

PACCAR

2005 ANNUAL REPORT

STATEMENT OF COMPANY BUSINESS

As a multinational technology company, PACCAR manufactures heavy-duty, on- and off-road Class 8 trucks sold around the world under the Kenworth, Peterbilt and DAF nameplates. The company competes in the North American Class 6-7 market with its medium-duty models assembled in North America and sold under the Peterbilt and Kenworth nameplates. In addition, DAF manufactures Class 6-7 trucks in the Netherlands and Belgium for sale throughout Europe, the Middle East and Africa and distributes Class 4-7 trucks in Europe manufactured by Leyland Trucks (UK). PACCAR manufactures and markets industrial winches under the Braden, Gearmatic and Carco nameplates and competes in the truck parts aftermarket through its dealer network. Finance and Leasing subsidiaries facilitate the sale of PACCAR products in many countries worldwide. Significant company assets are employed in financial services activities. PACCAR maintains exceptionally high standards of quality for all of its products: they are well-engineered, are highly customized for specific applications and sell in the premium segments of their markets, where they have a reputation for superior performance and pride of ownership.

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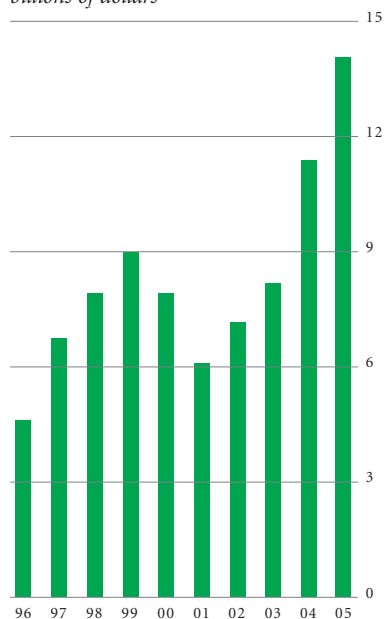
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FINANCIAL HIGHLIGHTS

	2005	2004
	<i>(millions except per share data)</i>	
Truck and Other Net Sales and Revenues	\$13,298.4	\$10,833.7
Financial Services Revenues	759.0	562.6
<i>Total Revenues</i>	14,057.4	11,396.3
<i>Net Income</i>	1,133.2	906.8
<i>Total Assets:</i>		
Truck and Other	5,359.5	5,247.9
Financial Services	8,355.9	6,980.1
<i>Truck and Other Long-Term Debt</i>	20.2	27.8
<i>Financial Services Debt</i>	6,226.1	4,788.6
<i>Stockholders' Equity</i>	3,901.1	3,762.4
<i>Per Common Share:</i>		
Net Income:		
Basic	\$ 6.60	\$ 5.19
Diluted	6.56	5.16
Cash Dividends Declared	2.87	2.75

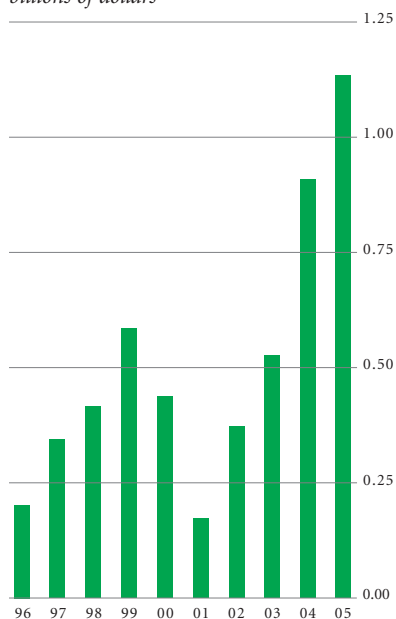
REVENUES

billions of dollars



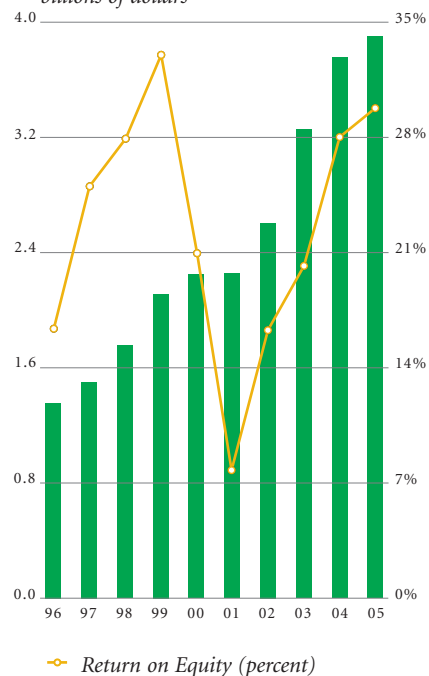
NET INCOME

billions of dollars



STOCKHOLDERS' EQUITY

billions of dollars



PACCAR had a record year in 2005 due to its superior product quality, strong markets, technology-led process efficiency and excellent results from aftermarket parts and financial services. PACCAR increased its share to record levels in the European heavy- and medium-duty truck markets. Market share was strong in North America, with record truck deliveries in both the heavy- and medium-duty segments. Customers benefited from PACCAR's ongoing investments in technology, which enhanced manufacturing efficiency, extensive support programs and new product development. PACCAR delivered a record 148,500 trucks and sold nearly \$1.7 billion of aftermarket parts and services.

Net income of \$1.13 billion was the highest in the company's 100-year history, and revenues of \$14.06 billion were 23 percent higher than in the previous year. Dividends of \$2.87 per share were declared during the year, including a special dividend of \$2.00. PACCAR increased its regular quarterly dividend twice during the year, raising its quarterly payout by 25 percent, and has increased its dividend 345 percent in the last four years.

The North American truck market in 2005 grew 24 percent from the previous year, as a strong economy generated increased freight tonnage and transport companies increased their fleet sizes. The Class 8 truck market in North America, including Mexico, was 307,000 vehicles, compared to 248,000 last year. The European heavy truck market in 2005 was a record 259,000 vehicles, compared to 238,000 in 2004, as customer demand remained strong in spite of slow growth in the euro zone economy.

Competitors experienced improved results due to the stronger market, though their high operating costs, including the burden of expensive and underfunded pension plans and post-retirement health-care programs, continue to negatively impact their performance.

PACCAR continued to set the standard for financial

performance for capital goods companies worldwide. After-tax return on beginning shareholder equity (ROE) was 30.1 percent in 2005, compared to 27.9 percent in 2004. The company's 2005 after-tax return on revenues (ROR) was 8.1 percent, a new record. Excluding the \$64.0 million one-time tax charge in 2005 for the repatriation of foreign earnings, ROE was 31.8 percent and ROR was 8.5 percent. Sales and profits were driven by strong truck and parts margins and new finance contracts for over 44,000 units. PACCAR shareholder equity tripled over the last decade, to \$3.90 billion, as a result of strong earnings. PACCAR's total shareholder return averaged 27 percent per year, versus 9 percent annual return for the Standard & Poor's 500 Index, over that same ten-year period.

INVESTING FOR THE FUTURE — PACCAR's record profits, excellent balance sheet, and intense focus on quality, technology and productivity enhancements have enabled the company to consistently invest in its products and processes during all phases of the business cycle. Productivity, efficiency and capacity improvements continue to be implemented in all manufacturing and parts facilities. Many of PACCAR's facilities established new production records during the year in terms of quality metrics, inventory turns and assembly hours. PACCAR is recognized as one of the leading technology companies in the world, and innovation continues to be a cornerstone of PACCAR's success. PACCAR has integrated new technology to profitably support its own business, as well as its dealers, customers and suppliers. One hundred and thirty new dealer locations were opened worldwide, and more are planned to enhance PACCAR's global distribution network.

Capital investments reached \$300 million for the first time in the company's history. Major capital projects during the year included construction of a state-of-the-art Kenworth manufacturing facility in Mexico, the launch of the DAF XF105 and the fuel-efficient PACCAR MX 12.9-liter engine, the introduction of the aerodynamic Peterbilt 386, installation of additional paint robotics in manufacturing facilities, including robotic chassis paint, the opening of the new North American Transportation Center and the start of construction of a new PACCAR Parts Distribution Center.

PACCAR is judiciously examining business opportunities in Asia, with the primary focus being China and India. The company has sold product in China since 1908, and is cognizant of the benefits of a long-term planning horizon for the region.

SIX SIGMA — Six Sigma is integrated into all business activities at PACCAR and has been adopted at 150 of the company's suppliers and many of the company's dealers. Its statistical methodology is critical in the development of new product designs and manufacturing processes. In addition, the company introduced "High Impact Kaizen Events" (HIKE), which leverage Six Sigma methods with production flow improvement concepts. The HIKE projects conducted in 2005 were instrumental in delivering improved performance across the company. Over 8,000 employees have been trained in Six Sigma and 5,200

projects have been implemented since its inception. Six Sigma, in conjunction with Supplier Quality, has been instrumental in delivering improved logistic performance by the company's suppliers.

INFORMATION TECHNOLOGY — PACCAR's Information Technology Division (ITD) is an important competitive asset for the company. PACCAR's use of information technology is centered on developing and integrating software and hardware that will enhance the quality and efficiency of all operations throughout the company, including the seamless integration of suppliers, dealers and customers.

One of the major successes that ITD and Purchasing achieved during the year was the construction and inauguration of the North American Transportation Center. The Center utilizes a sophisticated logistic platform to track, real-time, supplier parts shipment to PACCAR facilities, resulting in world-class just-in-time inventory deliveries. Other major accomplishments include increased activities at the Electronic Dealerships in Renton and Eindhoven. Over 11,000 dealers, customers, suppliers and employees have experienced the interactive demonstration modules showing the application of automated sales and service kiosks, tablet PCs and Radio Frequency Identification (RFID). New features include an electronic sales and finance office and an electronic service analyst.

In 2005, ITD provided breakthrough advancements in paint robotics software, wireless vehicle diagnostic solutions, infrastructure capacity upgrades and installation of over 3,600 new personal computers.

TRUCKS — U.S. and Canadian Class 8 retail sales in 2005 were 287,000 units, and the Mexican market totaled 20,000. Western Europe heavy truck sales were 259,000 units.

PACCAR's Class 8 retail sales market share in the U.S. and Canada was a strong 23.1 percent in 2005. DAF's heavy-duty truck market share in Europe increased to a record 13.7 percent. Industry Class 6 and 7 truck registrations in the U.S. and Canada numbered 101,000 units, a 5 percent increase from the previous year. In Europe, the 6- to 15-tonne market was 77,000 units, a 3 percent increase from 2004. PACCAR's North American and European market shares in the medium-duty truck segment both exceeded 9 percent, as the company delivered a record 25,000 medium-duty trucks and tractors in 2005.

The capital goods and financial services industries were impacted in 2005 by the negative cost effect of rapidly escalating commodity prices, especially steel and oil, higher interest rates and two devastating hurricanes. However, PACCAR's excellent pricing stability and long-term supplier partnerships enabled increased production and profits to be realized, facilitated by the tremendous team effort of the company's purchasing, materials and production personnel.

Another highlight in 2005 was PACCAR's product quality, which continued to be recognized as the leader in the industry. Kenworth, Peterbilt and DAF earned industry awards as quality leaders in the Class 6, 7 and 8 markets.

Other North American PACCAR truck plant accomplishments include the completion of the company's new Kenworth Mexico facility, installation of robotic cab paint systems in all factories and the attainment of record production levels in five of six plants.

Almost 50 percent of PACCAR's business is generated outside the United States, and the company is realizing excellent synergies globally in product development, sales and finance activities and manufacturing. DAF Trucks achieved record truck production, sales and profits, while increasing its market share for the sixth consecutive year. DAF introduced its new XF105 and the PACCAR MX engine to excellent reviews.

Leyland Trucks, the United Kingdom's leading truck manufacturer, completed significant facility restructuring, such as installing an industry-first robotic chassis paint line, which increased capacity, improved quality and enhanced efficiency. Foden Trucks announced that it would be retiring vehicle production in mid-2006, after 150 years of industry leadership.

PACCAR Mexico (KENMEX) had another record profit year as the Mexican economy grew and truck fleets were renewed. KENMEX recorded gains in plant efficiencies as production reached an all-time high. The largest capital investment in KENMEX history doubled production capacity, consolidated support services and built a new fabrication center.

PACCAR Australia achieved excellent profit, sales and market share in 2005, supported by the second-highest production level in the company's history. The

introduction of new Kenworth models and expansion of the DAF product range led to a 24 percent heavy-duty market share in 2005. Aftermarket parts sales delivered another year of record performance.

PACCAR International, responsible for exporting trucks and parts to over 100 countries, had another record year due to strong sales in South Africa and Latin America.

AFTERMARKET TRUCK PARTS — PACCAR Parts had an excellent year in 2005 as it earned its 13th consecutive year of record profits. With sales of nearly \$1.7 billion, the PACCAR Parts aftermarket business is the primary source for replacement parts for PACCAR products, and supplies parts for other truck brands to PACCAR's dealer networks in many regions of the world.

Over five million Class 8 trucks are operating in North America and Europe, and the average age of these vehicles is estimated to be over six years. These trucks create an excellent platform for future parts and service business provided by a growing number of Kenworth, Peterbilt and DAF service facilities.

PACCAR Parts continues to lead the industry with technology that offers competitive advantages at PACCAR dealerships. Managed Dealer Inventory (MDI) is now installed at over 800 PACCAR dealers worldwide. MDI utilizes proprietary software technology to determine parts-replenishment schedules. Significant investments were also made in Call Center technology to improve the customer experience with its 24-hour/365-day-a-year roadside assistance centers. PACCAR Parts enhanced its Connect program, a software application for fleet-maintenance management. The enhanced program is a Web-based application providing fleets the opportunity to better manage vehicle operating costs.

FINANCIAL SERVICES — At year-end, the PACCAR Financial Services (PFS) group of companies had operations covering three continents and 15 countries. The global breadth of PFS has enabled the portfolio to grow to more than 144,000 trucks and trailers, with total assets exceeding \$8.3 billion. PFS is the preferred funding source in North America for Peterbilt and Kenworth trucks, financing 25 percent of dealer sales in 2005.

PACCAR Financial Corp.'s (PFC) conservative business approach, coupled with PACCAR's strong S&P credit rating of AA- and complemented by the strength

of the dealer network, enabled PFC to earn a record profit in 2005. PFC recorded increased finance volume in 2005 by offering a comprehensive array of finance, lease and insurance products. PFC enhanced its credit-analysis program, Online Transportation Information System (OTIS), by extending the system to Canadian customers and dealers.

PACCAR Financial Europe (PFE) completed its fourth year of operations and increased profits as it served DAF dealers in 11 Western European countries. PFE provides wholesale and retail financing for DAF dealers and customers and finances almost 20 percent of DAF's dealer sales.

