	(179)	(150)	(37)	(2)	—	—
Currency translation adjustments and other	(69)	106	—	—	—	—
Ending plan assets	2,281	2,517	141	184	—	—
Funded status:	$ (748)	$ (848)	$ (293)	$ (936)	$ (422)	$ (470)

(1) The healthcare and other postemployment plans are not required to be prefunded.

The following summarizes data from CNH Industrial's defined benefit pension plans by significant geographical area for the years ended December 31, 2018 and 2017:

	U.S.		U.K		Germany[1]		Other Countries[1]	
	2018	2017	2018	2017	2018	2017	2018	2017
	(in millions)							
Change in benefit obligations:								
Beginning benefit obligation	$ 1,173	$ 1,159	$ 1,409	$ 1,315	$ 453	$ 419	$ 330	$ 295
Service cost	4	7	4	7	4	4	13	12
Interest cost	35	37	29	29	4	4	3	4
Plan participants' contributions	—	—	—	—	—	—	3	3
Actuarial loss (gain)	(85)	53	(39)	(15)	(4)	(2)	(10)	8
Gross benefits paid	(112)	(83)	(56)	(53)	(28)	(28)	(11)	(15)
Plan amendments	—	—	21	—		—		—
Currency translation adjustments and other	—	—	(78)	126	(20)	56	(13)	23
Ending benefit obligation	$ 1,015	$ 1,173	$ 1,290	$ 1,409	$ 409	$ 453	$ 315	$ 330
Change in the fair value of plan assets:								
Beginning plan assets	1,207	1,139	1,005	918	5	5	300	266
Actual return on plan assets	(65)	153	14	29	—	—	3	14
Employer contributions	—	—	44	23	—	—	11	11
Plan participants' contributions	—	—	—	—	—	—	3	3
Gross benefits paid	(112)	(82)	(56)	(53)	—	—	(11)	(15)
Currency translation adjustments and other	—	(3)	(56)	88	—	—	(11)	21
Ending plan assets	$ 1,030	$ 1,207	$ 951	$ 1,005	$ 5	$ 5	$ 295	$ 300
Funded status:	$ 15	$ 34	$ (339)	$ (404)	$ (404)	$ (448)	$ (20)	$ (30)

(1) Pension benefits in Germany and some other countries are not required to be prefunded.

Net amounts recognized in the consolidated balance sheets as of December 31, 2018 and 2017 consist of:

	Pension		Healthcare		Other	
	2018	2017	2018	2017	2018	2017
	(in millions)					
Other assets	$ 25	$ 46	$ —	$ —	$ —	$ —
Pension, postretirement and other postemployment benefits	(773)	(894)	(293)	(936)	(422)	(470)
Net liability recognized at end of year	$ (748)	$ (848)	$ (293)	$ (936)	$ (422)	$ (470)

Pre-tax amounts recognized in accumulated other comprehensive loss as of December 31, 2018 consist of:

	Pension	Healthcare	Other
	(in millions)		
Unrecognized actuarial losses	$ 856	$ 31	$ 82
Unrecognized prior service credit	14	(451)	(5)
Accumulated other comprehensive loss	$ 870	$ (420)	$ 77

The following table summarizes the aggregate pension accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets:

	Pension	
	2018	2017
	(in millions)	
Accumulated benefit obligation	$ 1,753	$ 1,968
Fair value of plan assets	$ 991	$ 1,146

The following table summarizes CNH Industrial's pension and other postemployment plans with projected benefit obligations in excess of plan assets:

	Pension		Healthcare		Other	
	2018	2017	2018	2017	2018	2017
	(in millions)					
Projected benefit obligation	$ 1,951	$ 2,130	$ —	$ 1,119	$ 422	$ 470
Fair value of plan assets	$ 1,178	$ 1,236	$ —	$ 184	$ —	$ —

The total accumulated benefit obligation for pension was $3,011 million and $3,285 million as of December 31, 2018 and 2017, respectively.

Net Periodic Benefit Cost

The following summarizes the components of net periodic benefit cost of CNH Industrial's defined benefit for the years ended December 31, 2018, 2017, and 2016:

	Pension			Healthcare			Other		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
	(in millions)								
Service cost	$ 25	$ 30	$ 30	$ 6	$ 6	$ 7	$ 15	$ 15	$ 13
Interest cost	71	74	87	24	36	39	3	3	4
Expected return on assets	(112)	(111)	(113)	(7)	(7)	(6)	—	—	—
Amortization of:									
Prior service cost (credit)	(1)	(1)	—	(82)	(2)	(4)	1	1	(1)
Actuarial loss (gain)	74	90	76	7	6	15	4	5	8
Settlement loss and other	1	4	—	—	—	—	1	2	1
Net periodic benefit cost	$ 58	$ 86	$ 80	$ (52)	$ 39	$ 51	$ 24	$ 26	$ 25

Net periodic benefit cost recognized in net income and other changes in plan assets and benefit obligations that are recognized in other comprehensive loss during 2018 consist of:

	Pension	Healthcare	Other
	(millions)		
Net periodic benefit cost	$ 58	$ (52)	$ 24
Benefit adjustments included in other comprehensive (income) loss:			
Net actuarial losses (gains)	17	(116)	(9)
Amortization of actuarial losses	(74)	(7)	(4)
Amortization of prior service (cost) credit	1	82	(1)
Currency translation adjustments and other	(9)	(530)	(4)
Total recognized in other comprehensive (income) loss	(65)	(571)	(18)
Total recognized in comprehensive loss	$ (7)	$ (623)	$ 6

Pre-tax amounts expected to be amortized in 2019 from accumulated other comprehensive loss consist of:

	Pension	Healthcare	Other
	(in millions)		
Actuarial losses	$ 69	$ 1	$ 1
Prior service cost (credit)	2	(122)	1
Total	$ 71	$ (121)	$ 2

Actuarial gains and losses are recorded in accumulated other comprehensive income (loss). To the extent unamortized gains and losses exceed 10% of the higher of the market-related value of assets or the benefit obligation, the excess is amortized as a component of net periodic cost over the remaining service period of the active participants. For plans in which all or almost all of the plan's participants are inactive, the amortization period is the remaining life expectancy of the inactive participants.

Assumptions

The following assumptions were utilized in determining the funded status at December 31, 2018 and 2017, and the net periodic benefit cost of CNH Industrial's defined benefit plans for the years ended December 31, 2018, 2017, and 2016:

	Pension plans			Healthcare plans			Other		
(in %)	2018	2017	2016	2018	2017	2016	2018	2017	2016
Assumptions used to determine funded status at December 31									
Weighted-average discount rate	2.91	2.57	2.82	4.12	3.53	3.97	1.62	1.47	1.54
Weighted-average rate of compensation increase	3.00	3.01	2.95	n/a	n/a	n/a	1.41	1.11	1.19
Weighted-average, initial healthcare cost trend rate	n/a	n/a	n/a	6.17	6.46	6.72	n/a	n/a	n/a
Weighted-average, ultimate healthcare cost trend rate(*)	n/a	n/a	n/a	5.00	5.00	5.00	n/a	n/a	n/a
Assumptions used to determine expense									
Weighted-average discount rates - service cost	1.79	2.15	2.91	3.58	3.96	4.21	1.64	1.67	2.18
Weighted-average discount rates - interest cost	2.20	2.33	2.82	3.19	3.39	3.49	1.34	1.40	1.89
Weighted-average rate of compensation increase	3.01	2.95	2.98	n/a	n/a	n/a	1.11	1.19	1.33
Weighted-average long-term rates of return on plan assets	4.58	4.74	5.00	4.50	6.25	6.25	n/a	n/a	n/a
Weighted-average, initial healthcare cost trend rate	n/a	n/a	n/a	6.46	6.72	6.98	n/a	n/a	n/a
Weighted-average, ultimate healthcare cost trend rate(*)	n/a	n/a	n/a	5.00	5.00	5.00	n/a	n/a	n/a

(*) CNH Industrial expects to achieve the ultimate healthcare cost trend rate in 2024 for U.S. plans. A flat trend rate assumption is utilized for the Canada plans.

Assumed discount rates are used in measurements of pension, healthcare and other postemployment benefit obligations and interest cost components of net periodic cost. CNH Industrial selects its assumed discount rates based on the consideration of equivalent yields on high-quality fixed income investments at the measurement date. The assumed discount rate is used to discount future benefit obligations back to today's dollars. The discount rates for the U.S., European, U.K. and Canadian obligations are based on a benefit cash flow-matching approach and represent the rates at which the benefit obligations could effectively be settled as of the measurement date, December 31. The benefit cash flow-matching approach involves analyzing CNH Industrial's projected cash flows against a high quality bond yield curve, mainly calculated using a wide population of AA-grade corporate bonds subject to minimum amounts outstanding and meeting other defined selection criteria. The discount rates for the Company's remaining obligations are based on benchmark yield data of high-quality fixed income investments for which the timing and amounts of payments approximate the timing and amounts of projected benefit payments.

The expected long-term rate of return on plan assets reflects management's expectations on long-term average rates of return on funds invested to provide for benefits included in the projected benefit obligations. The expected return is based on the outlook for inflation, fixed income returns and equity returns while also considering asset allocation and investment strategy, premiums for active management to the extent asset classes are actively managed, and plan expenses. Return patterns and correlations, consensus return forecasts, and other relevant financial factors are analyzed to check for reasonability and appropriateness.

The assumed healthcare trend rate represents the rate at which healthcare costs are assumed to increase. Rates are determined based on company-specific experience, consultation with actuaries and outside consultants, and various trend factors including general and healthcare sector-specific inflation projections from the United States Department of Health and Human Services Healthcare Financing Administration. The initial trend is a short-term assumption based on recent experience and prevailing market conditions. The ultimate trend is a long-term assumption of healthcare cost inflation based on general inflation, incremental medical inflation, technology, new medicine, government cost-shifting, utilization changes, an aging population, and a changing mix of medical services.