PACCAR Leasing (PacLease) earned its 12th consecutive year of record operating profits and placed in service over 5,700 vehicles in 2005, a new record. The PacLease fleet grew to 23,500 vehicles as 17 percent of the North American Class 6-8 market chose full-service leasing to satisfy their equipment needs. PacLease substantially strengthened its market presence in 2005, increasing the network to 245 outlets, and represents one of the largest full-service truck rental and leasing operations in North America.

A LOOK AHEAD — PACCAR celebrated its Centennial year by earning record financial results — the best year in its 100-year history. PACCAR's 22,000 employees enabled the company to distinguish itself as a global leader in the technology, capital goods, financial services and aftermarket parts businesses. Superior product quality, technological innovation and balanced global diversification are three key operating characteristics that define PACCAR's business philosophy.

In North America, strong economic growth is driving freight shipments and tonnage to record levels. These market indicators should continue to have a positive impact on the truck market in 2006. Euro zone GDP is improving, which, in combination with a strong vehicle-replacement cycle and the increased movement of goods throughout the expanded European Union, is generating increased demand for trucks. The company continues to take aggressive steps to manage production rates and operating costs, consistent with its goal of achieving profitable market share growth. PACCAR's excellent balance sheet ensures that the company is well positioned to

continually invest in all facets of its business, strengthening its competitive advantage. Other fundamental elements contributing to the exciting prospects of this vibrant, dynamic company are geographic diversification, with almost 50 percent of revenues generated outside the U.S., modern manufacturing and parts-distribution facilities, leading-edge and innovative information technology, conservative and comprehensive financial services, enthusiastic employees and the best distribution networks in the industry.

As PACCAR enters its second century, the company and its employees are focused on strong, quality growth. The embedded principles of integrity, quality and consistency of purpose continue to define the course in PACCAR's daily operations. PACCAR has successfully evolved as a leader in several industries since its founding in 1905. The proven business strategy — delivering technologically advanced, premium products and an extensive array of tailored aftermarket customer services utilizing an independent global distribution channel — enables PACCAR to achieve strong earnings growth. The strength of the business foundation provides a platform to examine growth opportunities in complementary business segments worldwide. PACCAR is enhancing its stellar reputation as a leading technology company in the capital goods and finance businesses.



Mark Pigott

MARK C. PIGOTT

Chairman and Chief Executive Officer

February 20, 2006



DAF

XF

DAF
105.400

DAF vaulted to new sales, profit and production records in 2005, strengthening its competitive position with strong market-share gains in the over 15 tonne and 6-15 tonne segments. This outstanding achievement reflects the success of its new highly efficient, captivating products and comprehensive customer support network.

DAF introduced a new flagship model, the XF105, to its comprehensive product range during 2005, reinforcing its reputation as Europe's commercial vehicle quality and resale-value leader. The XF105 presents a dazzling exterior that complements the characteristic aerodynamic elements of the widely acclaimed XF95. The vehicle offers a new interior and a completely restyled exterior, including a new upper and lower grille and a newly designed steel front bumper. It also features optional xenon headlights with clear Lexan glass, cat-eye combi-lights in the bumper and unique integrated spotlights in the Super Space Cab roof.

Inside, the XF105 sets best-of-class standards in ergonomics, productivity and comfort — enhancing DAF's industry-leading position for luxury that has long been defined by its cab interiors. From the stylish new door panels to the high-tech instrument panel and dashboard layout to the sumptuous sleeping compartment, uncompromising quality is the vehicle's hallmark.

The XF105 is powered by the new PACCAR MX engine, also introduced this year, with power outputs of 410 hp, 460 hp and 510 hp. An innovative new chassis layout repositions air tanks and other components inside frame rails to maximize fuel tank capacity.



DAF unveiled a tractor unit variant of its CF85 series that offers an ultra-low fifth-wheel setting for customers who want to maximize payload in large-volume transport applications. Trailers with an interior height of three meters can haul more volume per journey—up to 100 cubic meters—while remaining within Europe's legal maximum height of four meters and maximum trailer length of 13.65 meters.

The highly successful Leyland-built CF65 distribution truck has earned a reputation for class-leading payloads. The new CF65 delivers a payload of almost 13.5 tonnes at 19 tonnes GVW. By making use of the innovative chassis frame and design attributes of the LF55 series, the chassis weight of the CF65 has been further enhanced to increase customer profit potential.

DAF continued to strengthen its extensive distribution network of over 1,000 dealer and service points and is completing construction of its new full-service dealership in Frankfurt, Germany. DAF has more than doubled its market share in Germany—Europe's largest truck market—since 1996.

DAF constructed a new engine machining factory and substantially upgraded its manufacturing facilities in Eindhoven and Westerlo.

Capitalizing on market momentum, DAF unveiled a new flagship model: the XF105. From its striking exterior to its luxurious interior appointments, the XF105 presents new benchmarks in reliability, operating efficiency and driver comfort for long-haul operators.



Peterbilt sales of both heavy- and medium-duty trucks set new company standards in 2005. Outstanding product quality, superior vehicle resale value and innovative styling continue to reflect Peterbilt's well-deserved reputation as the "Class" of the industry.

In one of the most significant new product introductions in the company's history, Peterbilt unveiled its 2006 lineup of Class 8 conventional trucks and tractors: Models 379, 386, 385, 378 and 357. All the vehicles incorporate new technologies that improve performance, reliability and serviceability, and redesigned operating environments that optimize driver productivity, ergonomics and comfort.

The new lineup of trucks offers best-in-class cab interiors with unparalleled fit and finish and driver amenities that rival luxury automotive quality. Three new interior trim levels meet a full range of market requirements. State-of-the-art multiplexed instrumentation enhances reliability and enables efficient analysis by technicians via PACCAR's new wireless Electronic Service Analyst (ESA) tool. Restyled driver- and passenger-side doors improve ground visibility by 17 percent, enhancing the driver's field of vision. A new heating and air conditioning (HVAC) system boosts airflow by 20 percent and delivers precise climate control throughout the vehicle.

The sleek new aerodynamic Model 386, with a full range of detachable sleepers, expands Peterbilt's offering of premium aerodynamic trucks — complementing the Model 387, with its spacious, integrated sleeper — and provides customers with fuel-efficient operation in all applications. The new vehicle design features a contoured sunvisor, side chassis fairings, dramatically sloped hood, integrated headlamps, swept-back fender design and form-fitted bumper — elements that together improve aerodynamic efficiency by 10 percent.



Peterbilt expanded its market share in vocational and construction industries. The Model 357 offers over 300 new options designed specifically for construction, gravel and off-road applications.

Peterbilt's Denton, Texas, manufacturing facility celebrated its 25th anniversary in 2005 and became the first North American truck plant to install advanced, fully integrated robotic cells to weld aluminum fuel tanks.

The Peterbilt dealer network reached a record level with 220 locations throughout the U.S. and Canada. Peterbilt's TruckCare services program also expanded, serving more customers with complimentary roadside assistance and service scheduling, TruckCare Services Cards and QuickCare preventive maintenance. Peterbilt's TruckCare Maintenance Manager updates service bulletins electronically and provides a reminder for vehicles within 1,000 miles of factory-recommended routine service intervals.



Kenworth performed superbly in 2005 by earning five J.D. Power and Associates Awards in Customer Satisfaction for its Class 8 and Class 7 vehicles and outstanding dealer service.* “The World’s Best” introduced many new product designs and achieved record profits, sales and production.

Kenworth sales of Class 8 and Class 6/7 vehicles increased to record levels in 2005, reflecting enhanced product functionality, excellent operating efficiency and strong driver preference for the complete range of vehicles.

Two significant production milestones were celebrated by Kenworth in 2005. Kenworth marked the production of its 700,000th truck in its 61-year history, and recognized the Chillicothe, Ohio, plant’s production of its 250,000th truck since the plant’s opening in 1974.

Kenworth demonstrated its leadership in technology and innovation with the introduction of its new Class 8 models. A new cab interior with world-class automotive quality, multiplexed electronic instrumentation and increased driver comfort enhances the productive Kenworth experience on and off highway.

The state-of-the-art instrument panel significantly enhances reliability and functionality. Servicing has also become easier with the newly launched Electronic Service Analyst (ESA), a wireless, computer-based diagnostics tool that helps technicians quickly and efficiently verify instrument functions.

New options introduced on select Kenworth models include a factory-installed collision-avoidance system, electronic vehicle-stability control, a keyless-entry security system and adaptive cruise control.

Kenworth made significant capital investments in its factories, adding robotic base-coat and clear-coat paint at the Chillicothe, Ohio, plant for enhanced quality and productivity. More than 1,600 computers and tablet PCs are in service at Kenworth manufacturing facilities, making each plant a wireless network able to access data in real time. Kenworth added Class 8 production to its medium-duty vehicle assembly facility in Ste. Thérèse, Quebec.

Kenworth’s Six Sigma tools compressed the time required to design and introduce new products, improved production efficiency and capacity, and generated numerous quality enhancements.

Heavy Duty Trucking magazine selected Kenworth’s factory-installed exhaust system that recirculates heat into dump truck bodies in cold climates as one of its Nifty Fifty best new product introductions of the year. *RoadStar* magazine honored Kenworth’s eCommerce effort in merchandising with its Most Valuable Product (MVP) award.

The strong Kenworth dealer network operates 284 locations in the U.S. and Canada. Kenworth’s PremierCare® program expanded in 2005, serving more customers with roadside assistance, preventive maintenance, express services, fleet card and electronic parts inventory management.



Kenworth’s reputation for manufacturing premium-quality trucks that satisfy both owners and drivers is reflected in the many coveted industry awards the company has earned in the last few years. This T800, popular with fleets and owner/operators alike, combines an extraordinarily durable, lightweight chassis design with advanced truck technologies to minimize operating expenses.

* “Highest in Customer Satisfaction with Heavy-Duty Truck Dealer Service,” “Highest in Customer Satisfaction among Pickup & Delivery Segment Class 8 Trucks” and “Highest in Customer Satisfaction among Over the Road Segment Class 8 Trucks.” J.D. Power and Associates 2005 U.S. Heavy-Duty Truck Customer Satisfaction StudySM. “Highest in Customer Satisfaction among Conventional Medium-Duty Trucks” and “Highest in Customer Satisfaction with Medium-Duty Truck Dealer Service.” J.D. Power and Associates 2005 Medium-Duty Truck Customer Satisfaction StudySM. www.jdpower.com

PACCAR Australia dominated the Australian heavy-duty truck market again in 2005, with excellent profits, sales, market share and production. Kenworth defines trucking in Australia, delivering custom-built quality with superior reliability.

PACCAR Australia, the continent's leading producer of a complete range of commercial vehicles, strengthened its position in the high-horsepower segment with more than 61 percent of the market in 2005. Kenworth posted strong gains in sales to vocational applications, where its new products — such as the T604 — have proven to deliver significant productivity enhancements.

PACCAR Australia reached an important milestone in 2005, delivering its 30,000th Kenworth truck since it began production in 1971. The T650 livestock hauler, rated at 140 tonnes GCM and configured as a triple road train, will operate in some of the roughest environments in Australia.

In 2005, PACCAR Australia introduced the T350 Agitator, a lightweight yet heavy-duty cement mixer model that provides a half tonne more payload than competitive trucks. An agile and versatile performer, the T350 offers all the maintenance advantages of a conventional plus the maneuverability and visibility of a cab-over — ideal for negotiating metropolitan streets and construction sites.



PACCAR Australia unveiled the Kenworth T350 Agitator in 2005, a cement mixer capable of carrying an extra half tonne of payload per trip compared to competitive vehicles — an immediate productivity gain and significant cost benefit over the life of the truck.

PACCAR Mexico (KENMEX) enhanced its leadership in the competitive Mexican market — accounting for more than 53 percent of heavy-duty tractor sales — and extended a tradition that has made Kenworth the most revered nameplate for over 45 years.

KENMEX set new records for sales, profits and production levels in 2005, strengthening its positions in over-the-road and medium-duty markets. KENMEX also set new standards for driver comfort when it unveiled Kenworth's exciting world-class interior enhancements for its T600, T800, T2000 and W900 Class 8 models.

Kenworth's new Class 6/7 KW45 and KW55 — based on the versatile DAF LF series — are becoming increasingly popular in metropolitan delivery applications, where their excellent maneuverability, visibility and ergonomics offer significant productivity advantages.

KENMEX completed the largest capital investment program in its history with a \$70 million expansion of its truck factory. The state-of-the-art production facility doubles in size to 508,000 square feet and incorporates leading manufacturing technology — including paint robotics and production-line information systems — to increase assembly capacity by 50 percent. KENMEX also increased the country's most extensive parts and service network to 102 dealer facilities nationwide.



This medium-duty Kenworth KW45 serves Mexico's extensive in-city delivery requirements, offering excellent maneuverability, visibility and ergonomic design.

Leyland, the United Kingdom's leading truck manufacturer, delivered a record 17,000 vehicles to customers throughout Europe in 2005. The innovative application of industry-leading technology helped Leyland substantially increase production capacity.

Leyland produces a highly complex mix of vehicles in its state-of-the-art manufacturing plant, delivering a range of DAF and Foden trucks. In 2005, Leyland expanded production capacity considerably with the addition of a remarkable new robotic chassis paint facility — a world first in the commercial vehicle industry. Engineers employed a detailed visioneering model to optimize and speed installation of the groundbreaking project. Leyland worked with other PACCAR divisions worldwide to develop a patent-pending software program that enables the robotic spraying process to handle an enormous variety of truck configurations.

Leyland has earned much industry recognition over the years for the high quality, efficiency and safety standards achieved at its world-class 607,000-square-foot manufacturing facility. In 2005, Leyland was presented with the President's Prize by the Royal Society for the Prevention of Accidents (RoSPA) in recognition for earning RoSPA's Gold Award ten years in a row.



A world first in the commercial vehicle industry, Leyland added an innovative new robotic chassis paint facility in 2005 that helped boost capacity and achieve record production levels for DAF and Foden trucks.

PACCAR International, a leader in delivering Kenworth, Peterbilt and DAF trucks to customers worldwide, posted record sales and profits during 2005. A buoyant global economy increased demand for premium-quality PACCAR vehicles.

Worldwide demand for PACCAR's custom-built transportation solutions continued to grow in 2005. PACCAR International delivered its 1,000th locally assembled DAF unit to South Africa, a market recognizing the benefits of PACCAR's vehicle reliability. Latin America's economic recovery spurred growth in sales for on-highway, vocational and medium-duty trucks. Customers in Colombia purchased record numbers of Kenworth trucks in 2005.

Higher oil prices energized the oilfield servicing industry and resulted in greater truck demand. PACCAR off-highway products such as the Kenworth Super 953 and the Kenworth C500 delivered excellent performance in rugged and remote locales while serving the logging and mining markets.

PACCAR International strengthened its market presence in 2005, expanding its dealer network in China, Taiwan, and Central and South America. Customers in over 100 countries benefit from the durability and reliability of PACCAR trucks and on-time delivery of parts and service.



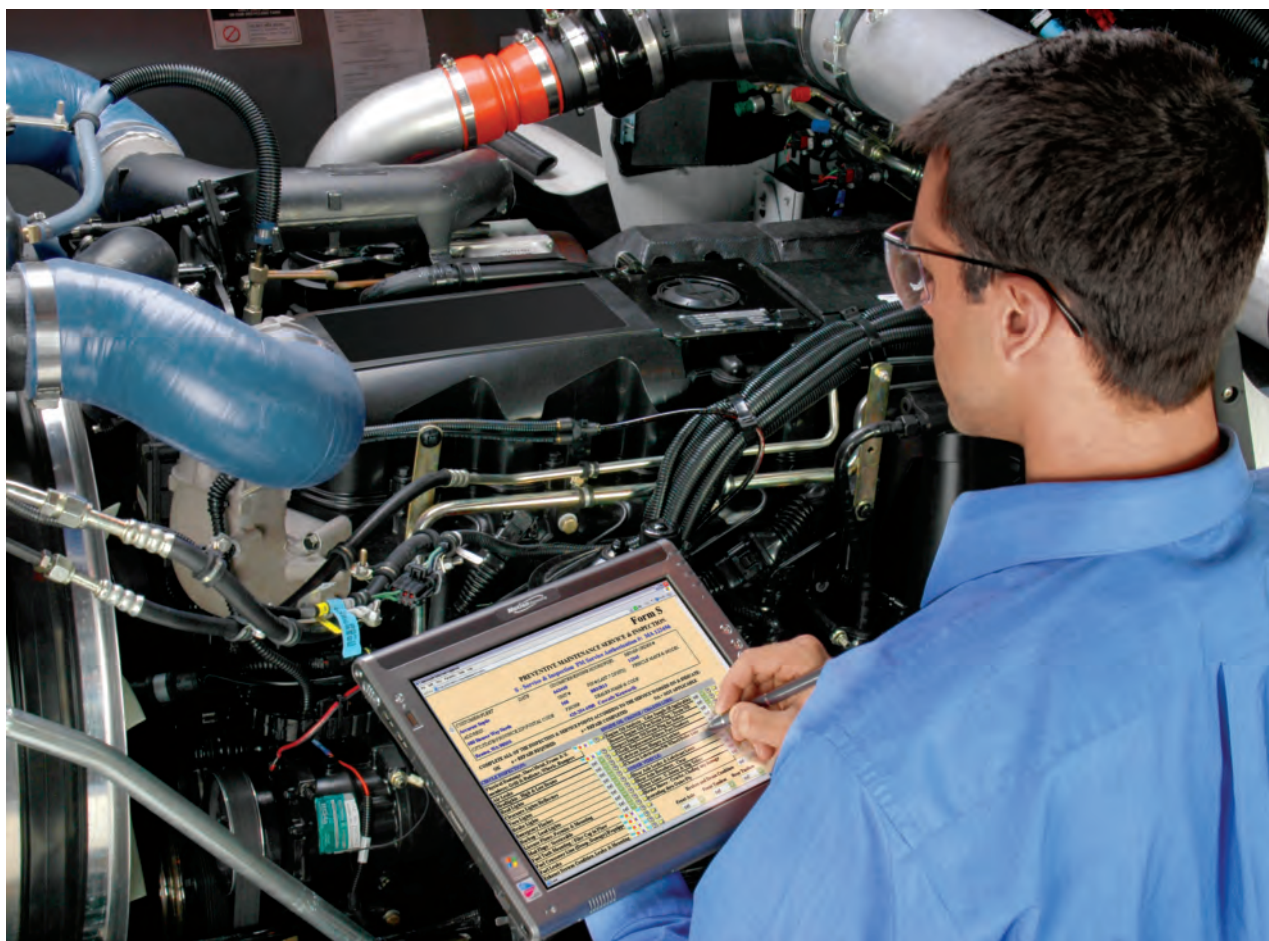
PACCAR International serves customers worldwide, merging PACCAR's manufacturing expertise with the specialized knowledge of its global dealer network to solve transportation challenges. This huge Kenworth C540, destined for Middle East oilfields, reflects decades of successful experience serving remote locations.

PACCAR Parts achieved record sales and profits for the 13th consecutive year in 2005, substantially increasing business in every market worldwide. The results included a strong demand for the comprehensive PACCAR-branded aftermarket product line.

PACCAR Parts celebrated its best year in 2005, shipping 11.2 million order lines throughout the world for all makes of trucks. Innovative efforts in marketing, sales, customer service and information technology contributed to a surge in sales. PACCAR Parts U.K. assumed distribution of Leyland parts from a third-party distributor in 2005, and a new 72,000-square-foot facility at Leyland was completed to meet increased customer demand for DAF parts in the European market.

Popular PACCAR branded All-Makes parts lines — such as INLINE, DYNACRAFT, MIRREX and ROADLEVELER, which include brakes, accessories, fenders, batteries and air and electrical components — expanded in 2005 and posted dramatic volume increases. PACCAR Parts also introduced an extension of its popular Connect program called WebConnect, a comprehensive vehicle-maintenance and parts-inventory system for small fleets.

The superlative PACCAR Customer Call Centers offer 24/7 roadside support to truck drivers throughout North America and Europe, managing 1.7 million telephone calls annually.



PACCAR Parts employs industry-leading technologies to heighten competitive advantage throughout its distribution system. Preventive Maintenance Automation, for example, enables dealership technicians to streamline maintenance inspections, customer communication and payment processing.

PACCAR Winch Division is the premier full-line producer of industrial winches in the world. Robust global demand for products in every segment propelled PACCAR Winch to new records in sales, profits and market share in 2005.

Braden recovery winches, hoists and drives, Gearmatic planetary hoists and Carco tractor winches are renowned for their engineering excellence, dependability and precise handling characteristics in challenging environments.

The Winch Division reinforced its industry-leading reputation for innovation by introducing Electronic Winch Monitoring (EWM), a patent-pending new technology that electronically senses winch performance and automatically applies an auxiliary brake to assist in stopping the load in emergencies. Another industry first, the Electronic Maintenance Module (EMM), detects the direction of winch rotation, remaining wire rope capacity, load and speed and electronically logs critical operating history for improved maintenance.

PACCAR Winch expanded its extensive product line in 2005, introducing the BA series of air-driven winch models engineered specifically to suit oil and gas drilling and mining industries. The division also unveiled a series of compact winches featuring higher line pull, superior quality and longevity for the growing service body crane market.



PACCAR Winch launched a new line of air-driven winches specifically engineered for offshore oil and gas markets. Each model features an internal multi-disc brake and an overrunning clutch for superior load control.

PACCAR Financial Services Companies (PFS), which support the sale of PACCAR trucks worldwide, achieved record income in 2005. PFS portfolios are comprised of more than 144,000 trucks and trailers, with total assets surpassing \$8.3 billion.

PACCAR Financial Corp. (PFC), the preferred source of financing for Kenworth and Peterbilt trucks in North America, set new records for finance volume in 2005. PFC's innovative financial and insurance products generated increased demand in all market segments.

Six Sigma driven process and technology investments enabled PFC to reduce credit application processing time by 50 percent. An updated pre-owned equipment Web site, the introduction of tablet PCs for field sales teams and new capabilities for PFC's Web-based Online Transportation Information System (OTIS) dramatically improved loan-processing efficiency and responsiveness. PFC introduced Retail Manager, an initiative designed to streamline service to owner-operators.

PACCAR Financial Europe (PFE) achieved a record \$1.85 billion in assets in 2005, and provides financial services to DAF dealers and customers in 11 Western European countries. PFE is the market-share leader in financing DAF products in Europe.



Celebrating its 25th anniversary, PACCAR Leasing achieved record profits for the 12th consecutive year in 2005 and delivered a record number of new Kenworth and Peterbilt trucks throughout its North American network. The PacLease fleet contains 23,500 units—including 1,900 leased vehicles serving Mexico.

PacLease, one of the largest full-service truck rental and leasing networks in North America, provides customers with complete and reliable daily transportation solutions. In 2005, PacLease inaugurated a new full-service lease program geared to the exacting requirements of vocational operators, a growing segment of the lease industry.

During 2005, more than 17 percent of all Class 6, 7 and 8 vehicles manufactured were delivered to the full-service leasing industry. Driver and technician shortages, rising fuel costs and sophisticated maintenance requirements for truck systems have created a flourishing market for outsourced transport services such as leasing.

PACCAR Leasing offers significant competitive advantages: custom-built, premium-quality PACCAR trucks with exceptional residual value, low operating expenses, an expansive network of 245 responsive franchises and company locations, and a full spectrum of value-added transportation services.



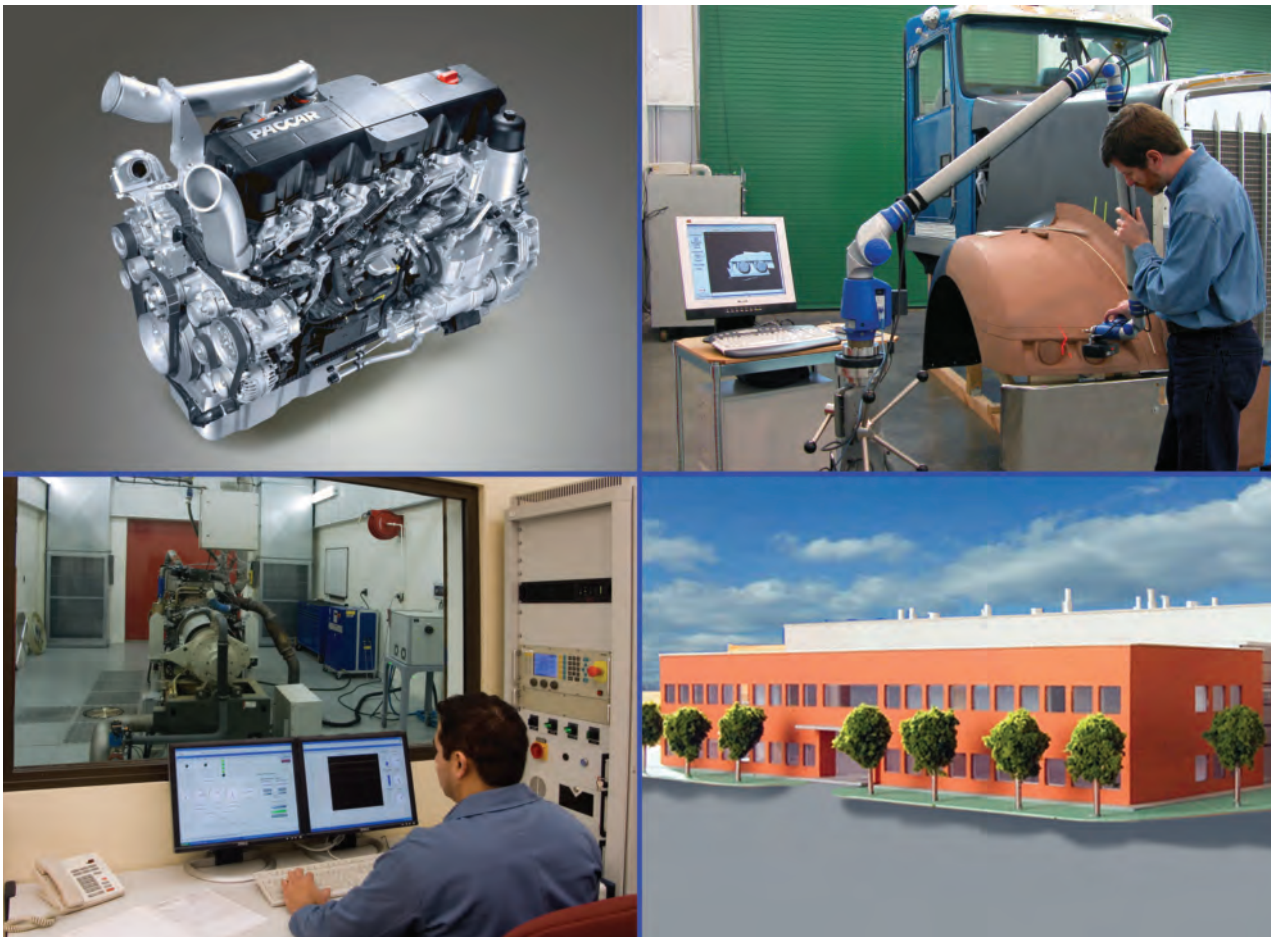
PACCAR Leasing expanded its fleet by 20 percent in 2005 and increased its share of the medium-duty market with a greater number of premium-quality Class 6-7 trucks, such as this popular Peterbilt Model 335.

PACCAR Technical Centers in Europe and North America ensure that new product designs perform to PACCAR’s rigorous quality standards. Increasing use of advanced simulation techniques and sophisticated information technology systems has leveraged worldwide engineering resources.

PACCAR Technical Centers are world-class facilities with state-of-the-art product test and validation capabilities.

At the U.S. Technical Center, engineers use high-speed computing clusters to model, test and validate designs up to 10 times faster than with previous methods. The new Electronics Integration Center uses hardware-in-the-loop technology to simulate and validate next-generation electronics systems in a laboratory environment. The engine test laboratory simulates the demanding performance required in a million-mile powertrain.

In Europe, PACCAR’s Technical Center was instrumental in the development, testing and field validation phases of DAF’s new XF105 model and low-deck CF85 tractor and the PACCAR MX engine. DAF opened its new 8,000-square-meter semi-anechoic chamber, unique in the truck manufacturing industry, to evaluate vehicle sound compliance.



PACCAR Technical Centers, in the Netherlands and in Washington State, employ highly sophisticated engineering analysis, simulation and rapid prototyping technologies to accelerate the development of world-class components and designs.

PACCAR'S Information Technology Division (ITD) is an industry leader in the innovative application of software and hardware technology. ITD provides PACCAR a competitive advantage at every stage of the product life cycle, including R&D, sales, manufacturing, financial services and aftermarket support.