In October 2014, the Society of Actuaries ("SOA") in the U.S. issued an updated mortality table ("RP-2014") and mortality improvement scale ("MP-2014"). Accordingly, CNH Industrial reviewed the historical mortality experience and demographic characteristics of its U.S. pension plan participants and has decided to adopt the variants of Blue Collar tables of RP-2014 as the base mortality tables. Subsequent to the Benefits Modification to the US Healthcare plan on April 16, 2018, the Company decided to change the base mortality table for the US Healthcare plan from the variants of Blue Collar tables of RPH-2014 (with MP-2014 removed) to a no-collar variant which led to an increase of $4.3 million to the Company's benefit obligations at December 31, 2018. The Retirement Plans Experience Committee ("RPEC") publishes annual updates to the RP-2014 model and corresponding mortality improvement scales. The latest update resulted in the 2018 version of the mortality improvement scale ("MP-2018"). In 2018, CNH Industrial adopted the MP-2018 mortality improvement scale, which better reflects the actual recent experience over the previous mortality improvement scales. Management believes the new mortality assumptions most appropriately represent its plans' experience and characteristics. The adoption of the new mortality assumptions resulted in a total decrease of $3.6 million to the Company's benefit obligations at December 31, 2018, of which, $3 million and $0.6 million were related to pension plans and Healthcare plans, respectively.

In 2016, the Company changed the method used to estimate the service and interest cost components of the net periodic pension and other postretirement benefit costs in order to provide a more precise measure of interest and service costs by improving the correlation between the projected benefit cash flows and the discrete spot yield curve rates. The new method uses the spot yield curve approach to estimate the service and interest costs by applying the specific spot rates along the yield curve used to determine the benefit obligations to relevant projected cash outflows. Historically, those costs were determined using a single weighted-average discount rate based on hypothetical AA yield curves used to measure the benefit obligation at the beginning of the period. The change has been accounted for as a change in estimate prospectively and resulted in a $31 million reduction in net periodic benefit cost in 2016 due to lower service and interest costs. This change does not affect the measurement of the total benefit obligations.

A one percentage point change in the assumed healthcare cost trend rates would have the following effect:

	One Percentage-Point Increase	One Percentage-Point Decrease
	(in millions)	
Total increase/(decrease) in service cost and interest cost components of 2018 Healthcare Plan benefit expense	$ 3	$ (3)
Total increase/(decrease) in accumulated Healthcare benefit obligations as of December 31, 2018	$ 25	$ (22)

Plan Assets

The investment strategy for the plan assets depends on the features of the plan and on the maturity of the obligations. Typically, less mature plan benefit obligations are funded by using more equity securities as they are expected to achieve long-term growth exceeding the rate of inflation. More mature plan benefit obligations are funded using more fixed income securities as they are expected to produce current income with limited volatility. Risk management practices include the use of multiple asset classes and investment managers within each asset class for diversification purposes. Specific guidelines for each asset class and investment manager are implemented and monitored.

Weighted average target asset allocation for all plans for 2018 are as follows:

	All Plans
Asset category:	
Equity securities	18%
Debt securities	53%
Cash/Other	29%

CNH Industrial determines the fair value of plan assets using observable market data obtained from independent sources when available. CNH Industrial classifies its plan assets according to the fair value hierarchy:

Level 1—Quoted prices for *identical* instruments in active markets.

Level 2—Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable.*

The following summarizes the fair value of plan assets by asset category and level within the fair value hierarchy as of December 31, 2018:

	Total	Level 1	Level 2	Level 3
	(in millions)			
Equity securities:				
U.S. equities	$ 288	$ 16	$ 272	$ —
Non-U.S. equities	—	—	—	—
Total Equity securities	288	16	272	—
Fixed income securities:				
U.S. government bonds	356	349	7	—
U.S. corporate bonds	421	—	421	—
Non-U.S. government bonds	47	9	38	—
Non-U.S. corporate bonds	73	—	73	—
Mortgage backed securities	—	—	—	—
Other fixed income	11	—	11	—
Total Fixed income securities	908	358	550	—
Other types of investments:				
Mutual funds[A]	990	—	990	—
Insurance contracts	152	—	—	152
Derivatives—credit contracts	—	—	—	—
Real estate	—	—	—	—
Total Other types of investments	1,142	—	990	152
Cash:	84	46	38	—
Total	$ 2,422	$ 420	$ 1,850	$ 152

(A) This category includes mutual funds, which primarily invest in non-U.S. equities and non-U.S. corporate bonds.

The following table presents the changes in the Level 3 plan assets for the year ended December 31, 2018:

	Insurance Contracts
Balance at December 31, 2017	$ 149
Actual return on plan assets relating to assets still held at reporting date	3
Purchases	8
Settlements	(4)
Transfers in and/or out of level 3	—
Currency impact	(4)
Balance at December 31, 2018	$ 152

The following summarizes the fair value of plan assets by asset category and level within the fair value hierarchy as of December 31, 2017:

	Total	Level 1	Level 2	Level 3
	(in millions)			
Equity securities:				
U.S. equities	$ 362	$ 19	$ 343	$ —
Non-U.S. equities	—	—	—	—
Total Equity securities	362	19	343	—
Fixed income securities:				
U.S. government bonds	365	355	10	—
U.S. corporate bonds	498	—	498	—
Non-U.S. government bonds	55	13	42	—
Non-U.S. corporate bonds	95	—	95	—
Mortgage backed securities	—	—	—	—
Other fixed income	9	—	9	—
Total Fixed income securities	1,022	368	654	—
Other types of investments:				
Mutual funds(A)	1,090	—	1,090	—
Insurance contracts	149	—	—	149
Derivatives—credit contracts	—	—	—	—
Real estate	—	—	—	—
Total Other types of investments	1,239	—	1,090	149
Cash:	78	17	61	—
Total	$ 2,701	$ 404	$ 2,148	$ 149

(A) This category includes mutual funds, which primarily invest in non-U.S. equities and non-U.S. corporate bonds.

The following table presents the changes in the Level 3 plan assets for the year ended December 31, 2017:

	Insurance Contracts
Balance at December 31, 2016	$ 135
Actual return on plan assets relating to assets still held at reporting date	6
Purchases	8
Settlements	(5)
Transfers in and/or out of Level 3	(3)
Currency impact	8
Balance at December 31, 2017	$ 149

Contributions

CNH Industrial expects to contribute (including through direct benefit payments) approximately $78 million to its pension plans, $14 million to its healthcare plans and $34 million to its other postemployment plans in 2019.

The benefit expected to be paid from the benefit plans which reflect expected future years of service, and the Medicare subsidy expected to be received are as follows:

	Pension Plans	Healthcare	Medicare Part D Reimbursement	Other
	(in millions)			
2019	$ 176	$ 35	$ —	$ 34
2020	172	34	—	34
2021	173	32	—	31
2022	170	32	—	33
2023	172	32	—	30
2024 - 2028	850	156	(1)	136
Total	$ 1,713	$ 321	$ (1)	$ 298

Note 13: Other Liabilities

A summary of "Other liabilities" as of December 31, 2018 and 2017 is as follows:

	2018	2017
	(in millions)	
Advances on buy-back agreements	$ 1,870	$ 2,176
Warranty and campaign programs	925	932
Marketing and sales incentive programs	1,329	1,335
Tax payables	685	765
Accrued expenses and deferred income	609	610
Accrued employee benefits	680	752
Legal reserves and other provisions	368	384
Contract reserve	262	344
Contract liabilities	1,368	1,498
Restructuring reserve	71	60
Other	791	738
Total	$ 8,958	$ 9,594

Warranty and Campaign Program

As described in "Note 2: Summary of Significant Accounting Policies," CNH Industrial pays for basic warranty and other service action costs. A summary of recorded activity for the basic warranty and campaign program accrual for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
	(in millions)	
Balance, beginning of year	$ 932	$ 792
Current year additions	826	782
Claims paid	(724)	(670)
Currency translation adjustment and other	(109)	28
Balance, end of year	$ 925	$ 932

Advance on Buy-back Agreements

As described in "Note 2: Summary of Significant Accounting Policies," the repurchase value of the asset relating to new vehicle sales with a buy-back commitment by Commercial Vehicles is recognized as advances on buy-back agreements.

Restructuring Provision

The Company incurred restructuring costs of $61 million, $93 million and $44 million for the years ended December 31, 2018, 2017, and 2016, respectively. These costs were as follows:

- In 2018, Commercial Vehicles and Agricultural Equipment recorded $30 million and $26 million respectively, which were primarily attributable to actions as part of the Efficiency Program launched in 2014.
- In 2017, Commercial Vehicles recorded $69 million mainly due to additional capacity realignment in the firefighting business and actions to reduce selling, general and administrative expenses as part of CNH Industrial's Efficiency Program launched in 2014. Agricultural Equipment recorded $14 million, mainly as a result of footprint rationalization actions included in the Efficiency Program of the Company.
- In 2016, Commercial Vehicles recorded $34 million mainly due to actions to reduce selling, general and administrative expenses and business support costs as a result of the transition to CNH Industrial's regional structure and costs related to the completion of manufacturing product specialization programs. Agricultural Equipment recorded $9 million, mainly as a result of footprint rationalization actions included in the Efficiency Program of the Company.

The following table sets forth restructuring activity for the years ended December 31, 2018, 2017 and 2016:

	Severance and Other Employee Costs	Facility Related Costs	Other Restructuring	Total
	(in millions)			
Balance at January 1, 2016	$ 30	$ 5	$ 16	$ 51
Restructuring charges	56	(1)	(11)	44
Reserves utilized: cash	(55)	—	(4)	(59)
Reserves utilized: non-cash	—	—	(3)	(3)
Currency translation adjustments	(8)	3	2	(3)
Balance at December 31, 2016	$ 23	$ 7	$ —	$ 30
Restructuring charges	76	17	—	93
Reserves utilized: cash	(53)	(1)	—	(54)
Reserves utilized: non-cash	(2)	(13)	—	(15)
Currency translation adjustments	4	2	—	6
Balance at December 31, 2017	$ 48	$ 12	$ —	$ 60
Restructuring charges	39	17	5	61
Reserves utilized: cash	(36)	—	(2)	(38)
Reserves utilized: non-cash	(9)	1	—	(8)
Currency translation adjustments	(2)	—	(2)	(4)
Balance at December 31, 2018	$ 40	$ 30	$ 1	$ 71

Note 14: Commitments and Contingencies

As a global company with a diverse business portfolio, CNH Industrial is exposed to numerous legal risks, including dealer and supplier litigation, intellectual property right disputes, product warranty and defective product claims, product performance, asbestos, personal injury, emissions and/or fuel economy regulatory and contractual issues, and environmental claims that arise in the ordinary course of business. The most significant of these matters are described below.