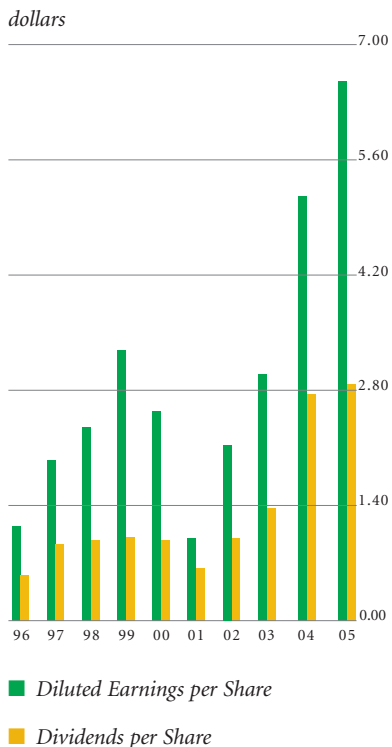
PACCAR earned the top position in *InformationWeek* magazine's ranking of companies in the automotive sector during 2005 for the use of information technology. Kenworth and Peterbilt launched product enhancements that include advanced vehicle electronics and networked dashboard instrumentation developed by ITD. The Electronic Service Analyst (ESA), a new wireless tool for North American factories, dealers and call centers to enhance vehicle programming and diagnostics, also was designed by the Information Technology Division.

In 2005, ITD's 700 employees' expertise in software and hardware development contributed to achieving record results for many PACCAR divisions. An updated Manufacturing Execution System (MES), for example, includes enhancements that enable PACCAR's production facilities to electronically track each vehicle chassis location, monitor quality check status and interface with material and engineering personnel on design and parts queries.

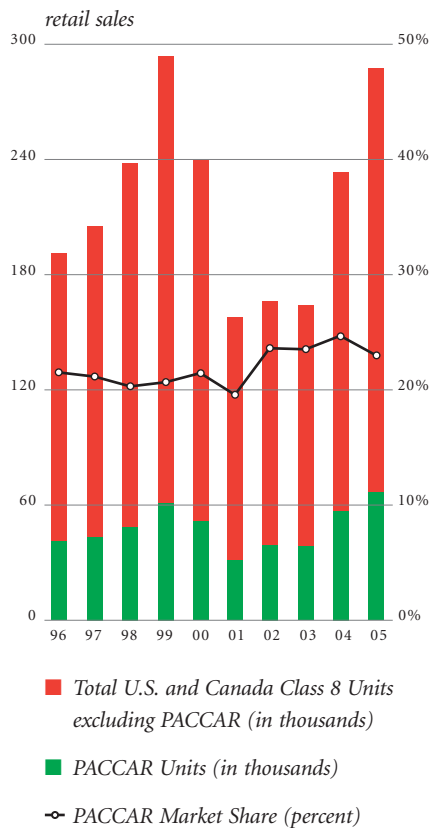


Utilizing the ITD-developed PACCAR Transportation System, planners at PACCAR's new state-of-the-art Logistics Center manage the movement of inbound freight traffic to PACCAR factories and parts distribution centers throughout North America.

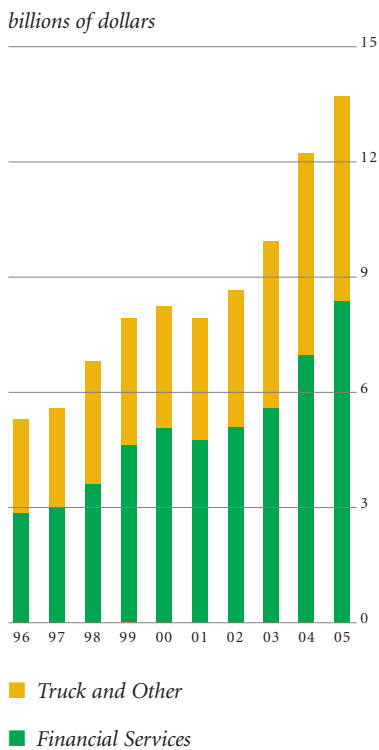
EARNINGS & DIVIDENDS PER SHARE



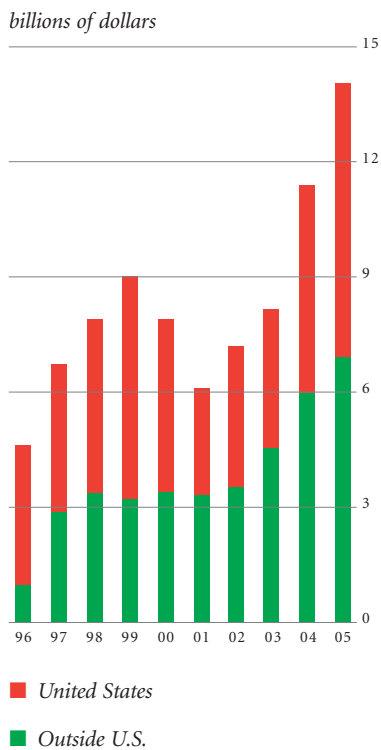
U.S. AND CANADA CLASS 8 TRUCK MARKET SHARE



TOTAL ASSETS



GEOGRAPHIC REVENUE



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(tables in millions, except truck unit and per share data)

RESULTS OF OPERATIONS:

	2005	2004	2003
Net sales and revenues:			
Truck and Other	\$13,298.4	\$10,833.7	\$7,721.1
Financial Services	759.0	562.6	473.8
	\$14,057.4	\$11,396.3	\$8,194.9
Income before taxes:			
Truck and Other	\$ 1,516.8	\$ 1,139.9	\$ 640.6
Financial Services	199.9	168.4	123.6
Investment Income	56.9	59.9	41.3
Income taxes	(640.4)	(461.4)	(279.0)
Net Income	\$ 1,133.2	\$ 906.8	\$ 526.5
Diluted earnings per share	\$ 6.56	\$ 5.16	\$ 2.99

Overview:

PACCAR is a multinational company whose principal businesses include the design, manufacture and distribution of high-quality, light-, medium- and heavy-duty commercial trucks and related aftermarket parts and the financing and leasing of its trucks and related equipment. The Company also manufactures and markets industrial winches.

Consolidated net sales and revenue increased 23% to a record \$14.06 billion from \$11.40 billion in 2004 due to strong global demand for the Company's high-quality trucks, aftermarket parts and financial services. Financial Services revenues increased 35% to \$759.0 million in 2005.

PACCAR achieved record net income in 2005 of \$1,133.2 million (\$6.56 per diluted share), which was an increase of 25% over 2004 net income of \$906.8 million (\$5.16 per diluted share). Excellent results were achieved in the Truck and Other businesses due to the strong revenue growth, increased margins and continued cost control. Financial Services income before taxes increased 19% to a record \$199.9 million compared to \$168.4 million in 2004 as a result of robust asset growth, low credit losses and excellent finance margins.

Selling, general and administrative (SG&A) expense for Truck and Other increased to \$429.9 million in 2005 compared to \$390.4 million in 2004. SG&A increased to support higher production levels, expanded sales initiatives and technology investments. However, as a percent of revenues, SG&A expense decreased to a record low of 3.2% in 2005 from 3.6% in 2004 as the Company benefited from Six Sigma initiatives and process improvements driven by technology investments.

Investment income of \$56.9 million in 2005 compares to \$59.9 million in 2004, which included a one-time gain of \$14.1 million from the sale of equity securities. Excluding the gain in 2004, investment income was higher in 2005 due to higher average interest rates earned on cash and marketable debt securities.

The 2005 income tax provision includes a one-time charge of \$64.0 million (\$.37 per share) related to repatriation of \$1.5 billion of foreign earnings. Excluding the tax charge on repatriated earnings, the effective rate was 32.5% in 2005 compared to 33.7% in 2004. The lower effective tax rate in 2005 was primarily due to lower tax rates in the Netherlands and Mexico.

The Company's return on revenues was a record 8.1% (8.5% excluding the one-time tax charge) compared to 8.0% in 2004.

Truck

PACCAR's truck segment, which includes the manufacture and distribution of trucks and related aftermarket parts, accounted for 94% of revenues in 2005 and 2004 and 93% of revenues in 2003. In North America, trucks are sold under the Kenworth and Peterbilt nameplates and, in Europe, under the DAF nameplate.

	2005	2004	2003
Truck net sales and revenues	\$13,196.1	\$10,762.3	\$7,661.2
Truck income before taxes	\$ 1,520.2	\$ 1,145.0	\$ 655.4

The Company achieved record new truck deliveries in 2005, summarized as follows:

	2005	2004	2003
United States	71,900	59,200	39,000
Canada	10,900	9,100	6,600
U.S. and Canada	82,800	68,300	45,600
Europe	52,200	45,300	38,600
Mexico, Australia and other	13,500	10,500	8,800
Total units	148,500	124,100	93,000

2005 Compared to 2004:

PACCAR's worldwide truck sales and revenues increased 23% to \$13.20 billion in 2005 due to continued high demand for the Company's trucks and related aftermarket parts around the world.

Truck income before taxes was \$1.52 billion compared to \$1.14 billion in 2004. The increase from the prior year is due to higher production rates, growing aftermarket part sales and improved truck margins. The impact of exchange rate movements was not significant to either revenues or profit in 2005.

Peterbilt and Kenworth delivered 82,800 medium and heavy trucks in the U.S. and Canada during 2005, an increase of 21% over 2004 with heavy-duty (Class 8) deliveries up 23% and medium-duty (Class 6 and 7) deliveries up 12%. The increased deliveries reflect overall market growth. The Class 8 market increased to 287,500 units in 2005 from 233,000 in 2004. The medium-duty market increased 5% to 100,700 units.

New truck deliveries in Europe increased 15% to a record 52,200 units. The 15 tonne and above truck market improved to a record 259,000 units, a 9% increase from 2004 levels. PACCAR's DAF truck brand increased its share of the 15 tonne and above market for the sixth year in a row. DAF market share in the 6 to 15 tonne market also increased. Truck and parts sales in Europe represented 31% of PACCAR's total truck segment net sales and revenues in 2005, compared to 34% in 2004.

Truck unit deliveries in Mexico, Australia and other countries outside the Company's primary markets increased 29%. Deliveries outside the primary markets to customers in Africa, Asia and South America are sold through PACCAR International, the Company's international sales division. Combined truck and parts sales in these markets accounted for 10% of total truck segment sales and 11% of truck segment profit in 2005.

PACCAR's worldwide aftermarket parts revenues were \$1.68 billion, an increase of 15% compared to \$1.46 billion in 2004. Parts operations in North America and Europe benefited from a growing truck population and the further integration of PACCAR technology with dealer business systems to improve responsiveness to customer needs.

Truck segment gross margin as a percentage of net sales and revenues improved to 14.5% in 2005 from 14.3% in 2004 as a result of higher operating efficiencies and strong demand for the Company's products. Higher material costs from suppliers due to increases in steel, aluminum, crude oil and other commodities have generally been reflected in new truck sales prices.

2004 Compared to 2003:

PACCAR's worldwide truck sales and revenues increased \$3.10 billion to \$10.76 billion in 2004 primarily due to higher demand for heavy-duty trucks in all of the Company's primary markets and a \$330.3 million increase due to the weaker U.S. dollar.

Truck income before taxes was \$1.14 billion compared to \$655.4 million in 2003. The increase from the prior year was the result of higher production rates, aftermarket parts sales volume and truck margins, as well as a \$52.9 million favorable impact of the weaker U.S. dollar.

New trucks delivered in the U.S. and Canada were 68,300, an increase of 50% from 2003. Industry retail sales of new Class 8 trucks in the U.S. and Canada totaled 233,000 units in 2004, an increase of 42% from the 2003 level of 164,000. Kenworth and Peterbilt improved their share of the U.S. and Canada Class 6 and 7 truck market in 2004, contributing to the increased deliveries.

In 2004, new trucks delivered in Europe totaled 45,300 units, an increase of 17%. The European 15 tonne and above truck market improved by 20,000 to 238,000 units. DAF Trucks increased its share of both the European heavy-duty (above 15 tonne) market and the 6 to 15 tonne market. Sales in Europe represented approximately 34% of PACCAR's total truck segment net sales and revenue in 2004, compared to 35% in 2003.

Truck unit deliveries in Mexico, Australia and other countries increased 19%, primarily due to larger markets in Mexico and Australia. Combined results in these countries were 10% of total truck segment sales and 14% of profit in 2004.

PACCAR's worldwide aftermarket parts revenues of \$1.46 billion increased in 2004 compared to 2003 due to a larger truck population and improved market penetration.

In November 2004, PACCAR concluded an early termination agreement with the RAC plc regarding the distribution of Leyland aftermarket parts to DAF dealers and customers in the United Kingdom. PACCAR's 2004 truck segment results include a \$33.3 million pretax charge for costs associated with the agreement.

Truck Outlook

Demand for heavy-duty trucks in the U.S. and Canada is currently forecasted to increase approximately 5% in 2006, with industry retail sales expected to be 290,000–310,000 trucks. European heavy-duty registrations for 2006 are projected to be similar to 2005 at 245,000–265,000 units. Both markets will be affected by engine emissions regulations. In Europe, effective October 1, 2006, all new truck registrations will be required to comply with Euro 4 emissions standards. In the U.S., effective January 1, 2007, all new diesel engines manufactured will be required to comply with EPA 2007 engine emissions standards. In both markets, conversion to the new engine emissions standards will increase the end user vehicle cost. Customers may adopt strategies to mitigate the cost impact by accelerating purchases of trucks before the new standards take effect. This could result in a "pull forward" of vehicle sales in Europe in the first three quarters of 2006 and in the U.S. prior to the January 1, 2007 deadline.

Financial Services

The Financial Services segment, which includes wholly owned subsidiaries in North America, Europe and Australia, derives its earnings primarily from financing or leasing PACCAR products.

	2005	2004	2003
Financial Services:			
Average earning assets	\$7,389.0	\$5,945.0	\$5,139.0
Revenues	759.0	562.6	473.8
Income before taxes	199.9	168.4	123.6

2005 Compared to 2004:

PACCAR Financial Services (PFS) revenues increased 35% to \$759.0 million due to higher earning assets worldwide and, to a lesser extent, higher interest rates in the U.S. New business volume was \$3.73 billion, up 20% from 2004 on higher truck sales levels and strong market share. PFS provided loan and lease financing for over 27% of PACCAR new trucks delivered in 2005.

Income before taxes increased 19% to a record \$199.9 million from \$168.4 million in 2004. This improvement was primarily due to higher finance margins, partly offset by a higher provision for losses on receivables related to growing earning asset balances. The increase in finance margins was due to higher earning asset levels and higher yield rates on assets, offset partly by a higher cost of funds. Net portfolio charge-offs were \$19.3 million compared to \$12.2 million in 2004 and represented .26% and .21% of average earning assets, respectively. At December 31, 2005, the earning asset portfolio was performing well with the percentage of accounts 30+ days past due at 1.2% compared to 1.1% at the end of 2004.