The outcome of any current or future proceedings, claims or investigations cannot be predicted with certainty. Adverse decisions in one or more of these proceedings, claims or investigations could require the Company to pay substantial damages or undertake service actions, recall campaigns or other costly actions. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could affect CNH Industrial's financial position and results. When it is probable that such a loss has been incurred and the amount can be reasonably estimated, an accrual has been made against the Company's earnings and included in "Other liabilities" on the consolidated balance sheets.

Although the ultimate outcome of legal matters pending against CNH Industrial and its subsidiaries cannot be predicted, the Company believes the reasonable possible range of losses for these unresolved legal matters in addition to the amounts accrued would not have a material effect on its consolidated financial statements.

Environmental

Pursuant to the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), which imposes strict and, under certain circumstances, joint and several liability for remediation and liability for natural resource damages, and other federal and state laws that impose similar liabilities, CNH Industrial has received inquiries for information or notices of its potential liability regarding 65 non-owned U.S. sites at which regulated materials allegedly generated by CNH Industrial were released or disposed ("Waste Sites"). Of the Waste Sites, 15 are on the National Priority List ("NPL") promulgated pursuant to CERCLA. For 59 of the Waste Sites, the monetary amount or extent of the Company's liability has either been resolved; it has not been named as a potentially responsible party ("PRP"), or its liability is likely *de minimis*.

Because estimates of remediation costs are subject to revision as more information becomes available about the extent and cost of remediation and because settlement agreements can be reopened under certain circumstances, the Company's potential liability for remediation costs associated with the 65 Waste Sites could change. Moreover, because liability under CERCLA and similar laws can be joint and several, CNH Industrial could be required to pay amounts in excess of its pro rata share of remediation costs. However, when appropriate, the financial strength of other PRPs has been considered in the determination of the Company's potential liability. CNH Industrial believes that the costs associated with the Waste Sites will not have a material effect on the Company's business, financial position or results of operations.

The Company is conducting environmental investigatory or remedial activities at certain properties that are currently or were formerly owned and/or operated or that are being decommissioned. The Company believes that the outcome of these activities will not have a material adverse effect on its business, financial position, or results of operations.

The actual costs for environmental matters could differ materially from those costs currently anticipated due to the nature of historical handling and disposal of hazardous substances typical of manufacturing and related operations, the discovery of currently unknown conditions, and as a result of more aggressive enforcement by regulatory authorities and changes in existing laws and regulations. As in the past, CNH Industrial plans to continue funding its costs of environmental compliance from operating cash flows.

Investigation, analysis and remediation of environmental sites is a time consuming activity. The Company expects such costs to be incurred and claims to be resolved over an extended period of time that could exceed 30 years for some sites. As of December 31, 2018 and 2017, environmental reserves of approximately $38 million and $35 million, respectively, were established to address these specific estimated potential liabilities. Such reserves are undiscounted and do not include anticipated recoveries, if any, from insurance companies. After considering these reserves, management is of the opinion that the outcome of these matters will not have a material adverse effect on the Company's financial position or results of operations.

Other Litigation and Investigation

European Commission settlement

In 2016, Iveco, the Company's wholly owned subsidiary, recorded a non-recurring non-tax deductible charge of €450 million ($502 million) in relation to the investigation by the European Commission (the "Commission") into certain business practices of all major European truck manufacturers. On July 19, 2016, the Commission announced a settlement with Iveco under which the Commission imposed a fine of €495 million (equivalent to $543 million at payment date). As a result of this settlement, the Company recorded an additional non-tax deductible charge of €45 million ($49 million) in 2016. The fine was paid by the Company on October 20, 2016. Following this settlement, the Company has been named as defendant in private litigation commenced in various European jurisdictions and Israel by customers and other third parties, either acting individually or as part of a wider group or class of claimants.These claims remain at an early stage. Further, CNH Industrial expects to face further claims, based on the same legal grounds in various other jurisdictions. The extent and outcome of these claims cannot be predicted at this time.

Commitments

CNH Industrial has entered operating lease contracts for the right to use industrial buildings and equipment with an average term of 10-20 years and 3-5 years, respectively. Total future minimum lease payments under non-cancellable lease contracts are as follows:

	Amount
	(in millions)
2019	$ 155
2020	110
2021	76
2022	53
2023	41
2024 and beyond	135
Total minimum rental commitments	$ 570

Total rental expense for all operating leases was $169 million, $78 million, and $67 million for the years ended December 31, 2018, 2017, and 2016, respectively.

At December 31, 2018, Financial Services has various agreements to extend credit for the following financing arrangements:

Facility	Total Credit Limit	Utilized	Not Utilized
		(in millions)	
Wholesale and dealer financing	$ 6,704	$ 3,899	$ 2,805

Guarantees

CNH Industrial provided guarantees on the debt or commitments of third parties and performance guarantees in the interest of non-consolidated affiliates as of December 31, 2018 and 2017 totaling $471 million and $368 million, respectively.

Note 15: Financial Instruments

The Company may elect to measure financial instruments and certain other items at fair value. This fair value option would be applied on an instrument-by-instrument basis with changes in fair value reported in earnings. The election can be made at the acquisition of an eligible financial asset, financial liability, or firm commitment, or when certain specified reconsideration events occur. The fair value election may not be revoked once made. The Company did not elect the fair value measurement option for eligible items.

Fair-Value Hierarchy

The hierarchy of valuation techniques for financial instruments is based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair-value hierarchy:

Level 1—Quoted prices for *identical* instruments in active markets.

Level 2—Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable*.

This hierarchy requires the use of observable market data when available.

Determination of Fair Value

When available, the Company uses quoted market prices to determine fair value and classifies such items as Level 1. In some cases where a market price is not available, the Company will make use of observable market based inputs to calculate fair value, in which case the items are classified as Level 2.

If quoted or observable market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters such as interest rates, currency rates, or yield curves. Items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified as Level 3 even though there may be some significant inputs that are readily observable.

The following section describes the valuation methodologies used by the Company to measure various financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models and the key inputs to those models as well as any significant assumptions.

Derivatives

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

Foreign Exchange Derivatives

CNH Industrial has entered into foreign exchange forward contracts and swaps in order to manage and preserve the economic value of cash flows in a currency different from the functional currency of the relevant legal entity. CNH Industrial conducts its business on a global basis in a wide variety of foreign currencies and hedges foreign currency exposures arising from various receivables, liabilities and expected inventory purchases and sales. Derivative instruments utilized to hedge the foreign currency risk associated with anticipated inventory purchases and sales in foreign currencies are designated as cash flow hedges. Gains and losses on these instruments are deferred in accumulated other comprehensive income (loss) and recognized in earnings when the related transaction occurs. Ineffectiveness related to these hedge relationships is recognized currently in the consolidated statements of operations in the line "Other, net" and was not significant for all periods presented. The maturity of these instruments does not exceed 24 months and the after-tax gains (losses) deferred in accumulated other comprehensive income (loss) that will be recognized in net sales and cost of goods sold over the next twelve months assuming foreign exchange rates remain unchanged is approximately $(18) million. If a derivative instrument is terminated because the hedge relationship is no longer effective or because the hedged item is a forecasted transaction that is no longer determined to be probable, the cumulative amount recorded in accumulated other comprehensive income (loss) is recognized immediately in earnings. Such amounts were insignificant in all periods presented.

CNH Industrial also uses forwards and swaps to hedge certain assets and liabilities denominated in foreign currencies. Such derivatives are considered economic hedges and not designated as hedging instruments. The changes in the fair values of these instruments are recognized directly in income in "Other, net" and are expected to offset the foreign exchange gains or losses on the exposures being managed.

All of CNH Industrial's foreign exchange derivatives are considered Level 2 as the fair value is calculated using market data input and can be compared to actively traded derivatives. The total notional amount of CNH Industrial's foreign exchange derivatives was $7.2 billion and $6.9 billion at December 31, 2018 and 2017, respectively.

Interest Rate Derivatives

CNH Industrial has entered into interest rate derivatives (swaps and caps) in order to manage interest rate exposures arising in the normal course of business. Interest rate derivatives that have been designated as cash flow hedges are being used by the Company to mitigate the risk of rising interest rates related to existing debt and anticipated issuance of fixed-rate debt in future periods. Gains and losses on these instruments, to the extent that the hedge relationship has been effective, are deferred in accumulated other comprehensive income (loss) and recognized in interest expense over the period in which CNH Industrial recognizes interest expense on the related debt. Any ineffectiveness is recorded in "Other, net" in the consolidated statements of operations and was insignificant for all periods presented. The after-tax gains (losses) deferred in accumulated other comprehensive income (loss) that will be recognized in interest expense over the next twelve months is insignificant.

Interest rate derivatives that have been designated as fair value hedge relationships have been used by CNH Industrial to mitigate the volatility in the fair value of existing fixed rate bonds and medium-term notes due to changes in floating interest rate benchmarks. Gains

and losses on these instruments are recorded in "Interest expense" in the period in which they occur and an offsetting gain or loss is also reflected in "Interest expense" based on changes in the fair value of the debt instrument being hedged due to changes in floating interest rate benchmarks. Costs relating to the ineffectiveness of such transactions were insignificant in 2018, 2017, and 2016, respectively.

CNH Industrial also enters into offsetting interest rate derivatives with substantially similar terms that are not designated as hedging instruments to mitigate interest rate risk related to CNH Industrial's committed asset-backed facilities. Unrealized and realized gains and losses resulting from fair value changes in these instruments are recognized directly in income. These facilities require CNH Industrial to enter into interest rate derivatives. To ensure that these transactions do not result in the Company being exposed to this risk, CNH Industrial enters into a compensating position. Net gains and losses on these instruments were insignificant for the years ending December 31, 2018, 2017, and 2016.

All of CNH Industrial's interest rate derivatives outstanding as of December 31, 2018 and 2017 are considered Level 2. The fair market value of these derivatives is calculated using market data input and can be compared to actively traded derivatives. The total notional amount of CNH Industrial's interest rate derivatives was approximately $5.4 billion and $3.9 billion at December 31, 2018 and 2017, respectively.