2004 Compared to 2003:

Financial Services revenues increased 19% to \$562.6 million in 2004 compared to the prior year due to higher asset levels in the Company's primary operating markets. New business volume was \$3.12 billion, up 38%, reflecting higher truck sales and improved leasing market share.

Income before taxes increased 36% to \$168.4 million in 2004 compared to \$123.6 million in 2003. The improvement was primarily due to higher finance margins and lower credit losses. Credit losses for the Financial Services segment were \$12.2 million in 2004, compared to \$24.2 million in 2003. The lower credit losses reflect fewer truck repossessions and higher used truck prices. The increase in finance margins was due to higher earning assets and a lower cost of funds, partially offset by a lower interest yield on assets.

Financial Services Outlook

The outlook for the Financial Services segment is principally dependent on the generation of new business volume and the related spread between the asset yields and the borrowing costs on new business, as well as the level of credit losses experienced. Asset growth is likely in North America and Europe, consistent with the anticipated strong truck markets. The segment continues to be exposed to the risk that economic weakness, as well as higher interest rates and fuel and insurance costs, could exert pressure on the profit margins of truck operators and result in higher past-due accounts and repossessions.

Other Business

Included in Truck and Other is the Company's winch manufacturing business. Sales from this business represent less than 1% of net sales for 2005, 2004 and 2003.

LIQUIDITY AND CAPITAL RESOURCES:

	2005	2004	2003
Cash and cash equivalents	\$1,698.9	\$1,614.7	\$1,347.0
Marketable debt securities	591.4	604.8	377.1
	\$2,290.3	\$2,219.5	\$1,724.1

The Company's total cash and marketable debt securities increased \$70.8 million in 2005. Cash provided by operations of \$986.8 million was used primarily to pay dividends of \$496.9 million, make capital additions totaling \$300.4 million and repurchase PACCAR stock for \$367.2 million. Cash required to originate new loans and leases was funded by repayments of existing loans and leases as well as Financial Services borrowings.

The Company has line of credit arrangements of \$1.70 billion. The unused portion of these credit lines was \$1.62 billion at December 31, 2005 and is primarily maintained to provide backup liquidity for commercial paper borrowings of the financial services companies. Included in these arrangements is a \$1.5 billion bank facility, of which \$.5 billion matures in 2006 and \$1.0 billion matures in 2010. The Company's strong liquidity position and AA- investment grade credit rating continue to provide financial stability and access to capital markets at competitive interest rates.

Truck and Other

The Company provides funding for working capital, capital expenditures, research and development, dividends and other business initiatives and commitments primarily from cash provided by operations. Management expects this method of funding to continue in the future.

Long-term debt and commercial paper were \$28.8 million as of December 31, 2005.

Expenditures for property, plant and equipment in 2005 totaled \$299 million compared to \$231 million in 2004. Major capital projects included a new engine factory at DAF to manufacture the new Euro 4/5 compliant PACCAR MX 12.9 liter engine for the European market and a significantly expanded Kenworth truck factory in Mexico. In addition, the Company invested in robotics and other quality-enhancing innovations in all of its truck factories. Over the last five years, the Company's worldwide capital spending totaled \$800 million.

Spending for capital investments in 2006, including new product development, is expected to increase from 2005 levels. PACCAR is investing in state-of-the-art technology to improve product design and quality, increase capacity, achieve efficiencies in business processes and enhance the distribution network, as well as develop new manufacturing tooling to support product development plans.

As previously announced, during the second quarter of 2005, PACCAR's Board of Directors authorized the Company to repatriate \$1.5 billion of foreign earnings under the provisions of The American Jobs Creation Act. This repatriation was completed by the end of 2005. In accordance with FASB Staff Position No. 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*, a provision of \$64.0 million for the repatriation of foreign earnings was recorded as income tax expense in the second quarter of 2005. U.S. income taxes are not provided on any remaining undistributed earnings of the Company's foreign subsidiaries because of the intent to reinvest these earnings indefinitely.

Financial Services

The Company funds its financial services activities primarily from collections on existing finance receivables and borrowings in the capital markets. An additional source of funds is loans from other PACCAR companies in the truck segment.

The primary sources of borrowings in the capital market are commercial paper and medium-term notes issued in the public markets and, to a lesser extent, bank loans. The majority of the medium-term notes are issued by PACCAR's largest financial services subsidiary, PACCAR Financial Corp. (PFC). PFC periodically files a shelf registration under the Securities Act of 1933. At December 31, 2005, \$1.3 billion of such securities remained available for issuance.

In September 2005, PACCAR's European finance subsidiary, PACCAR Financial Europe, registered a €1 billion euro medium-term note program with the London Stock Exchange. On December 31, 2005, €341 million remained available for issuance. This program is renewable annually through the filing of a new prospectus.

To reduce exposure to fluctuations in interest rates, the Financial Services companies pursue a policy of structuring borrowings with interest-rate characteristics similar to the assets being funded. As part of this policy, the companies use interest-rate contracts. The permitted types of interest-rate contracts and transaction limits have been established by the Company's senior management, who receive periodic reports on the contracts outstanding.

PACCAR believes its Financial Services companies will be able to continue funding receivables and servicing debt through internally generated funds, lines of credit and access to public and private debt markets.

Commitments

The following summarizes the Company's contractual cash commitments at December 31, 2005:

	Maturity		Total
	Within One Year	More than One Year	
Borrowings	\$5,319.4	\$ 935.5	\$6,254.9
Operating leases	32.1	49.8	81.9
Other obligations	15.2	68.6	83.8
Total	\$5,366.7	\$1,053.9	\$6,420.6

At the end of 2005, the Company had \$6.42 billion of cash commitments, including \$5.37 billion maturing within one year. Of the cash commitments, \$6.23 billion were related to the Financial Services segment. As described in Note K of the consolidated financial statements, borrowings consist primarily of term debt and commercial paper of the Financial Services segment. The Company expects to fund its maturing Financial Services debt obligations principally from funds provided by collections from customers on loans and lease contracts, as well as from the proceeds of commercial paper and medium-term note borrowings. Other obligations include deferred cash compensation and the Company's contractual commitment to acquire future production inventory.

The Company's other commitments include the following at December 31, 2005:

	Commitment Expiration		Total
	Within One Year	More than One Year	
Letters of credit	\$ 16.3	\$ 15.0	\$ 31.3
Loan and lease commitments	291.4		291.4
Equipment acquisition commitments	14.9	38.2	53.1
Residual value guarantees	71.4	175.6	247.0
Total	\$394.0	\$228.8	\$622.8

Loan and lease commitments are to fund new retail loan and lease contracts. Equipment acquisition commitments require the Company, under specified circumstances, to purchase equipment. Residual value guarantees represent the Company's commitment to acquire trucks at a guaranteed value if the customer decides to return the truck at a specified date in the future.

IMPACT OF ENVIRONMENTAL MATTERS:

The Company, its competitors and industry in general are subject to various domestic and foreign requirements relating to the environment. The Company believes its policies, practices and procedures are designed to prevent unreasonable risk of environmental damage and that its handling, use and disposal of hazardous or toxic substances have been in accordance with environmental laws and regulations enacted at the time such use and disposal occurred. Expenditures related to environmental activities were \$1.2 million in 2005, \$2.4 million in 2004 and \$1.2 million in 2003.

The Company is involved in various stages of investigations and cleanup actions in different countries related to environmental matters. In certain of these matters, the Company has been designated as a “potentially responsible party” by domestic and foreign environmental agencies. The Company has provided for the estimated costs to investigate and complete cleanup actions where it is probable that the Company will incur such costs in the future.

The Company’s estimated range of reasonably possible costs to complete cleanup actions, where it is probable that the Company will incur such costs and where such amounts can be reasonably estimated, is between \$19.2 million and \$44.2 million. The Company has established a reserve to provide for estimated future environmental cleanup costs.

While the timing and amount of the ultimate costs associated with environmental cleanup matters cannot be determined, management does not expect that these matters will have a material adverse effect on the Company’s consolidated cash flow, liquidity or financial condition.

CRITICAL ACCOUNTING POLICIES:

In the preparation of the Company’s financial statements, in accordance with U.S. generally accepted accounting principles, management uses estimates and makes judgments and assumptions that affect asset and liability values and the amounts reported as income and expense during the periods presented. The following are accounting policies which, in the opinion of management, are particularly sensitive and which, if actual results are different, may have a material impact on the financial statements.

Operating Leases

The accounting for trucks sold pursuant to agreements accounted for as operating leases is discussed in Notes A and G of the consolidated financial statements. In determining its estimate of the residual value of such vehicles, the Company considers the length of the lease term, the truck model and anticipated market demand and the expected usage of the truck. If the sales price of the trucks at the end of the term of the agreement differs significantly from the Company’s estimate, a gain or loss will result. The Company believes its residual-setting policies are appropriate; however, future market conditions, changes in government regulations and other factors outside the Company’s control can impact the ultimate sales price of trucks returned under these contracts. Residual values are reviewed regularly and adjusted downward if market conditions warrant.

Allowance for Credit Losses

The Company determines the allowance for credit losses on financial services receivables based on a combination of historical information and current market conditions. This determination is dependent on estimates, including assumptions regarding the likelihood of collecting current and past-due accounts, repossession rates and the recovery rate on the underlying collateral based on used truck values and other pledged collateral or recourse. The Company believes its reserve-setting policies adequately take into account the known risks inherent in the financial services portfolio. If there are significant variations in the actual results from those estimates, the provision for credit losses and operating earnings may be adversely impacted.

Product Warranty

The expenses related to product warranty are estimated and recorded at the time products are sold based on historical data regarding the source, frequency, and cost of warranty claims. Management believes that the warranty reserve is appropriate and takes actions to minimize warranty costs through quality-improvement programs; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserve.

Pension and Other Postretirement Benefits

The Company's accounting for employee pension and other postretirement benefit costs and obligations is governed by the pronouncements of the Financial Accounting Standards Board. Under these rules, management determines appropriate assumptions about the future, which are used by actuaries to estimate net costs and liabilities. These assumptions include discount rates, health care cost trends, inflation rates, long-term rates of return on plan assets, retirement rates, mortality rates and other factors. Management bases these assumptions on historical results, the current environment and reasonable expectations of future events. The discount rate for each plan is based on market interest rates of high-quality corporate bonds with a maturity profile that matches the timing of the projected benefit payments of the plans. The long-term rate of return on plan assets is based on projected returns for each asset class and the projected relative weighting of those asset classes in the plans. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect expense in such future periods. Changes in the discount rate also affect the valuation of the plan benefits obligation. While management believes that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect pension and other postretirement benefit costs and obligations. See Note L of the consolidated financial statements for more information regarding costs and assumptions for employee benefit plans.

FORWARD-LOOKING STATEMENTS:

Certain information presented in this report contains forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995, which are subject to risks and uncertainties that may affect actual results. Risks and uncertainties include, but are not limited to: a significant decline in industry sales; competitive pressures; reduced market share; reduced availability of or higher prices for fuel; increased safety, emissions, or other regulations resulting in higher costs and/or sales restrictions; currency or commodity price fluctuations; lower used truck prices; insufficient or under-utilization of manufacturing capacity; supplier interruptions; insufficient supplier capacity or access to raw materials; labor disruptions; shortages of commercial truck drivers; increased warranty costs or litigation; or legislative and governmental regulations.

CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31	2005	2004	2003
	<i>(millions except per share data)</i>		
TRUCK AND OTHER:			
Net sales and revenues	\$13,298.4	\$10,833.7	\$ 7,721.1
Cost of sales and revenues	11,340.5	9,268.6	6,732.0
Selling, general and administrative	429.9	390.4	345.0
Interest and other expense, net	11.2	34.8	3.5
	11,781.6	9,693.8	7,080.5
<i>Truck and Other Income Before Income Taxes</i>	1,516.8	1,139.9	640.6
FINANCIAL SERVICES:			
Revenues	759.0	562.6	473.8
Interest and other	433.8	296.1	248.7
Selling, general and administrative	84.9	80.0	72.9
Provision for losses on receivables	40.4	18.1	28.6
	559.1	394.2	350.2
<i>Financial Services Income Before Income Taxes</i>	199.9	168.4	123.6
Investment income	56.9	59.9	41.3
<i>Total Income Before Income Taxes</i>	1,773.6	1,368.2	805.5
Income taxes	640.4	461.4	279.0
<i>Net Income</i>	\$ 1,133.2	\$ 906.8	\$ 526.5
Net Income Per Share			
Basic	\$ 6.60	\$ 5.19	\$ 3.01
Diluted	\$ 6.56	\$ 5.16	\$ 2.99
Weighted average number of common shares outstanding			
Basic	171.7	174.6	174.8
Diluted	172.8	175.7	176.1
<i>See notes to consolidated financial statements.</i>			

CONSOLIDATED BALANCE SHEETS

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ASSETS

<i>December 31</i>	2005	2004
	<i>(millions of dollars)</i>	
TRUCK AND OTHER:		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 1,624.4	\$ 1,579.3
Trade and other receivables, net	582.2	538.7
Marketable debt securities	591.4	604.8
Inventories	495.5	495.6
Deferred taxes and other current assets	214.9	113.3
<i>Total Truck and Other Current Assets</i>	3,508.4	3,331.7
Equipment on operating leases, net	361.0	472.1
Property, plant and equipment, net	1,143.0	1,037.8
Other noncurrent assets	347.1	406.3
<i>Total Truck and Other Assets</i>	5,359.5	5,247.9
FINANCIAL SERVICES:		
Cash and cash equivalents	74.5	35.4
Finance and other receivables, net	7,262.5	6,106.1
Equipment on operating leases, net	845.9	716.4
Other assets	173.0	122.2
<i>Total Financial Services Assets</i>	8,355.9	6,980.1
	\$13,715.4	\$12,228.0

LIABILITIES AND STOCKHOLDERS' EQUITY

<i>December 31</i>	2005	2004
	<i>(millions of dollars)</i>	
TRUCK AND OTHER:		
<i>Current Liabilities</i>		
Accounts payable and accrued expenses	\$ 1,834.9	\$ 1,794.4
Current portion of long-term debt and commercial paper	8.6	8.4
Dividend payable	338.7	347.8
<i>Total Truck and Other Current Liabilities</i>	2,182.2	2,150.6
Long-term debt and commercial paper	20.2	27.8
Residual value guarantees and deferred revenues	410.4	526.2
Deferred taxes and other liabilities	344.0	372.9
<i>Total Truck and Other Liabilities</i>	2,956.8	3,077.5
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	168.9	148.8
Commercial paper and bank loans	3,568.6	2,502.0
Term debt	2,657.5	2,286.6
Deferred taxes and other liabilities	462.5	450.7
<i>Total Financial Services Liabilities</i>	6,857.5	5,388.1
STOCKHOLDERS' EQUITY		
Preferred stock, no par value – authorized 1.0 million shares, none issued		
Common stock, \$1 par value – authorized 400.0 million shares; issued 169.4 million and 173.9 million shares	169.4	173.9
Additional paid-in capital	140.6	450.5
Treasury stock – at cost – .5 million shares	(35.1)	
Retained earnings	3,471.5	2,826.9
Accumulated other comprehensive income	154.7	311.1
<i>Total Stockholders' Equity</i>	3,901.1	3,762.4
	\$13,715.4	\$12,228.0