Financial Statement impact of CNH Industrial Derivatives

The fair values of CNH Industrial's derivatives at December 31, 2018 and 2017 in the consolidated balance sheets are recorded as follows:

	2018	2017
	(in millions)	
Derivatives Designated as Hedging Instruments:		
Assets:		
Foreign exchange contracts:	$ 52	$ 53
Interest rate derivatives:	21	7
Cross currency swaps:	—	—
Total Assets	$ 73	$ 60
Liabilities		
Foreign exchange contracts:	$ (41)	$ (55)
Interest rate derivatives:	(29)	(16)
Total Liabilities	$ (70)	$ (71)
Derivatives Not Designated as Hedging Instruments:		
Assets:		
Foreign exchange contracts:	$ 24	$ 13
Interest rate derivatives:	2	4
Total Assets	$ 26	$ 17
Liabilities		
Foreign exchange contracts:	$ (38)	$ (22)
Interest rate derivatives:	—	(5)
Total Liabilities	$ (38)	$ (27)

Pre-tax gains (losses) on the consolidated statements of operations related to CNH Industrial's derivatives for the year ended December 31, 2018, 2017, and 2016 are recorded in the following accounts:

	2018	2017	2016
	(in millions)		
Fair Value Hedges			
Interest rate derivatives—Interest expense	$ 9	$ (12)	$ (33)
Gains/(losses) on hedged items—Interest expense	$ (9)	$ 12	$ 33
Cash Flow Hedges			
Recognized in accumulated other comprehensive income (effective portion):			
Foreign exchange contracts—accumulated other comprehensive income	$ 2	$ 48	$ (72)
Interest rate derivatives—accumulated other comprehensive income	$ 1	$ 5	$ 13
Reclassified from accumulated other comprehensive income (effective portion):			
Foreign exchange contracts—Net sales	$ (7)	$ 6	$ 55
Foreign exchange contracts—Cost of goods sold	$ 15	$ (47)	$ (4)
Foreign exchange contracts—Other, net	$ 20	$ 10	$ (5)
Interest rate derivatives—Interest expense	$ (4)	$ —	$ (4)
Not Designated as Hedges			
Foreign exchange contracts—Other, net	$ 68	$ (3)	$ (231)

Items Measured at Fair Value on a Recurring Basis

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2018 and 2017:

	Level 1		Level 2		Total	
	2018	2017	2018	2017	2018	2017
	(in millions)					
Assets						
Foreign exchange derivatives	$ —	$ —	$ 76	$ 66	$ 76	$ 66
Interest rate derivatives	—	—	22	11	22	11
Cross currency swaps	—	—	—	—	—	—
Investments	1	1	—	—	1	1
Total Assets	$ 1	$ 1	$ 98	$ 77	$ 99	$ 78
Liabilities						
Foreign exchange derivatives	$ —	$ —	$ (79)	$ (77)	$ (79)	$ (77)
Interest rate derivatives	—	—	(29)	(21)	(29)	(21)
Total Liabilities	$ —	$ —	$ (108)	$ (98)	$ (108)	$ (98)

Fair Value of Other Financial Instruments

The carrying value of cash and cash equivalents, restricted cash, trade accounts receivable and accounts payable included in the consolidated balance sheets approximates their fair value.

Financial Instruments Not Carried at Fair Value

The estimated fair market values of financial instruments not carried at fair value in the consolidated balance sheets as of December 31, 2018 and 2017 are as follows:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Financing receivables	$ 19,167	$ 19,017	$ 19,795	$ 19,979
Debt	$ 24,445	$ 24,481	$ 25,895	$ 26,137

Financing Receivables

The fair value of financing receivables is based on the discounted values of their related cash flows at current market interest rates, and they are classified as a Level 3 fair value measurement.

Debt

All debt is classified as a Level 2 fair value measurement with the exception of the bonds issued by CNH Industrial Finance Europe S.A. and bonds issued by CNH Industrial N.V., which are classified as a Level 1 fair value measurement.

Note 16: Shareholders' Equity

The Articles of Association of CNH Industrial N.V. provide for authorized share capital of €40 million, divided into 2 billion common shares and 2 billion special voting shares, each with a per share par value of €0.01. As of December 31, 2018, the Company's share capital was €18 million (equivalent to $25 million), fully paid-in, and consisted of 1,364,400,196 common shares (1,353,831,958 common shares outstanding, net of 10,568,238 common shares held in treasury by the Company as described in the following section) and 396,474,276 special voting shares (388,725,624 special voting shares outstanding, net of 7,748,652 special voting shares held in treasury by the Company as described in the section below).

Changes in the composition of the share capital of CNH Industrial during 2018, 2017, and 2016 are as follows:

(number of shares)	CNH Industrial N.V. Common Shares	CNH Industrial N.V. Special Voting Shares	Total CNH Industrial N.V. Shares
Total CNH Industrial N.V. shares at December 31, 2015	**1,362,048,989**	**413,249,206**	**1,775,298,195**
Capital increase	1,693,695	—	1,693,695
Common Stock Repurchase	(2,111,781)	—	(2,111,781)
Retirement of special voting shares	—	(981,003)	(981,003)
Total CNH Industrial N.V. shares at December 31, 2016	**1,361,630,903**	**412,268,203**	**1,773,899,106**
Capital increase	5,271,344	—	5,271,344
Common stock repurchases	(3,309,741)	—	(3,309,741)
Retirement of special voting shares	—	(23,361,513)	(23,361,513)
Total CNH Industrial N.V. shares at December 31, 2017	**1,363,592,506**	**388,906,690**	**1,752,499,196**
Capital increase	2,741,322	—	2,741,322
Common stock repurchases	(12,501,870)	—	(12,501,870)
Retirement of special voting shares	—	(181,066)	(181,066)
Total CNH Industrial N.V. shares at December 31, 2018	**1,353,831,958**	**388,725,624**	**1,742,557,582**

During the year ended December 31, 2018 and 2017, 0.2 million and 23 million special voting shares, respectively, were acquired by the Company following the de-registration of the corresponding number of qualifying common shares from the Loyalty Register, net of transfer and allocation of special voting shares in accordance with the Special Voting Shares – Terms and Conditions. On September 15, 2017, the Company canceled 78,000,000 special voting shares held in treasury, consequently, the total amount of issued special voting shares was reduced from 474,474,276 to 396,474,276.

Furthermore, during the years ended December 31, 2018 and 2017, the Company delivered 2.7 million and 5.3 million common shares, respectively, under the Company's stock compensation plan, primarily due to the vesting or exercise of share-based awards. See "Note 17: Share Based Compensation" for further discussion.

Special Voting Shares

In order to reward long-term ownership of the Company's common shares and promote stability of its shareholder base, the Articles of Association of CNH Industrial N.V. provide for a loyalty voting structure that grants eligible long-term shareholders the equivalent of two votes for each CNH Industrial N.V. common share that they hold through the issuance of special voting shares.

A shareholder may at any time elect to participate in the loyalty voting structure by requesting the registration of all or some of the common shares held by such shareholder in a separate register (the "Loyalty Register") of the Company. If such common shares have been registered in the Loyalty Register for an uninterrupted period of three years in the name of the same shareholder, such shares will become "Qualifying Common Shares" and the relevant shareholder will be entitled to receive one special voting share for each such Qualifying Common Share.

CNH Industrial N.V. issued special voting shares with a nominal value of €0.01 each to those eligible shareholders who elected to receive such special voting shares upon completion of the merger of Fiat Industrial and of CNH Global respectively with and into CNH Industrial N.V.

The electing shareholders are not required to pay any amount to the Company in connection with the allocation of the special voting shares.

The common shares are freely transferable, while, special voting shares are transferable exclusively in limited circumstances and they are not listed on the NYSE or the MTA. In particular, at any time, a holder of common shares that are Qualifying Common Shares who wants to transfer such common shares other than in limited specified circumstances (e.g., transfers to affiliates or relatives through succession, donation or other transfers) must request a de-registration of such Qualifying Common Shares from the Loyalty Register. After de-registration from the Loyalty Register, such common shares no longer qualify as Qualifying Common Shares and, as a result, the holder of such common shares is required to transfer the special voting shares associated with the transferred common shares to the Company for no consideration.

The special voting shares have minimal economic entitlements as the purpose of the special voting shares is to grant long-term shareholders with an extra voting right by means of granting an additional special voting share, without granting such shareholders with any additional economic rights. However, as a matter of Dutch law, such special voting shares cannot be fully excluded from economic entitlements. Therefore, the Articles of Association provide that only a minimal dividend accrues to the special voting shares, which is not distributed, but allocated to a separate special dividend reserve. The impact of this special voting dividend reserve on the earnings per share of the common shares is not material.

Treasury Shares

Consistent with previous AGMs, at the AGM held on April 13, 2018, shareholders renewed the authority granted to the Board of Directors to acquire common shares in the capital of the Company through stock exchange trading or otherwise to a maximum of up to 10% of the issued common shares as of April 13, 2018, for a period of 18 months from the date of the AGM and, therefore, expiring on October 12, 2019, subject to certain maximum and minimum price requirements.

Implementing such resolution on April 27, 2018, the Company announced its new buy-back program to repurchase up to $700 million in common shares.

At the 2019 Annual General Meeting of Shareholders, the Board of Directors intends to recommend to the Company's shareholders the renewal of the authorization to repurchase up to a maximum of 10% of the Company's issued common shares.

During the year ended December 31, 2018, the Company repurchased 12.5 million shares of its common stock on the MTA and on multilateral trading facilities ("MTFs") under the buy-back program at an aggregate cost of $156 million. As of December 31, 2018, the Company held 10.6 million common shares in treasury, net of transfers of common shares to fulfill its obligations under its stock compensation plans, at an aggregate cost of $130 million. Depending on market and business conditions and other factors, the Company may continue or suspend purchasing its common stock at any time without notice. During the year ended December 31, 2018, the Company acquired approximately 0.2 million special voting shares following the de-registration of qualifying common shares from the Loyalty Register, net of the transfer and allocation of special voting shares to those shareholders whose qualifying common shares became eligible to receive special voting shares after the uninterrupted three-year registration period in the Loyalty Register. As of December 31, 2018, the Company held 7.7 million special voting shares in treasury.

Dividend

On March 1, 2019, the Board of Directors of CNH Industrial N.V. recommended and proposed to the Company's shareholders that the Company declare a dividend of €0.18 per common share, totaling approximately €244 million (equivalent to approximately $277 million, translated at the exchange rate reported by the European Central Bank on February 27, 2019). The proposal is subject to the approval of the Company's shareholders at the AGM to be held on April 12, 2019.

At the AGM held by CNH Industrial on April 13, 2018, shareholders approved the payment of a dividend of €0.14 per common share. The dividend was paid in May 2018 for a total amount of €190 million ($235 million). The Company shall only have power to make distributions to shareholders and other persons entitled to distributable profits to the extent the Company's equity exceeds the sum of the paid-up portion of the share capital and the reserves that must be maintained in accordance with provision of law. No distribution of profits may be made to the Company itself for shares that the Company holds in its own share capital.

Note 17: Share-Based Compensation

For the years ended December 31, 2018 and 2017, CNH Industrial recognized total share-based compensation expense of $35 million and $19 million, respectively. For the year ended December 31, 2016, CNH Industrial recognized total share-based compensation expense of $3 million which included a $37 million reversal of previously recognized expense for performance share units linked to non-market conditions for which the Company does not believe it is probable that the performance conditions will be achieved. For the years ended December 31, 2018, 2017 and 2016, CNH Industrial recognized a total tax benefit relating to share-based compensation expense of $3 million, $1 million and $0 million, respectively. As of December 31, 2018, CNH Industrial had unrecognized share-based compensation expense related to nonvested awards of approximately $44 million based on current assumptions related to achievement of specified performance objectives, when applicable. Unrecognized share-based compensation costs will be recognized over a weighted-average period of 1.12 years.

CNH Industrial's equity awards are governed by several plans: i) CNH Industrial N.V. Equity Incentive Plan ("CNH Industrial EIP"); ii) CNH Industrial N.V. Directors' Compensation Plan ("CNH Industrial DCP"); iii) CNH Global N.V. Directors' Compensation Plan ("CNH DCP"); and, iv) CNH Global N.V. Equity Incentive Plan ("CNH EIP").

CNH Industrial N.V. Equity Incentive Plan ("CNH Industrial EIP")

At the AGM held on April 16, 2014, the Company's shareholders approved the adoption of the CNH Industrial EIP, an umbrella program defining the terms and conditions for any subsequent long-term incentive program, whose main features are as follows:

- The EIP allows grants of the following specific types of equity awards to any current or prospective executive director, officer or employee of, or service provider to, CNH Industrial: stock options, stock appreciation rights, restricted share units, restricted stock, performance shares or performance share units and other stock-based awards that are payable in cash, common shares or any combination thereof subject to the terms and conditions established by the Compensation Committee.

- The EIP authorized 25 million common shares over a five years period, of which a maximum of 7 million would be authorized for awards to executive directors. These shares may be newly issued shares or treasury shares.
- The EIP will terminate at, and no more awards will be permitted to be granted thereunder ten years after its adoption by the Board of Directors of CNH Industrial. The termination of the EIP will not affect previously granted awards.

Performance Share Units

In 2014, CNH Industrial issued a one-time grant of Performance Share Units ("PSU's") to its then Chief Executive Officer and selected key employees, with financial performance goals covering the five-year period from January 1, 2014 to December 31, 2018. This PSU grant totaled approximately 12 million units. Prorated share amounts covering performance through this same period were issued to new employees entering the plan. In 2017, no additional PSU's were granted. One third of the total grant was expected to vest in February 2017, but such grants did not vest as both the performance and market conditions for the performance period 2014 through 2016 were not met.

In December 2017, CNH Industrial canceled all PSU's issued in 2014, 2015 and 2016 and issued a grant of PSU's to its then Chief Executive Officer and selected key employees, with financial performance goals covering the three-year period from January 1, 2017 to December 31, 2019. This PSU grant totaled approximately 7 million units. In 2018, prorated share amounts covering performance through this same period were issued to new employees entering the plan. 0.6 million additional PSU's were granted in 2018. The performance goal is a market condition with a payout schedule ranging from 0% to 130%. In addition, there is a performance condition that if not met, reduces the payout by 30%. Accordingly, the total number of shares that will eventually be granted may vary from the original estimate of 7 million shares. The awards cliff vest on February 28, 2020 to the extent that the market condition is met upon completion of the performance period on December 31, 2019.

The fair values of the awards are calculated using the Monte Carlo Simulation model. The weighted average fair value of the awards that were issued in 2018 and 2017 is $8.69 and $9.14 per share, respectively. As a significant majority of the awards (approximately 88% of total awards as of December 31, 2018) were issued on December 22, 2017, the key assumptions utilized to calculate the grant-date fair values for awards issued on this grant date are listed below:

	Key Assumptions for awards issued on
	December 22, 2017
Expected Volatility	31.1%
Dividend yield	0.87%
Risk-free rate	2.01%

The expected volatility is based on the daily stock price movements experienced by the common shares of CNH Industrial over a three years period ending on the grant date. The expected dividend yield was based on CNH Industrial's historical dividend payout as management expected the dividend payout for future years to be consistent. The risk-free interest rate was based on the yields of three-year U.S. Treasury bonds.

The following table reflects the activity of performance-based share units under CNH Industrial EIP for the year ended December 31, 2018:

	2018		
	Performance Shares		**Weighted Average Grant-Date Fair Value**
Nonvested at beginning of year	6,632,100	$	9.14
Granted	617,140	$	8.69
Forfeited/Cancelled	(1,940,500)	$	6.82
Vested	—	$	—
Nonvested at end of year	5,308,740	$	7.92

Restricted Share Units

In 2016, 2017 and 2018, CNH Industrial issued to selected employees approximately 2 million, 4 million, and 1 million Restricted Share Units ("RSUs") with a weighted average fair value of $7.30, $13.23, and $11.63 per share, respectively. These shares will vest in three equal tranches over a three years period. The fair value of the award is measured using the stock price on the grant date adjusted for the present value of future dividends that employees will not receive during the vesting period.

Additionally, CNH Industrial issued 3 million restricted share units to the Chairman of CNH Industrial in June 2014. The weighted average fair value of these shares was $10.41 per share, measured using the stock price on the grant date adjusted for the present value of future dividends that the Chairman would not receive during the vesting period. These shares are service based and vested in five tranches at the end of each year. The first, second, third, fourth tranches of 750 thousand, 750 thousand, 600 thousand, 450 thousand shares vested on December 31, 2014, 2015, 2016, 2017 respectively. The fifth tranche of 450 thousand shares vested on July 25, 2018. The relevant shares were delivered to Mr. Marchionne's estate on February 26, 2019. The first, second, third, and fourth tranches were exercised on February 23, 2015, February 8, 2016, February 8, 2017, and February 20, 2018, respectively.

The following table reflects the activity of restricted share units under CNH Industrial EIP for the year ended December 31, 2018:

	2018		
	Restricted Shares		**Weighted Average Grant-Date Fair Value**
Nonvested at beginning of year	6,092,234	$	11.38
Granted	632,840	$	11.63
Forfeited	(913,290)	$	12.46
Vested	(2,447,337)	$	10.27
Nonvested at end of year	3,364,447	$	11.88

CNH Industrial N.V. Directors' Compensation Plan ("CNH Industrial DCP")

On September 9, 2013, the CNH Industrial DCP was approved by the shareholders and adopted by the Board of Directors of CNH Industrial. On April 14, 2017, shareholders approved a proposed amendment to the CNH Industrial DCP pursuant to which non-executive directors would only be paid cash compensation for their service as a director. The CNH Industrial DCP provides for the payment of the following to eligible members of the CNH Industrial Board in the form of cash, provided that such members do not receive salary or other employment compensation from CNH Industrial or FCA, and their subsidiaries and affiliates:

- $125,000 annual retainer fee for each Non-Executive Director.
- An additional $25,000 for each member of the Audit Committee and $35,000 for the Audit Committee Chairperson.
- An additional $20,000 for each member of every other Board committee and $25,000 for the committee chairperson. (collectively, the "fees").

Prior to the amendment of the CNH Industrial DCP, each quarter of the CNH Industrial DCP year, the eligible directors elected the form of payment of their fees. If the elected form was common shares, the eligible director would receive as many common shares as equal to the amount of fees the director elected to be paid in common shares, divided by the fair market value of a CNH Industrial common share on the date that the quarterly payment was made. Common shares issued to the eligible director vested immediately upon grant. If an eligible director elected to receive all or a portion of fees in the form of a stock option, the number of common shares underlying the stock option was determined by dividing (i) by (ii) where (i) equals the dollar amount of the quarterly payment that the eligible director elected to receive in the form of stock options multiplied by four and (ii) the fair market value of the common shares on the date that the quarterly payment was made. The CNH Industrial DCP defined fair market value, as applied to each ordinary share, to be equal to the average of the highest and lowest sale price of a CNH Industrial common share during normal trading hours on the last trading day of each plan quarter in which sales of common shares on the New York Stock Exchange are recorded. Stock options granted as a result of such an election vested immediately, but shares purchased under options cannot be sold for six months following the date of exercise. Stock options terminate upon the earlier of: (1) ten years after the grant date; or (2) six months after the date an individual ceases to be a director.

There were 0.2 million common shares authorized for issuance under the CNH Industrial DCP. As of December 31, 2018, 0.05 million stock options were issued under the CNH Industrial DCP (prior to the amendment described above) at a weighted average exercise price of $9.42 per share. The weighted average fair value for the stock options that were issued in 2015 was $1.65. No stock options were issued under this plan in 2018 or 2017. During 2018, no restricted share units were issued under the CNH Industrial DCP. The weighted average grant-date fair value of the RSUs that were issued in 2016 and 2017 were $6.78 and $9.28, respectively.

CNH Global Directors' Compensation Plan ("CNH DCP")

CNH Global Directors' Compensation Plan stipulated the right for directors of former CNH Global to be compensated in the form of cash, and/or common shares of CNH Global N.V., and/or options to purchase common shares of CNH Global. On September 29, 2013, CNH Industrial assumed the sponsorship of the CNH DCP in connection with the Merger. Stock options issued under the CNH DCP were converted using the CNH Global exchange ratio of 3.828 CNH Industrial shares for each CNH Global common share and exercisable for common shares of CNH Industrial N.V. upon September 29, 2013. All of the outstanding stock options from the CNH DCP were exercised or forfeited during 2018. The CNH DCP was terminated effective as of the Merger and no new equity awards will be issued under the CNH DCP.