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31	2005	2004	2003
	(millions of dollars)		
OPERATING ACTIVITIES:			
Net income	\$ 1,133.2	\$ 906.8	\$ 526.5
<i>Items included in net income not affecting cash:</i>			
Depreciation and amortization:			
Property, plant and equipment	133.3	122.0	116.1
Equipment on operating leases and other	236.8	193.0	151.4
Provision for losses on financial services receivables	40.4	18.1	28.6
Other, net	(19.8)	19.4	21.7
<i>Change in operating assets and liabilities:</i>			
(Increase) decrease in assets other than cash and equivalents:			
Receivables:			
Trade and other	(80.1)	(53.0)	(32.8)
Wholesale receivables on new trucks	(398.9)	(298.4)	(29.7)
Sales-type finance leases and dealer direct loans on new trucks	(194.3)	(164.0)	(10.7)
Inventories	(30.1)	(142.1)	23.6
Other, net	(37.5)	(30.2)	(57.3)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	147.1	409.7	57.5
Residual value guarantees and deferred revenues	45.5	(69.5)	(55.3)
Other, net	11.2	(20.8)	38.7
<i>Net Cash Provided by Operating Activities</i>	986.8	891.0	778.3
INVESTING ACTIVITIES:			
Retail loans and direct financing leases originated	(2,946.4)	(2,333.1)	(1,829.4)
Collections on retail loans and direct financing leases	2,202.5	1,816.0	1,822.4
Net (increase) decrease in wholesale receivables on used equipment	(15.5)	7.1	1.9
Marketable securities purchases	(1,172.4)	(876.3)	(945.6)
Marketable securities sales and maturities	1,135.1	710.5	1,097.9
Acquisition of property, plant and equipment	(300.4)	(231.9)	(111.2)
Acquisition of equipment for operating leases	(548.1)	(401.6)	(258.1)
Proceeds from asset disposals	96.1	103.2	30.9
Other, net	46.5		(7.7)
<i>Net Cash Used in Investing Activities</i>	(1,502.6)	(1,206.1)	(198.9)
FINANCING ACTIVITIES:			
Cash dividends paid	(496.9)	(270.9)	(171.9)
Purchase of treasury stock	(367.2)	(107.7)	
Stock option transactions	11.9	15.7	23.8
Net increase in commercial paper and bank loans	1,148.4	148.2	20.2
Proceeds from long-term debt	1,016.9	1,588.6	659.2
Payments on long-term debt	(592.1)	(857.6)	(662.0)
<i>Net Cash Provided by (Used in) Financing Activities</i>	721.0	516.3	(130.7)
Effect of exchange rate changes on cash	(121.0)	66.5	125.3
<i>Net Increase in Cash and Cash Equivalents</i>	84.2	267.7	574.0
Cash and cash equivalents at beginning of year	1,614.7	1,347.0	773.0
<i>Cash and cash equivalents at end of year</i>	\$ 1,698.9	\$ 1,614.7	\$ 1,347.0

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

December 31	2005	2004	2003
	<i>(millions of dollars except per share data)</i>		
COMMON STOCK, \$1 PAR VALUE:			
Balance at beginning of year	\$ 173.9	\$ 175.1	\$ 115.9
Treasury stock retirement	(5.0)	(2.0)	
50% stock dividend			58.4
Stock options exercised and other stock compensation	.5	.8	.8
Balance at end of year	169.4	173.9	175.1
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	450.5	524.2	545.8
Treasury stock retirement	(338.4)	(105.7)	
50% stock dividend			(58.4)
Stock options exercised and tax benefit	27.0	25.6	32.9
Other stock compensation	1.5	6.4	3.9
Balance at end of year	140.6	450.5	524.2
TREASURY STOCK, AT COST:			
Balance at beginning of year			
Purchases	(378.5)	(107.7)	
Retirements	343.4	107.7	
Balance at end of year	(35.1)		
RETAINED EARNINGS:			
Balance at beginning of year	2,826.9	2,399.2	2,113.3
Net income	1,133.2	906.8	526.5
Cash dividends declared on common stock, per share: 2005-\$2.87; 2004-\$2.75; 2003-\$1.37	(488.6)	(479.1)	(240.6)
Balance at end of year	3,471.5	2,826.9	2,399.2
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Balance at beginning of year	311.1	147.9	(174.3)
Other comprehensive (loss) income	(156.4)	163.2	322.2
Balance at end of year	154.7	311.1	147.9
<i>Total Stockholders' Equity</i>	\$ 3,901.1	\$ 3,762.4	\$ 3,246.4

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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Year Ended December 31	2005	2004	2003
		<i>(millions of dollars)</i>	
Net income	\$1,133.2	\$ 906.8	\$526.5
Other comprehensive (loss) income:			
Unrealized gains (losses) on investments			
Net holding (loss) gain	(1.6)	(1.2)	9.1
Tax effect	.6	.4	(3.5)
Reclassification adjustment	(.5)	(13.6)	(5.7)
Tax benefit	.2	5.2	2.2
	(1.3)	(9.2)	2.1
Minimum pension liability adjustment	(20.2)	(8.0)	25.8
Tax effect	7.9	2.7	(8.7)
	(12.3)	(5.3)	17.1
Unrealized gains (losses) on derivative contracts			
Gains (losses) arising during the period	28.5	(11.9)	(12.4)
Tax effect	(10.5)	3.8	5.6
Reclassification adjustment	9.6	31.4	50.6
Tax effect	(2.8)	(12.3)	(19.2)
	24.8	11.0	24.6
Foreign currency translation (losses) gains	(167.6)	166.7	278.4
Net other comprehensive (loss) income	(156.4)	163.2	322.2
Comprehensive Income	\$ 976.8	\$1,070.0	\$848.7

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003 (currencies in millions)

A. SIGNIFICANT ACCOUNTING POLICIES

Description of Operations: PACCAR Inc (the Company or PACCAR) is a multinational company operating in two segments: (1) the manufacture and distribution of light-, medium- and heavy-duty commercial trucks and related aftermarket parts and (2) finance and leasing products and services provided to customers and dealers. PACCAR's sales and revenues are derived primarily from North America and Europe. The Company also operates in Australia and sells trucks and parts outside its primary markets to customers in Asia, Africa and South America.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned domestic and foreign subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash equivalents consist of short-term liquid investments with a maturity at date of purchase of three months or less.

Long-lived Assets, Goodwill and Other Intangible Assets: The Company evaluates the carrying value of long-lived assets (including property and equipment, goodwill and other intangible assets) when events and circumstances warrant such a review. Goodwill is also reviewed for impairment on an annual basis. There were no impairment charges during the three years ended December 31, 2005.

Revenue Recognition: Substantially all sales and revenues of trucks and related aftermarket parts are

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003 (currencies in millions except per share amounts)

recorded by the Company when products are shipped to dealers or customers, except for certain truck shipments that are subject to a residual value guarantee to the customer. Revenues related to these shipments are recognized on a straight-line basis over the guarantee period (see Note G). At the time certain truck and parts sales to a dealer are recognized, the Company records an estimate of the future sales incentive costs related to such sales. The estimate is based on historical data and announced incentive programs.

Interest income from finance and other receivables is recognized using the interest method. Certain loan origination costs are deferred and amortized to interest income. For operating leases, rental revenue is recognized on a straight-line basis over the lease term. Recognition of interest income and rental revenue is suspended when management determines that collection is not probable (generally after 90 days past the contractual due date). Recognition is resumed if the receivable becomes contractually current and the collection of amounts is again considered probable.

Foreign Currency Translation: For most of PACCAR's foreign subsidiaries, the local currency is the functional currency. All assets and liabilities are translated at year-end exchange rates and all income statement amounts are translated at the weighted average rates for the period. Adjustments resulting from this translation are recorded in accumulated other comprehensive income (loss), a component of stockholders' equity.

During 2005 the Company entered into forward currency contracts to hedge its net investment in foreign subsidiaries. The gain, net of tax effects, of \$45.3 on the hedges was recorded as an adjustment to the foreign currency translation component of other comprehensive income.

PACCAR uses the U.S. dollar as the functional currency for its Mexican subsidiaries. Accordingly, inventories, cost of sales, property, plant and equipment, and depreciation were translated at historical rates. Resulting gains and losses are included in net income.

Research and Development: Research and development costs are expensed as incurred and included as a component of cost of sales in the accompanying consolidated statements of income. Amounts charged against income were \$117.8 in 2005, \$103.2 in 2004 and \$81.1 in 2003.

Earnings per Share: Diluted earnings per share are based on the weighted average number of basic shares outstanding during the year, adjusted for the dilutive effect of stock options under the treasury stock method.

Stock-Based Compensation: Effective January 1, 2003, PACCAR began to recognize compensation expense on all new employee stock option awards over the option vesting period, generally three years.

In December 2004, the Financial Accounting Standards Board issued FAS No. 123(R), *Share-Based Payment*, which requires the expensing of all share-based payment transactions, including stock option awards. FAS No. 123(R) also requires that certain tax benefits from stock options be classified as financing rather than operating cash flows. PACCAR will apply FAS No. 123(R) on a modified prospective basis, effective January 1, 2006. The Company does not expect the adoption of FAS No. 123(R) to have a significant effect on its consolidated financial statements.

Stock-based employee compensation expense (net of related tax effects) included in net income amounted to \$4.4 in 2005. The following table illustrates the effect on net income and earnings per share as if the expensing of stock options had been applied to all outstanding and unvested shares in 2004 and 2003:

	2004	2003
Net income, as reported	\$906.8	\$526.5
Add: Stock-based compensation included in net income, net of related tax effects	2.8	1.7
Deduct: Fair value of stock compensation, net of tax	(4.0)	(4.7)
Pro forma net income	\$905.6	\$523.5

Earnings per share:		
Basic—as reported	\$ 5.19	\$ 3.01
Basic—pro forma	5.19	2.99
Diluted—as reported	5.16	2.99
Diluted—pro forma	5.15	2.97

The estimated fair value of stock options granted during 2005, 2004 and 2003 was \$21.25, \$18.87 and \$9.82 per share. These amounts were determined using the Black-Scholes-Merton option-pricing model, which values options based on the stock price at the grant date, and the following assumptions:

	2005	2004	2003
Risk-free interest rate	3.73%	3.11%	3.21%
Expected volatility of common stock	39%	45%	48%
Dividend yield	3.2%	3.0%	4.4%
Expected life of options	5 years	5 years	5 years

See Note Q for a description of PACCAR's stock compensation plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003 (currencies in millions)

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New Accounting Pronouncements: In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 is an interpretation of FAS No. 143, *Asset Retirement Obligations*, and relates to the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The adoption of FIN 47, effective December 31, 2005, did not have an effect on the Company's consolidated results of operations or financial position.

Reclassifications: Certain prior-year amounts have been reclassified to conform to the 2005 presentation.

B. INVESTMENTS IN MARKETABLE SECURITIES

The Company's investments in marketable securities are classified as available-for-sale. These investments are stated at fair value with any unrealized holding gains or losses, net of tax, included as a component of accumulated other comprehensive income until realized. Gross realized gains on marketable debt securities were \$3.5 in 2005, not significant in 2004 and \$5.1 in 2003. Gross realized losses and gross unrealized gains and losses were not significant for any of the three years ended December 31, 2005.

The cost of debt securities available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity. Amortization of premiums, accretion of discounts, interest and dividend income and realized gains and losses are included in investment income. The cost of securities sold is based on the specific identification method.

Marketable debt securities at December 31, 2005, were as follows:

	AMORTIZED COST	FAIR VALUE
U.S. tax-exempt securities	\$553.6	\$552.7
Non U.S. government securities	39.3	38.7
	\$592.9	\$591.4

Marketable debt securities at December 31, 2004, were as follows:

	AMORTIZED COST	FAIR VALUE
U.S. tax-exempt securities	\$194.8	\$195.4
Corporate securities	187.3	187.4
Non U.S. government securities	203.0	202.9
Other debt securities	19.1	19.1
	\$604.2	\$604.8

The contractual maturities of debt securities at December 31, 2005, were as follows:

<i>Maturities:</i>	AMORTIZED COST	FAIR VALUE
Within one year	\$ 78.6	\$ 78.5
One to five years	196.7	195.3
Five to ten years	14.7	14.7
10 or more years	302.9	302.9
	\$592.9	\$591.4

Marketable debt securities include \$342.3 of variable rate demand obligations (VRDOs). VRDOs are debt instruments with long-term scheduled maturities which have interest rates that periodically reset through an auction process.

The Company had no investments in marketable equity securities at either December 31, 2005 or 2004. Gross realized gains on marketable equity securities were \$14.1 and \$.7 for the years ended December 31, 2004 and 2003.

C. INVENTORIES

Inventories include the following:

	2005	2004
Finished products	\$299.3	\$270.6
Work in process and raw materials	330.1	353.1
	629.4	623.7
Less LIFO reserve	(133.9)	(128.1)
	\$495.5	\$495.6

Inventories are stated at the lower of cost or market. Cost of inventories in the United States is determined principally by the last-in, first-out (LIFO) method. Cost of all other inventories is determined principally by the first-in, first-out (FIFO) method. Inventories valued using the LIFO method comprised 49% and 50% of consolidated inventories before deducting the LIFO reserve at December 31, 2005 and 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003 (currencies in millions)

D. FINANCE AND OTHER RECEIVABLES

Finance and other receivables are as follows:

	2005	2004
Loans	\$3,745.9	\$3,306.1
Retail direct financing leases	1,881.8	1,635.7
Sales-type finance leases	701.2	497.5
Dealer wholesale financing	1,402.8	1,061.0
Interest and other receivables	86.6	73.0
Unearned interest:		
Loans	(103.6)	(100.6)
Finance leases	(307.0)	(239.2)
	7,407.7	6,233.5
Less allowance for losses	(145.2)	(127.4)
	\$7,262.5	\$6,106.1

The majority of the Company's customers are located in the United States, which represented 58% of total receivables at December 31, 2005, and 56% at December 31, 2004. Terms for substantially all finance and other receivables range up to 60 months. Repayment experience indicates that some receivables will be paid prior to contract maturity, while some others will be extended or renewed.