CNH Global Equity Incentive Plan (the "CNH EIP")

The CNH Global Equity Incentive Plan provides for grants of stock options, restricted share units and performance share units to former officers and employees of CNH Global. On September 29, 2013, CNH Industrial assumed the sponsorship of the CNH EIP in connection with the Merger. CNH Industrial can not issue any new equity awards under the CNH EIP; however, CNH Industrial is required to issue shares under the CNH EIP to settle the exercise or vesting of the existing equity awards.

On September 29, 2013, outstanding stock options, unvested restricted share units and performance share units under the CNH EIP became exercisable or convertible for common shares of CNH Industrial N.V. The number of shares of outstanding equity awards was increased and exercise price of stock options reduced to take into account the CNH Global exchange ratio of 3.828 CNH Industrial shares for each CNH Global common share. The conversion did not change the aggregate fair value of the outstanding equity awards and, therefore, resulted in no additional share-based compensation expense in 2013.

Stock Option Plan

In September 2012, approximately 2.7 million performance-based stock options (at target award levels) were issued under the CNH EIP (the "2012 Grant"). Upon the achievement of CNH Global's 2012 target performance objective, approximately 4 million of options were granted. These options vested in three equal tranches in February 2012, 2013 and 2014. Options granted under the CNH EIP have a contractual life of five years from the initial vesting date.

No stock options were issued in 2016, 2017 or 2018 under the CNH EIP. There were no outstanding stock options under the CNH EIP at December 31, 2018.

The following table reflects the stock option activity under the CNH EIP for the year ended December 31, 2018:

	2018	
	Shares	**Weighted-Average Exercise Price**
Outstanding at beginning of year	214,574	$ 8.78
Forfeited	—	$ —
Expired	(11,545)	$ 8.78
Exercised	(203,029)	$ 8.78
Outstanding at end of year	—	$ —
Exercisable at end of year	—	$ —

Additional Share-Based Compensation Information

The table below provides additional share-based compensation information for the years ended December 31, 2018, 2017, and 2016:

	2018	2017	2016
	(in millions)		
Total intrinsic value of options exercised and shares vested	$ 27	$ 23	$ 12
Fair value of shares vested	$ 26	$ 17	$ 14
Cash received from share award exercises	$ 2	$ 28	$ —
Tax benefit of options exercised and shares vested	$ —	$ —	$ —

Note 18: Earnings per Share

The Company's basic earnings per share ("EPS") is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period.

Diluted EPS reflects the potential dilution that could occur if dilutive securities were exercised into common stock. The effect of dilutive securities is calculated using the treasury stock method.

The following table sets forth the computation of basic EPS and diluted EPS for the years ended December 31, 2018, 2017 and 2016.

	2018	2017	2016
	(in millions, except per share data)		
Basic:			
Net income (loss) attributable to CNH Industrial	$ 1,068	$ 272	$ (264)
Weighted average common shares outstanding—basic	1,357	1,364	1,362
Basic earnings per share	$ 0.79	$ 0.20	$ (0.19)
Diluted:			
Net income (loss) attributable to CNH Industrial	$ 1,068	$ 272	$ (264)
Weighted average common shares outstanding—basic	1,357	1,364	1,362
Effect of dilutive securities (when dilutive):			
Stock compensation plans	4	3	—
Weighted average common shares outstanding—diluted[(A)]	1,361	1,367	1,362
Diluted earnings per share	$ 0.78	$ 0.20	$ (0.19)

(A) For the twelve months ended December 31, 2018 and 2017, no shares were excluded from the computation of diluted earnings per share due to an anti-dilutive impact. For the twelve months ended December 31, 2016, 7.3 million stock options were excluded from the computation of diluted earnings per share due to an anti-dilutive impact. An additional 1.9 million shares of common stock outstanding at December 31, 2016 were excluded from the computation of diluted earnings per share due to the net loss position.

Note 19: Accumulated Other Comprehensive Income (Loss)

The Company's share of comprehensive income (loss) includes net income plus other comprehensive income, which includes changes in fair value of certain derivatives designated as cash flow hedges, certain changes in pension and other retirement benefit plans, foreign currency translation gains and losses, changes in the fair value of available-for-sale securities, the Company's share of other comprehensive income of entities accounted for using the equity method, and reclassifications for amounts included in net income less net income and other comprehensive income attributable to the noncontrolling interest. For more information on the Company's derivative instruments, see "Note 15: Financial Instruments". For more information on the Company's pensions and retirement benefit obligations, see "Note 12: Employee Benefit Plans and Postretirement Benefits". The Company's other comprehensive income (loss) amounts are aggregated within accumulated other comprehensive income (loss). The tax effect for each component of other comprehensive income (loss) consisted of the following:

Year Ended December 31, 2018	Gross Amount	Income Taxes	Net Amount
Unrealized gain (loss) on cash flow hedges	$ (21)	$ (2)	$ (23)
Changes in retirement plans' funded status	620	(143)	477
Foreign currency translation	(317)	—	(317)
Share of other comprehensive loss of entities using the equity method	(35)	—	(35)
Other comprehensive loss	$ 247	$ (145)	$ 102

Year Ended December 31, 2017	Gross Amount	Income Taxes	Net Amount
Unrealized gain (loss) on cash flow hedges	$ 84	$ 5	$ 89
Changes in retirement plans' funded status	116	(30)	86
Foreign currency translation	(414)	—	(414)
Share of other comprehensive loss of entities using the equity method	32	—	32
Other comprehensive income	$ (182)	$ (25)	$ (207)

Year Ended December 31, 2016	Gross Amount	Income Taxes	Net Amount
Unrealized gain (loss) on cash flow hedges	$ (101)	$ 10	$ (91)
Changes in retirement plans' funded status	(81)	(8)	(89)
Foreign currency translation	322	—	322
Share of other comprehensive loss of entities using the equity method	(40)	—	(40)
Other comprehensive loss	$ 100	$ 2	$ 102

The changes, net of tax, in each component of accumulated other comprehensive income (loss) consisted of the following:

	Unrealized Gain (Loss) on Cash Flow Hedges	Change in Retirement Plans' Funded Status	Foreign Currency Translation	Share of Other Comprehensive Income of Entities Using the Equity Method	Total
Balance, December 31, 2015	$ 3	$ (947)	$ (806)	$ (113)	$ (1,863)
Adoption of ASC 606	—	—	2	—	2
Balance, December 31, 2015, as recast	$ 3	$ (947)	$ (804)	$ (113)	$ (1,861)
Other comprehensive income (loss), before reclassifications	(58)	(172)	319	(40)	49
Amounts reclassified from other comprehensive income	(33)	83	—	—	50
Other comprehensive income (loss)[1]	(91)	(89)	319	(40)	99
Balance, December 31, 2016	$ (88)	$ (1,036)	$ (485)	$ (153)	$ (1,762)
Other comprehensive income (loss), before reclassifications	56	13	(414)	35	(310)
Amounts reclassified from other comprehensive income (loss)	33	73	—	—	106
Other comprehensive income (loss)[1]	89	86	(414)	35	(204)
Balance, December 31, 2017	$ 1	$ (950)	$ (899)	$ (118)	$ (1,966)
Other comprehensive income (loss), before reclassifications	(1)	473	(317)	(30)	125
Amounts reclassified from other comprehensive income	(22)	4	—	—	(18)
Other comprehensive income (loss)[1]	(23)	477	(317)	(30)	107
Balance, December 31, 2018	$ (22)	$ (473)	$ (1,216)	$ (148)	$ (1,859)

(1) Excluded from the table above is other comprehensive (income) loss allocated to noncontrolling interests of $(5), $(3) and $3 for the years ended December 31, 2018, 2017 and 2016, respectively.

Significant amounts reclassified out of each component of accumulated other comprehensive income (loss) in December 31, 2018 and 2017 consisted of the following:

	Amount Reclassified from Other Comprehensive Income (Loss)		Consolidated Statement of Operations line
	2018	2017	
	(in millions)		
Cash flow hedges	$ 7	$ (6)	Net sales
	(15)	47	Cost of goods sold
	(20)	(10)	Other, net
	4	—	Interest expense
	2	2	Income taxes
	$ (22)	$ 33	
Change in retirement plans' funded status:			
Amortization of actuarial losses	$ 85	$ 101	*
Amortization of prior service cost	(82)	(2)	*
	1	(26)	Income taxes
	$ 4	$ 73	
Total reclassifications, net of tax	$ (18)	$ 106	

(*) These amounts are included in net periodic pension and other postretirement benefit cost. See "Note 12: Employee Benefit Plans and Postretirement Benefits" for additional information.

Note 20: Segment Reporting

The operating segments through which the Company manages its operations are based on the internal reporting used by the Company's Chief Operating Decision Maker ("CODM") to assess performance and make decisions about resource allocation. The segments are organized based on products and services provided by the Company.

CNH Industrial has five operating segments:

Agricultural Equipment designs, manufactures and distributes a full line of farm machinery and implements, including two-wheel and four-wheel drive tractors, crawler tractors (Quadtrac®), combines, cotton pickers, grape and sugar cane harvesters, hay and forage equipment, planting and seeding equipment, soil preparation and cultivation implements and material handling equipment. Agricultural equipment is sold under the New Holland Agriculture and Case IH Agriculture brands, as well as the STEYR brand in Europe and the Miller brand, primarily in North America and Australia. Following the acquisition of the grass and soil implement business of Kongskilde Industries in February 2017, certain agricultural equipment products have been sold under the Kongskilde, Överum, and JF brands.

Construction Equipment designs, manufactures and distributes a full line of construction equipment including excavators, crawler dozers, graders, wheel loaders, backhoe loaders, skid steer loaders, compact track loaders, and telehandlers. Construction equipment is sold under the CASE Construction and New Holland Construction Equipment brands.

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

Powertrain designs, manufactures and distributes a range of engines, transmission systems and axles for on- and off-road applications, as well as for marine and power generation under the FPT Industrial brand.

Financial Services offers a range of financial services to dealers and customers. Financial Services provides and administers retail financing to customers for the purchase or lease of new and used industrial equipment or vehicles and other equipment sold by CNH Industrial dealers. In addition, Financial Services provides wholesale financing to CNH Industrial dealers. Wholesale financing consists primarily of floor plan financing and allows the dealers to purchase and maintain a representative inventory of products. Financial Services also provides trade receivables factoring services to CNH Industrial companies.