Included in Loans are dealer direct loans on the sale of new trucks of \$155.8 and \$124.2 as of December 31, 2005, and December 31, 2004.

The cash flow effects of sales-type leases, dealer direct loans and wholesale financing of new trucks are shown as operating cash flows in the consolidated statement of cash flows since they finance the sale of company inventory.

Annual payments due on loans beginning January 1, 2006, are \$1,372.8, \$981.9, \$728.7, \$456.3, \$184.1 and \$22.1 thereafter.

Annual minimum lease payments due on finance leases beginning January 1, 2006, are \$718.2, \$595.4, \$474.9, \$362.9, \$193.1 and \$89.3 thereafter. Estimated residual values included with finance leases amounted to \$134.4 in 2005 and \$120.1 in 2004.

E. ALLOWANCE FOR LOSSES

The provision for losses on finance, trade and other receivables is charged to income in an amount sufficient to maintain the allowance for losses at a level considered adequate to cover estimated credit losses. Receivables are charged to this allowance when, in the judgment of management, they are deemed uncollectible (generally upon repossession of the collateral).

The allowance for losses on Truck and Other and Financial Services receivables is summarized as follows:

	TRUCK AND OTHER	FINANCIAL SERVICES
Balance, December 31, 2002	\$ 25.9	\$ 109.1
Provision for losses	(8.6)	28.6
Net losses	(4.8)	(24.2)
Currency translation	2.4	5.7
Balance, December 31, 2003	14.9	119.2
Provision for losses	(2.2)	18.1
Net losses	(1.0)	(12.2)
Currency translation	1.0	2.3
Balance, December 31, 2004	12.7	127.4
Provision for losses	.3	40.4
Net losses	(.5)	(19.3)
Currency translation	(1.6)	(3.3)
Balance, December 31, 2005	\$ 10.9	\$ 145.2

The Company's customers are principally concentrated in the transportation industry in North America and Europe. There are no significant concentrations of credit risk in terms of a single customer. Generally, Financial Services and trade receivables are collateralized by the related equipment and parts.

F. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include the following:

	2005	2004
Land	\$ 123.6	\$ 105.6
Buildings	633.3	625.4
Machinery and equipment	1,569.7	1,477.1
	2,326.6	2,208.1
Less allowance for depreciation	(1,183.6)	(1,170.3)
	\$1,143.0	\$1,037.8

Property, plant and equipment are stated at cost. Depreciation is computed principally by the straight-line method based upon the estimated useful lives of the various classes of assets, which range as follows:

Buildings	30-40 years
Machinery and equipment	5-12 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003 (currencies in millions)

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G. EQUIPMENT ON OPERATING LEASES

The Company leases equipment under operating leases to customers in the financial services segment. In addition, in the truck segment, equipment sold to customers in Europe subject to a residual value guarantee (RVG) is accounted for as operating leases. Equipment is recorded at cost and is depreciated on the straight-line basis to the lower of the estimated residual value or guarantee value. Lease and guarantee periods generally range from three to seven years. Estimated useful lives of the equipment range from five to ten years. The Company reviews residual values of equipment on operating leases periodically to determine that recorded amounts are appropriate.

Truck and Other:

Equipment on operating leases is as follows:

	2005	2004
Equipment on lease	\$493.4	\$649.0
Less allowance for depreciation	(132.4)	(176.9)
	\$361.0	\$472.1

When the equipment is sold subject to an RVG, the full sales price is received from the customer. A liability is established for the residual value obligation with the remainder of the proceeds recorded as deferred lease revenue. These amounts are summarized below:

	2005	2004
Deferred lease revenues	\$163.4	\$191.5
Residual value guarantee	247.0	334.7
	\$410.4	\$526.2

The deferred lease revenue is amortized on a straight-line basis over the RVG contract period. At December 31, 2005, the annual amortization of deferred revenue beginning January 1, 2006, is \$68.1, \$48.5, \$28.0, \$12.6, \$5.2 and \$1.0 thereafter. Annual maturities of the residual value guarantees beginning January 1, 2006, are \$71.4, \$72.6, \$56.8, \$27.1, \$16.6 and \$2.5 thereafter.

Financial Services:

Equipment on operating leases is as follows:

	2005	2004
Transportation equipment	\$1,130.7	\$ 930.4
Less allowance for depreciation	(284.8)	(214.0)
	\$ 845.9	\$ 716.4

Annual minimum lease payments due on operating leases beginning January 1, 2006, are \$225.3, \$142.9, \$92.4, \$39.5, \$11.8 and \$.8 thereafter.

H. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses include the following:

	2005	2004
<i>Truck and Other:</i>		
Accounts payable	\$ 983.2	\$ 964.0
Salaries and wages	137.2	130.0
Product support reserves	253.3	247.0
Other	461.2	453.4
	\$1,834.9	\$1,794.4

I. PRODUCT SUPPORT RESERVES

Product support reserves include warranty reserves related to new products sales, as well as reserves related to optional extended warranties and repair and maintenance (R&M) contracts. The Company generally offers one-year warranties covering most of its vehicles and related aftermarket parts. Specific terms and conditions vary depending on the product and the country of sale. Optional extended warranty and R&M contracts can be purchased for periods which generally range up to five years. Warranty expenses and reserves are estimated and recorded at the time products or contracts are sold based on historical data regarding the source, frequency and cost of claims. PACCAR periodically assesses the adequacy of its recorded liabilities and adjusts the reserves as appropriate to reflect actual experience.

Changes in warranty and R&M reserves are summarized as follows:

	2005	2004
Beginning balance	\$ 348.8	\$ 300.5
Cost accruals and revenue deferrals	268.4	246.9
Payments and revenue recognized	(228.0)	(218.6)
Currency translation	(30.3)	20.0
	\$ 358.9	\$ 348.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003 (currencies in millions)

Warranty and R&M reserves are included in the accompanying consolidated balance sheets as follows:

	2005	2004
<i>Truck and Other:</i>		
Accounts payable and accrued expenses	\$ 253.3	\$ 247.0
Deferred taxes and other liabilities	34.3	32.5
<i>Financial Services:</i>		
Deferred taxes and other liabilities	71.3	69.3
	\$ 358.9	\$ 348.8

I. LEASES

The Company leases certain facilities, computer equipment and aircraft under operating leases. Leases expire at various dates through the year 2019.

Annual minimum rent payments under non-cancelable operating leases having initial or remaining terms in excess of one year at January 1, 2006, are \$32.1, \$20.5, \$12.5, \$5.9, \$3.4 and \$7.5 thereafter.

Total rental expenses under all leases amounted to \$42.3, \$34.3 and \$29.9 for 2005, 2004 and 2003.

K. BORROWINGS AND CREDIT ARRANGEMENTS

Borrowings include the following:

	EFFECTIVE RATE	2005	2004
<i>Truck and Other:</i>			
Long-term debt:			
Commercial paper	5.7%	\$ 8.6	\$ 16.7
Noninterest bearing notes		20.2	19.5
		28.8	36.2
Less current portion	5.7%	(8.6)	(8.4)
		\$ 20.2	\$ 27.8

Long-term debt of \$8.6 matures in 2006 and \$20.2 matures in 2011.

	EFFECTIVE RATE	2005	2004
<i>Financial Services:</i>			
Commercial paper	4.0%	\$3,566.3	\$2,480.0
Bank loans	5.0%	2.3	22.0
		\$3,568.6	\$2,502.0
Term debt:			
Fixed rate	7.0%	\$ 127.3	\$ 100.5
Floating rate	3.6%	2,530.2	2,186.1
		\$2,657.5	\$2,286.6

The effective rate is the weighted average rate as of December 31, 2005, and includes the effects of interest-rate agreements.

Annual maturities of term debt beginning January 1, 2006, are \$1,742.2, \$393.4, \$388.9, \$132.0 and \$1.0. Maturities for 2006 include \$100.0 of floating rate extendible notes, which were issued in 2005. The extendible notes have an initial maturity of 13 months, which can be extended at the investor's option to a final maturity of five years.

Consolidated:

Interest paid on consolidated borrowings was \$204.0, \$134.4 and \$137.9 in 2005, 2004 and 2003.

The weighted average interest rate on consolidated commercial paper and bank loans was 4.0%, 3.4% and 3.5% at December 31, 2005, 2004 and 2003.

The primary sources of borrowings are commercial paper and medium-term notes issued in the public markets. The medium-term notes are issued by PACCAR Financial Corp. (PFC) and PACCAR Financial Europe (PFE). PFC periodically files a shelf registration under the Securities Act of 1933. PFC filed a \$3,000.0 shelf registration that became effective in 2004. On December 31, 2005, \$1,300.0 of debt remained available for issuance. In September 2005, PFE registered a €1,000.0 euro medium-term note program with the London Stock Exchange. On December 31, 2005, €341.1 of such securities remained available under the program.

The Company has line of credit arrangements of \$1,695.1. Included in these arrangements is a \$1,500 bank facility, of which \$500 matures in 2006 and \$1,000 matures in 2010. The unused portion of these credit lines was \$1,615.2 at December 31, 2005, of which the majority is maintained to provide backup liquidity for commercial paper borrowings of the financial services companies. Compensating balances are not required on the lines, and service fees are immaterial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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L. EMPLOYEE BENEFIT PLANS

PACCAR has several defined benefit pension plans, which cover a majority of its employees.

The Company evaluates its actuarial assumptions on an annual basis and considers changes based upon market conditions and other factors.

The Company funds its pensions in accordance with applicable employee benefit and tax laws. The Company contributed \$63.7 to its pension plans in 2005 and \$58.4 in 2004. The Company expects to contribute in the range of \$30.0 to \$70.0 to its pension plans in 2006, of which \$13.5 is estimated to satisfy minimum funding requirements. Annual benefits expected to be paid beginning January 1, 2006, are \$32.6, \$33.0, \$37.3, \$40.4, \$44.1, and for the five years thereafter, a total of \$286.7.

Plan assets are invested in a diversified mix of equity and debt securities through professional investment managers with the objective to achieve targeted risk adjusted returns and maintain liquidity sufficient to fund current benefit payments. Allocation of plan assets may change over time based upon investment manager determination of the relative attractiveness of equity and debt securities. The Company periodically assesses allocation of plan assets by investment type and evaluates external sources of information regarding the long-term historical returns and expected future returns for each investment type.

The following information details the allocation of plan assets by investment type:

	Target	Actual 2005	2004
<i>Plan assets allocation as of December 31:</i>			
Equity securities	55 - 65%	63.9%	62.9%
Debt securities	35 - 45%	36.1	37.1
Total		100.0%	100.0%

The following additional data relate to all pension plans of the Company, except for certain multi-employer and foreign-insured plans:

	2005	2004
<i>Weighted Average Assumptions as of December 31:</i>		
Discount rate	5.5%	5.7%
Rate of increase in future compensation levels	4.2%	4.2%
Assumed long-term rate of return on plan assets	7.4%	7.4%

	2005	2004
<i>Change in Projected Benefit Obligation:</i>		
Benefit obligation at January 1	\$ 935.2	\$799.3
Service cost	40.8	32.2
Interest cost	52.8	48.4
Benefits paid	(29.4)	(33.0)
Actuarial loss	61.0	64.8
Currency translation	(19.7)	16.7
Participant contributions	3.9	3.8
Plan amendment		3.0
Projected benefit obligation at December 31	\$1,044.6	\$935.2

	2005	2004
<i>Change in Plan Assets:</i>		
Fair value of plan assets at January 1	\$ 880.3	\$763.9
Employer contributions	63.7	58.4
Actual return on plan assets	75.4	77.5
Benefits paid	(29.4)	(33.0)
Currency translation	(20.2)	9.7
Participant contributions	3.9	3.8
Fair value of plan assets at December 31	\$ 973.7	\$880.3

	2005	2004
<i>Funded Status at December 31:</i>		
Funded status	\$ (70.9)	\$(54.9)
Unrecognized actuarial loss	220.1	184.1
Unrecognized prior service cost	17.7	21.0
Unrecognized net initial obligation	2.2	2.2
Net pension asset	\$ 169.1	\$152.4

	2005	2004
<i>Amounts Recorded in Balance Sheet:</i>		
Prepaid benefit	\$ 160.3	\$171.0
Accrued benefit liability	(30.9)	(39.9)
Intangible asset	6.5	8.3
Accumulated other comprehensive loss	33.2	13.0
Net pension asset	\$ 169.1	\$152.4

The projected benefit obligation includes \$38.6 at December 31, 2005, and \$33.3 at December 31, 2004, related to an unfunded supplemental plan.

The accumulated benefit obligation for all pension plans of the Company, except for certain multi-employer and foreign-insured plans, was \$904.9 at December 31, 2005, and \$806.8 at December 31, 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	2005	2004	2003
<i>Components of Pension Expense:</i>			
Service cost	\$ 40.8	\$ 32.2	\$ 27.0
Interest on projected benefit obligation	52.8	48.5	44.2
Expected return on assets	(64.1)	(59.5)	(48.5)
Amortization of prior service costs	3.6	3.4	2.9
Recognized actuarial loss	9.2	3.8	4.1
Other	.1	.2	.3
Net pension expense	\$ 42.4	\$ 28.6	\$ 30.0

Pension expense for multi-employer and foreign-insured plans was \$29.0, \$24.9 and \$19.3 in 2005, 2004 and 2003.

The Company has certain defined contribution benefit plans whereby it generally matches employee contributions of 2% to 5% of base wages. The majority of participants in these plans are non-union employees located in the United States. Expenses for these plans were \$20.6, \$18.5 and \$16.1 in 2005, 2004 and 2003.

The Company also provides coverage of approximately 50% of medical costs for the majority of its U.S. employees from retirement until age 65 as well as a nominal death benefit.

The following data relate to unfunded postretirement medical and life insurance plans:

	2005	2004
<i>Unfunded Status at December 31:</i>		
Unfunded status	\$ (76.7)	\$ (69.3)
Unrecognized actuarial loss	19.8	18.5
Unrecognized prior service cost	.6	.8
Unrecognized net initial obligation	2.8	3.2
Accrued postretirement benefits	\$ (53.5)	\$ (46.8)

	2005	2004
<i>Change in Projected Benefit Obligation:</i>		
Benefit obligation at January 1	\$ 69.3	\$ 51.2
Service cost	3.6	2.6
Interest cost	4.2	3.7
Benefits paid	(1.4)	(1.9)
Actuarial loss	1.0	13.7
Projected benefit obligation at December 31	\$ 76.7	\$ 69.3

	2005	2004	2003
<i>Components of Retiree Expense:</i>			
Service cost	\$ 3.6	\$ 2.6	\$ 1.7
Interest cost	4.2	3.7	2.9
Recognized actuarial loss	1.5	.7	
Recognized prior service cost	.2	.1	.1
Recognized net initial obligation	.4	.5	.5
Net retiree expense	\$ 9.9	\$ 7.6	\$ 5.2

The discount rate used for calculating the accumulated plan benefits was 5.6% for 2005 and 5.8% for 2004. In 2005 the assumed long-term medical inflation rate was 12% declining to 6% over six years. In 2004 the rate assumption was 7% for all future years. Annual benefits expected to be paid beginning January 1, 2006, are \$2.8, \$3.2, \$3.7, \$4.3, \$5.0 and for the five years thereafter, a total of \$35.5.