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

Historically and through 2017, the CODM assessed the performance of the operating segments on the basis of Operating Profit of Industrial Activities calculated using U.S. GAAP. In addition, for Financial Services, the CODM assessed the performance of the segment on the basis of net income prepared in accordance with U.S. GAAP. Furthermore, the CODM reviewed expenditures for long-lived assets while other operating segment asset information was not readily available.

Concurrently with the change in accounting standards, CNH Industrial reviewed the metrics on which the operating segments will be assessed. Effective January 1, 2018, the CODM began to assess segment performance and make decisions about resource allocation based upon Adjusted EBIT and Adjusted EBITDA. The Company believes Adjusted EBIT and Adjusted EBITDA more fully reflect segment and consolidated profitability. Adjusted EBIT is defined as net income/(loss) before income taxes, interest expenses of Industrial Activities, net, restructuring charges, the finance and non-service component of pension and other post-employment benefits costs, foreign exchange gains/(losses) and certain non-recurring items. Adjusted EBITDA is defined as Adjusted EBIT plus depreciation and amortization (including on assets under operating leases and assets sold under buy-back commitments). With reference to Financial Services, the CODM continues to assess the performance of the segment on the basis of net income prepared in accordance with U.S. GAAP.

The following table includes the reconciliation of Adjusted EBIT and Adjusted EBITDA, non-GAAP financial measures, to net income, the most comparable U.S. GAAP financial measure, for the years ended December 31, 2018, 2017, and 2016.

	Years Ended December 31,		
	2018	2017	2016
	(in millions)		
Net income	$ 1,099	$ 290	$ (261)
Income tax (expense)	417	457	297
Interest expenses of Industrial Activities, net of interest income and eliminations	368	482	541
Foreign exchange (gains) losses, net	171	124	142
Finance and non-service component of Pension and other post-employment benefit costs	(15)	102	107
Restructuring expenses	61	93	44
Venezuelan re-measurement and impairment of assets, and 2017 year-end deconsolidation of Venezuelan operations	—	92	34
Chinese joint venture restructuring	—	—	9
European Commission settlement	—	—	551
Adjusted EBIT	$ 2,101	$ 1,640	$ 1,464
Depreciation and Amortization	703	725	716
Depreciation of assets under operating leases and assets sold with buy-back commitments	634	625	545
Adjusted EBITDA	$ 3,438	$ 2,990	$ 2,725

Segment Information

The following summarizes Adjusted EBIT by reportable segment:

	Years Ended December 31,		
	2018	2017	2016
	(in millions)		
Agricultural Equipment	$ 1,036	$ 791	$ 642
Construction Equipment	91	(16)	(44)
Commercial Vehicles	299	195	279
Powertrain	406	360	233
Unallocated items, eliminations and other	(247)	(187)	(142)
Total Industrial Activities	$ 1,585	$ 1,143	$ 968
Financial Services	516	497	496
Adjusted EBIT	$ 2,101	$ 1,640	$ 1,464

The following summarizes Adjusted EBITDA by reportable segment:

	Years Ended December 31,		
	2018	2017	2016
	(in millions)		
Agricultural Equipment	$ 1,339	$ 1,106	$ 951
Construction Equipment	152	49	25
Commercial Vehicles	890	735	771
Powertrain	536	488	357
Unallocated items, eliminations and other	(246)	(187)	(142)
Total Industrial Activities	$ 2,671	$ 2,191	$ 1,962
Financial Services	767	799	763
Adjusted EBITDA	$ 3,438	$ 2,990	$ 2,725

A summary of additional operating segment information as of and for the years ended December 31, 2018, 2017, and 2016 is as follows:

	Years Ended December 31,		
	2018	2017	2016
	(in millions)		
Revenues:			
Agricultural Equipment	$ 11,682	$ 10,683	$ 9,690
Construction Equipment	3,021	2,530	2,206
Commercial Vehicles	10,939	10,562	9,628
Powertrain	4,565	4,369	3,707
Eliminations and other	(2,376)	(2,375)	(2,015)
Net sales of Industrial Activities	27,831	25,769	23,216
Financial Services	1,989	2,028	1,916
Eliminations and other	(114)	(96)	(37)
Total Revenues	$ 29,706	$ 27,701	$ 25,095
Depreciation and Amortization(*):			
Agricultural Equipment	301	315	309
Construction Equipment	61	65	69
Commercial Vehicles	206	212	208
Powertrain	130	128	124
Other activities and adjustments	1	—	—
Depreciation and amortization of Industrial Activities	699	720	710
Financial Services	4	5	6
Depreciation and amortization	$ 703	$ 725	$ 716
Expenditures for long-lived assets(*):			
Agricultural Equipment	$ 224	$ 208	$ 194
Construction Equipment	40	36	36
Commercial Vehicles	195	152	173
Powertrain	91	90	96
Other activities	—	2	2
Expenditures for long-lived assets of Industrial Activities	550	488	501
Financial Services	8	4	2
Expenditures for long-lived assets	$ 558	$ 492	$ 503

(*) Excluding assets sold with buy-back commitments and equipment on operating leases

Geographic Information

CNH Industrial has its principal office in London, England, U.K. Revenues earned in the U.K. from external customers were $1,006 million, $864 million, and $826 million for the years ended December 31, 2018, 2017, and 2016, respectively. Revenues earned in the rest of the world from external customers were $28,700 million, $26,837 million, and $24,269 million for the years ended December 31, 2018, 2017, and 2016, respectively. The following highlights revenues earned from external customers in the rest of the world by destination:

	2018	2017	2016
	(in millions)		
United States	$ 5,719	$ 5,014	$ 4,946
Italy	3,383	3,021	2,798
France	2,994	2,658	2,633
Brazil	2,093	1,789	1,586
Germany	2,062	1,833	1,650
Canada	1,124	1,182	1,141
Australia	929	1,063	929
Spain	1,084	1,016	924
Argentina	524	984	678
Poland	658	507	442
Other	8,130	7,770	6,542
Total Revenues from external customers in the rest of world	$ 28,700	$ 26,837	$ 24,269

Total long-lived tangible and intangible assets located in the U.K. were $218 million and $288 million at December 31, 2018 and 2017, respectively, and the total of such assets located in the rest of the world totaled $10,699 million and $11,652 million at December 31, 2018 and 2017, respectively. The following highlights long-lived tangible and intangible assets by geographic in the rest of the world:

	At December 31,	
	2018	2017
	(in millions)	
United States	$ 5,311	$ 4,850
Italy	1,531	1,663
France	830	897
Germany	671	809
Spain	626	749
Canada	240	565
Brazil	308	386
China	534	278
Other	648	1,455
Total Long-lived assets in the rest of the world	$ 10,699	$ 11,652

In 2018, 2017, and 2016, no single external customer of CNH Industrial accounted for 10 percent or more of consolidated revenues.

Note 21: Related Party Information

CNH Industrial's related parties are primarily EXOR N.V. and the companies that EXOR N.V. controls or has significant influence over, including Fiat Chrysler Automobiles N.V. and its subsidiaries and affiliates ("FCA") and Ferrari N.V. and its subsidiaries and affiliates ("Ferrari"). As of January 31, 2019, EXOR N.V. held 42.1% of CNH Industrial's voting power and had the ability to significantly influence the decisions submitted to a vote of CNH Industrial's shareholders, including approval of annual dividends, the election and removal of directors, mergers or other business combinations, the acquisition or disposition of assets, and issuances of equity and the incurrence of indebtedness. The percentage above has been calculated as the ratio of (i) the aggregate number of common shares and special voting shares beneficially owned by EXOR N.V. to (ii) the aggregate number of outstanding common shares and special voting shares of CNH Industrial as of January 31, 2019. In addition, CNH Industrial engages in transactions with its unconsolidated subsidiaries and affiliates over which CNH Industrial has a significant influence or jointly controls.

The Company's Audit Committee reviews and evaluates all significant related party transactions.

Transactions with EXOR N.V. and its Subsidiaries and Affiliates

EXOR N.V. is an investment holding company in Europe. Among other things, EXOR N.V. manages a portfolio that includes investments in FCA and Ferrari. CNH Industrial did not enter into any significant transactions with EXOR N.V. during the years ended December 31, 2018 and 2017.

In connection with the Demerger, Fiat (now known as FCA) and Fiat Industrial (now known as CNH Industrial) entered into a Master Services Agreement ("MSA") which sets forth the primary terms and conditions pursuant to which the service provider subsidiaries of CNH Industrial and FCA provide services (such as purchasing, tax, accounting and other back office services, security and training) to the service receiving subsidiaries. As structured, the applicable service provider and service receiver subsidiaries become parties to the MSA through the execution of an Opt-In letter that may contain additional terms and conditions. Pursuant to the MSA, service receivers are required to pay to service providers the actual cost of the services plus a negotiated margin. FCA subsidiaries provide CNH Industrial with administrative services such as accounting, cash management, maintenance of plant and equipment, security, information systems and training under the terms and conditions of the MSA and the applicable Opt-in Letters.

Additionally, CNH Industrial sells engines and light commercial vehicles to and purchases engine blocks and other components from FCA subsidiaries. Furthermore, CNH Industrial and FCA may engage in other minor transactions in the ordinary course of business.

These transactions with FCA are reflected in the Company's consolidated financial statements as follows:

	2018	2017	2016
	(in millions)		
Net sales	$ 748	$ 699	$ 806
Cost of goods sold	$ 433	$ 444	$ 466
Selling, general and administrative expenses	$ 151	$ 155	$ 148

	12/31/2018	12/31/2017
	(in millions)	
Trade receivables	$ 10	$ 17
Trade payables	$ 118	$ 96

Transactions with Unconsolidated Subsidiaries and Affiliates

CNH Industrial sells commercial vehicles, agricultural and construction equipment and provides technical services to unconsolidated subsidiaries and affiliates such as IVECO—OTO MELARA Società Consortile a responsabilità limitata, CNH de Mexico SA de CV, Turk Traktor ve Ziraat Makineleri A.S. and New Holland HFT Japan Inc. CNH Industrial also purchases equipment from unconsolidated subsidiaries and affiliates, such as Turk Traktor ve Ziraat Makineleri A.S. These transactions primarily affected revenues, finance and interest income, cost of goods sold, trade receivables and payables and are presented as follows:

	2018	2017	2016
	(in millions)		
Net sales	$ 1,068	$ 1,028	$ 782
Cost of goods sold	$ 522	$ 446	$ 392

	12/31/2018	12/31/2017
	(in millions)	
Trade receivables	$ 107	$ 102
Trade payables	$ 103	$ 97

At December 31, 2018 and 2017, CNH Industrial had pledged guarantees on commitments of its joint ventures for an amount of $160 million and $255 million, respectively, mainly related to IVECO—OTO MELARA Società Consortile a responsabilità limitata. At December 31, 2018 CNH Industrial had pledged guarantees and commitments of its associated company for an amount of $261 million related to CNH Industrial Capital Europe S.A.S.

Note 22: Supplemental Information

The operations, key financial measures, and financial analysis differ significantly for manufacturing and distribution businesses and financial services businesses; therefore, management believes that certain supplemental disclosures are important in understanding the consolidated operations and financial results of CNH Industrial. This supplemental information does not purport to represent the operations of each group as if each group were to operate on a standalone basis. For example, Industrial Activities presents the cost of "interest free" periods for wholesale receivables as Interest Compensation to Financial Services and not as a reduction of sales in their Statements of Operations. This supplemental data is as follows:

Industrial Activities—The financial information captioned "Industrial Activities" reflects the consolidation of all majority-owned subsidiaries except for Financial Services business. Financial Services business has been included using the equity method of accounting whereby the net income and net assets of Financial Services business are reflected, respectively, in "Equity in income of unconsolidated subsidiaries and affiliates" in the accompanying statement of operations, and in "Investments in unconsolidated subsidiaries and affiliates" in the accompanying balance sheets.

Financial Services—The financial information captioned "Financial Services" reflects the consolidation or combination of Financial Services business.

Transactions between the "Industrial Activities" and "Financial Services" have been eliminated to arrive at the consolidated financial statements.

Certain prior period balances have been reclassified to conform to the current period presentation resulting from the adoption of new accounting pronouncements.

	Statement of Operations					
	Industrial Activities			Financial Services		
	2018	2017	2016	2018	2017	2016
	(in millions)					
Revenues						
Net sales	$ 27,831	$ 25,769	$ 23,216	$ —	$ —	$ —
Finance and interest income	100	122	153	1,989	2,028	1,916
Total Revenues	$ 27,931	$ 25,891	$ 23,369	$ 1,989	$ 2,028	$ 1,916
Costs and Expenses						
Cost of goods sold	$ 22,958	$ 21,572	$ 19,420	$ —	$ —	$ —
Selling, general & administrative expenses	2,136	2,056	1,963	215	259	283
Research and development expenses	1,061	957	860	—	—	—
Restructuring expenses	61	90	43	—	3	1
Interest expense	468	604	694	558	555	521
Other, net	267	420	882	730	744	640
Total Costs and Expenses	$ 26,951	$ 25,699	$ 23,862	$ 1,503	$ 1,561	$ 1,445
Income (loss) before income taxes and equity in income of unconsolidated subsidiaries and affiliates	980	192	(493)	486	467	471
Income tax (expense)	(286)	(415)	(136)	(131)	(42)	(161)
Equity income of unconsolidated subsidiaries and affiliates	20	61	34	30	27	24
Results from intersegment investments	385	452	334	—	—	—
Net income (loss)	$ 1,099	$ 290	$ (261)	$ 385	$ 452	$ 334

	Balance Sheets			
	Industrial Activities		Financial Services	
	2018	2017	2018	2017
	(in millions)			
ASSETS				
Cash and cash equivalents	$ 4,553	$ 4,901	$ 478	$ 529
Restricted cash	—	—	772	770
Trade receivables	398	490	34	53
Financing receivables	1,253	1,718	20,252	20,699
Inventories, net	6,510	6,236	216	216
Property, plant and equipment, net	5,899	6,829	2	2
Investments in unconsolidated subsidiaries and affiliates	3,126	3,173	219	205
Equipment under operating leases	34	35	1,740	1,810
Goodwill	2,301	2,316	152	156
Other intangible assets, net	774	779	14	13
Deferred tax assets	635	869	175	198
Derivative assets	81	73	24	14
Other assets	1,707	1,742	323	358
TOTAL ASSETS	$ 27,271	$ 29,161	$ 24,401	$ 25,023
LIABILITIES AND EQUITY				
Debt	6,347	7,443	20,436	21,075
Trade payables	5,771	5,936	173	193
Deferred tax liabilities	83	94	250	215
Pension, postretirement and other postemployment benefits	1,470	2,280	18	20
Derivative liability	89	88	26	20
Other liabilities	8,413	9,063	681	686
TOTAL LIABILITIES	$ 22,173	$ 24,904	$ 21,584	$ 22,209
Equity	5,068	4,232	2,817	2,814
Redeemable noncontrolling interest	30	25	—	—
TOTAL LIABILITIES AND EQUITY	$ 27,271	$ 29,161	$ 24,401	$ 25,023

	Cash Flow Statements					
	Industrial Activities			Financial Services		
	2018	2017	2016	2018	2017	2016
	(in millions)					
Operating activities:						
Net income (loss)	$ 1,099	$ 290	$ (261)	$ 385	$ 452	$ 334
Adjustments to reconcile net income to net cash provided (used) by operating activities:						
Depreciation and amortization expense, net of assets under operating lease and assets sold under buy-back commitments	699	720	710	4	5	6
Depreciation and amortization expense of assets under operating lease and assets sold under buy-back commitments	387	328	284	247	297	261
(Gain) loss from disposal of assets	2	—	3	—	—	—
Loss on repurchase of Notes	22	56	60	—	8	—
Undistributed income (loss) of unconsolidated subsidiaries	(93)	(107)	37	(31)	(27)	(25)
Other non-cash items	111	188	73	47	87	122
Changes in operating assets and liabilities:						
Provisions	(54)	224	2	6	(6)	4
Deferred income taxes	10	219	42	38	(95)	22
Trade and financing receivables related to sales, net	35	147	(7)	(207)	(823)	(90)
Inventories, net	(396)	207	378	508	475	391
Trade payables	280	359	121	(8)	8	(19)
Other assets and liabilities	(319)	160	506	46	50	155
Net cash provided by operating activities	1,783	2,791	1,948	1,035	431	1,161
Investing activities:						
Additions to retail receivables	—	—	—	(4,269)	(4,078)	(3,951)
Collections of retail receivables	—	—	—	4,016	4,384	4,569
Proceeds from sale of assets, net of assets sold under operating leases and assets sold under buy-back commitments	7	17	12	—	—	—
Expenditures for property, plant and equipment and intangible assets, net of assets under operating lease and sold under buy-back commitments	(550)	(488)	(501)	(8)	(4)	(2)
Expenditures for assets under operating lease and assets sold under buy-back commitments	(625)	(1,079)	(884)	(719)	(664)	(747)
Other	720	(275)	385	(532)	272	(642)
Net cash provided (used) by investing activities	(448)	(1,825)	(988)	(1,512)	(90)	(773)
Financing activities:						
Proceeds from long-term debt	629	2,006	1,754	15,582	13,890	10,875
Payments of long-term debt	(1,684)	(2,580)	(2,085)	(15,237)	(14,222)	(11,685)
Net increase (decrease) in other financial liabilities	27	(308)	(219)	359	362	87
Dividends paid	(243)	(168)	(207)	(264)	(357)	(341)
Other	(156)	(25)	(58)	40	46	105
Net cash provided (used) by financing activities	(1,427)	(1,075)	(815)	480	(281)	(959)
Effect of foreign exchange rate changes on cash and cash equivalents	(256)	361	(62)	(52)	34	31
Increase (decrease) in cash and cash equivalents	(348)	252	83	(49)	94	(540)
Cash and cash equivalents, beginning of year	4,901	4,649	4,566	1,299	1,205	1,745
Cash and cash equivalents, end of year	$ 4,553	$ 4,901	$ 4,649	$ 1,250	$ 1,299	$ 1,205

Note 23: Subsequent Event

On January 14, 2019, CNH Industrial announced its new organizational structure to accelerate global growth and profitability, focusing on its five global operating segments (Agriculture, Commercial & Specialty Vehicles, Construction, Powertrain, and Financial Services) supported by Global Functions addressing key synergy and development areas. On the same date, changes to the Global Executive Committee (formerly named Group Executive Council, "GEC") were announced.

CONTACTS

CNH INDUSTRIAL

PRINCIPAL OFFICE

25 St. James's Street, London, SW1A 1HA, United Kingdom

Tel. +44 207 7660 346

website: *www.cnhindustrial.com*

INVESTOR RELATIONS

Europe Tel. +44 207 7660 386

North America Tel. +1 630 887 3745

e-mail: *investor.relations@cnhind.com*

SUSTAINABILITY

e-mail: *sustainability@cnhind.com*

CORPORATE COMMUNICATIONS

Tel. +44 207 7660 346

e-mail: *mediarelations@cnhind.com*

This document is printed on eco-responsible IGLOO Silk, a 100% recycled paper produced by Arjowiggins Graphic. The internal pages are printed on 115 GSM paper and the cover on 350 GSM.

arjowiggins

graphic papers

IGLOO

By printing on this recycled paper, CNH Industrial reduced its environmental impact by avoiding the generation or use of:

71
KG OF LANDFILL WASTE

10
KG OF CO_2

96
KM OF TRAVEL BASED ON THE AVERAGE EUROPEAN CAR

2,765
LITERS OF WATER

153
KWH OF ENERGY

116
KG OF WOOD

GRAPHIC DESIGN

Sunday
Turin, Italy

EDITORIAL COORDINATION

Sunday
Turin, Italy

PRINTING

Graf Art - Officine Grafiche Artistiche
Venaria Reale (To), Italy

Printed in Italy
April 2019

This document is printed on environmentally-friendly paper

CNH Industrial N.V.
Corporate Seat: Amsterdam, the Netherlands
Principal Office: 25 St. James's Street, London, SW1A 1HA, United Kingdom
Share Capital: €17,608,744.72 (as of December 31, 2018)
Amsterdam Chamber of Commerce: reg. no. 56532474
www.cnhindustrial.com