Assumed health care cost trends have an effect on the amounts reported for the postretirement health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% INCREASE	1% DECREASE
Effect on annual total of service and interest cost components	\$ 1.0	\$ (.8)
Effect on accumulated postretirement benefit obligation	\$ 7.6	\$ (6.6)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003 (currencies in millions)

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M. INCOME TAXES

	2005	2004	2003
Income Before Income Taxes:			
Domestic	\$ 960.3	\$ 643.5	\$ 273.6
Foreign	813.3	724.7	531.9
	\$1,773.6	\$1,368.2	\$805.5

Provision for Income Taxes:

Current provision:

Federal	\$ 330.7	\$ 139.9	\$ 53.6
State	41.9	22.1	13.4
Repatriated earnings	64.0		
Foreign	257.7	251.4	195.8
	694.3	413.4	262.8

Deferred (benefit) provision:

Federal	(35.7)	64.7	33.4
State	.4	6.7	
Foreign	(18.6)	(23.4)	(17.2)
	(53.9)	48.0	16.2
	\$ 640.4	\$ 461.4	\$ 279.0

Reconciliation of Statutory U.S. Federal Tax to Actual Provision:

Statutory rate	35%	35%	35%
Statutory tax	\$ 620.8	\$ 478.9	\$ 281.9
Effect of:			
State income taxes	27.5	18.7	8.7
Repatriated earnings	64.0		
Foreign income taxes	(45.3)	(25.7)	(4.6)
Other, net	(26.6)	(10.5)	(7.0)
	\$ 640.4	\$ 461.4	\$ 279.0

The American Jobs Creation Act of 2004 (AJCA) created a special 85% tax deduction available during 2005 for certain repatriated foreign earnings that are reinvested in qualifying domestic activities, as defined in the AJCA. PACCAR repatriated \$1.5 billion of foreign earnings in 2005. In accordance with FASB Staff Position No. 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the AJCA*, a provision of \$64.0 for the repatriation of foreign earnings was recorded as current income tax expense during the second quarter of 2005. United States income taxes are not provided on any remaining undistributed earnings of the Company's foreign subsidiaries because of the intent to reinvest these earnings indefinitely. The amount of undistributed earnings, which are considered to be indefinitely reinvested, is \$1.68 billion at December 31, 2005.

During 2005, the Company generated \$50.0 in U.S. foreign tax credit carryforwards, which expire in 2015. The Company does not expect to utilize these credits, and accordingly, recorded a valuation reserve for the full amount in 2005.

At December 31, 2005, the Company's net tax operating loss carryforwards were \$221.2. Substantially all of the loss carryforwards are in foreign subsidiaries and carry forward indefinitely, subject to certain limitations under applicable laws. The future tax benefits of net operating loss carryforwards are evaluated on an ongoing basis, including a review of historical and projected operating results. During 2004, the Company's evaluation resulted in a \$9.5 reduction in the valuation reserve related to net operating loss carryforwards at its subsidiary Leyland Trucks Ltd. in the United Kingdom.

At December 31:

Components of Deferred Tax Assets (Liabilities):

Assets:

	2005	2004
Provisions for accrued expenses	\$ 232.3	\$ 210.9
Net operating loss carryforwards	64.5	81.5
Allowance for losses on receivables	50.8	43.2
U.S. foreign tax credit carryforward	50.0	
Foreign product development costs	41.1	36.3
Other	71.7	25.3
	510.4	397.2
Valuation reserve	(95.5)	(56.0)
	414.9	341.2

Liabilities:

Financial Services		
leasing depreciation	(343.9)	(338.4)
Depreciation and amortization	(91.5)	(85.4)
Pension	(56.2)	(42.2)
Other	(68.2)	(56.8)
	(559.8)	(522.8)
Net deferred tax liability	\$(144.9)	\$(181.6)

At December 31:

Classification of Deferred Tax Assets (Liabilities):

Truck and Other:

Deferred taxes and other current assets	\$ 132.4	\$ 82.4
Other noncurrent assets	43.6	59.5
Deferred taxes and other liabilities	(22.1)	(35.5)

Financial Services:

Other assets	27.8	28.3
Deferred taxes and other liabilities	(326.6)	(316.3)
Net deferred tax liability	\$(144.9)	\$(181.6)

Cash paid for income taxes was \$722.0, \$418.7 and \$246.0 in 2005, 2004 and 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003 (currencies in millions)

N. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in determining its fair value disclosures for financial instruments:

Cash and Equivalents: The carrying amount reported in the balance sheet is stated at fair value.

Marketable Debt and Equity Securities: Amounts are carried at fair value, based on quoted market prices (see Note B).

Financial Services Net Receivables: For floating-rate loans and wholesale financings, fair values approximate carrying values. For fixed-rate loans, fair values are estimated using discounted cash flow analysis based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest and other receivables approximates its fair value. Finance lease receivables and the related loss provisions have been excluded from the accompanying table.

Short- and Long-term Debt: The carrying amount of commercial paper and short-term bank borrowings and floating-rate, long-term debt approximates fair value. The fair value of fixed-rate, long-term debt is estimated using discounted cash flow analysis, based on current rates for similar types and maturities of debt.

Derivative Instruments: Derivative instruments are carried at fair value. Fair values for interest-rate contracts are based on amounts that would be paid or received to terminate agreements outstanding at December 31, 2005 (see Note P). The fair value of outstanding foreign exchange contracts is the amount the Company would receive or pay to terminate the contracts. This amount is calculated using quoted market rates.

Trade Receivables and Payables: Carrying amounts approximate fair value.

Balance sheet captions, which include financial instruments that are not carried at fair value, are as follows:

2005	CARRYING AMOUNT	FAIR VALUE
<i>Truck and Other:</i>		
Long-term debt	\$ 28.8	\$ 26.8
<i>Financial Services:</i>		
Net receivables	4,954.5	4,909.4
Term debt	2,657.5	2,657.3
2004		
<i>Truck and Other:</i>		
Long-term debt	\$ 36.2	\$ 34.6
<i>Financial Services:</i>		
Net receivables	4,185.1	4,172.0
Term debt	2,286.6	2,286.5

O. COMMITMENTS AND CONTINGENCIES

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The Company is involved in various stages of investigations and cleanup actions in different countries related to environmental matters. In certain of these matters, the Company has been designated as a “potentially responsible party” by domestic and foreign environmental agencies. The Company has provided for the estimated costs to investigate and complete cleanup actions where it is probable that the Company will incur such costs in the future.

While neither the timing nor the amount of the ultimate costs associated with future environmental cleanup can be determined, management does not expect that those matters will have a material adverse effect on the Company’s consolidated financial position.

Expenditures related to environmental activities were \$1.2 in 2005, \$2.4 in 2004 and \$1.2 in 2003. The Company’s estimated range of reasonably possible costs to complete cleanup actions, where it is probable that the Company will incur such costs and where such amounts can be reasonably estimated, is between \$19.2 and \$44.2. The Company has established a reserve to provide for estimated future environmental cleanup costs.

At December 31, 2005, PACCAR had standby letters of credit of \$31.3, which guarantee various insurance and financing activities. The Company is committed, under specific circumstances, to purchase equipment at a cost of \$14.9 in 2006, \$8.1 in 2007 and \$30.1 in 2008. At December 31, 2005, PACCAR’s financial services companies, in the normal course of business, had outstanding commitments to fund new loan and lease transactions amounting to \$291.4. The commitments generally expire in 90 days. The Company had other commitments, primarily to purchase production inventory amounting to \$11.2 in 2006, \$9.3 annually from 2007 to 2010 and \$2.2 in 2011.

PACCAR is a defendant in various legal proceedings and, in addition, there are various other contingent liabilities arising in the normal course of business. After consultation with legal counsel, management does not anticipate that disposition of these proceedings and contingent liabilities will have a material effect on the consolidated financial statements.

December 31, 2005, 2004 and 2003 (currencies in millions)

P. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used as hedges to manage exposures to fluctuations in interest rates and foreign currency exchange rates. PACCAR's policies prohibit the use of derivatives for speculation or trading. The Company documents its hedge objectives, procedures and accounting treatment at the inception of and during the term of each hedge. Exposure limits and minimum credit ratings are used to minimize the risks of counterparty default, and the Company had no material exposures to default at December 31, 2005.

Interest-Rate Contracts: The Company enters into various interest-rate contracts, including interest-rate and basis swaps and cap agreements. Interest-rate contracts generally involve the exchange of fixed and floating rate interest payments. These contracts are used to manage exposures to fluctuations in interest rates. Net amounts paid or received are reflected as adjustments to interest expense. At December 31, 2005, the Company had 401 interest-rate contracts outstanding. The notional amount of these contracts totaled \$3,927.7, with amounts expiring annually over the next six years. The notional amount is used to measure the volume of these contracts and does not represent exposure to credit loss. In the event of default by a counterparty, the risk in these transactions is the cost of replacing the interest-rate contract at current market rates. The total fair value of all interest-rate contracts amounted to an asset of \$38.0 and a liability of \$9.7 at December 31, 2005. Fair values at December 31, 2004, amounted to an asset of \$16.2 and a liability of \$34.6.

Notional maturities for all interest-rate contracts for the six years beginning January 1, 2006, are \$1,306.7, \$1,234.9, \$914.3, \$352.9, \$106.9 and \$12.0. The majority of these contracts are floating to fixed swaps that effectively convert an equivalent amount of commercial paper and other variable rate debt to fixed rates. The weighted average pay rate of 3.76% for the fixed rate swaps approximates the Company's net cost of funds. The weighted average receive rate of 4.10% for fixed rate swaps offsets rates on associated debt obligations. In addition, cross currency interest-rate swaps with a notional amount of \$100.3 are used to hedge both the interest rate risk and the foreign exchange risk of Mexican peso-denominated debt.

Foreign Currency Exchange Contracts: PACCAR enters into foreign currency exchange contracts to hedge certain anticipated transactions denominated in foreign currencies, particularly the Canadian dollar, the euro, the British pound and the Mexican peso. Foreign exchange contracts mature within one year. PACCAR had net foreign exchange purchase contracts outstanding

amounting to \$321.1 and \$399.6 U.S. dollars at December 31, 2005 and 2004. The fair value of these foreign exchange contracts was a liability of \$.7 and an asset of \$9.3 at December 31, 2005 and 2004.

Derivative assets are included in the accompanying consolidated balance sheets, in Truck and Other "Deferred taxes and other current assets" and Financial Services "Other assets." Derivative liabilities are included in Truck and Other "Accounts payable and accrued expenses" and "Deferred taxes and other liabilities" and in Financial Services "Accounts payable, accrued expenses and other."

Substantially all of the Company's interest-rate contracts and all of its foreign currency exchange contracts have been designated as cash flow hedges. Gains or losses on the effective portion of derivatives designated and qualifying as cash flow hedges that arise from changes in fair value are initially reported in other comprehensive income. Gains or losses on the ineffective portion of cash flow hedges are recognized currently in earnings and were immaterial for each of the three years ended December 31, 2005. Amounts in accumulated other comprehensive income are reclassified into net income in the same period in which the hedged forecasted transaction affects earnings. Net realized gains and losses from foreign exchange contracts are recognized as an adjustment to cost of sales or to financial services interest expense, consistent with the hedged transaction. Net realized gains and losses from interest-rate contracts are recognized as an adjustment to interest expense. Of the accumulated net gain included in other comprehensive income as of December 31, 2005, \$12.3 is expected to be reclassified to interest expense in 2006. The fixed interest earned on finance receivables will offset the amount recognized in interest expense, resulting in a stable interest margin consistent with the Company's interest-rate risk management strategy.

In 2005, the Company entered into cross currency interest-rate swaps in connection with its financing operations in Mexico. These instruments have been designated and accounted for as fair value hedges. Unrealized gains and losses related to these interest-rate swaps, together with changes in the fair value of the underlying debt, are recognized and recorded as an adjustment to interest expense. Ineffectiveness from these hedges was immaterial during the year ended December 31, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003

Q. STOCK COMPENSATION PLANS

PACCAR has certain plans under which officers and key employees may be granted options to purchase shares of the Company's authorized but unissued common stock. Non-employee directors may be granted restricted shares of the Company's common stock. The maximum number of shares of the Company's common stock authorized for issuance under these plans is 20.7 million. As of December 31, 2005, the maximum number of shares available for future grants under these plans is 9.5 million. Options currently outstanding under these plans were granted with exercise prices equal to the fair market value of the Company's common stock at the date of grant. Options currently expire no later than 10 years from the grant date and generally vest within three years. Stock option activity is as follows:

	NUMBER OF SHARES	AVERAGE EXERCISE PRICE*
Outstanding at 12/31/02	4,523,300	\$21.88
Granted	864,100	31.40
Exercised	(1,267,600)	19.31
Cancelled	(229,600)	26.45
Outstanding at 12/31/03	3,890,200	24.56
Granted	457,600	56.95
Exercised	(736,100)	20.78
Cancelled	(270,400)	32.66
Outstanding at 12/31/04	3,341,300	29.18
Granted	414,600	72.25
Exercised	(484,400)	23.59
Cancelled	(101,900)	44.05
Outstanding at 12/31/05	3,169,600	\$35.19

The following tables summarize information about stock options outstanding and exercisable at December 31, 2005:

Stock Options Outstanding:

RANGE OF EXERCISE PRICES	NUMBER OF SHARES	REMAINING CONTRACTUAL LIFE IN YEARS	AVERAGE EXERCISE PRICE*
\$11.00-18.56	463,500	2.5	\$16.28
22.94-23.90	725,300	4.2	23.29
28.20-31.40	1,181,400	6.5	29.96
56.95	396,300	8.0	56.95
72.25	403,100	9.0	72.25
	3,169,600	5.9	\$35.19

Stock Options Exercisable:

RANGE OF EXERCISE PRICES	NUMBER OF SHARES	AVERAGE EXERCISE PRICE*
\$11.00-18.56	463,500	\$16.28
22.94-23.90	725,300	23.29
28.20	531,300	28.20
	1,720,100	\$22.92

*Weighted Average

See Note A for additional information regarding estimated fair values, Black-Scholes-Merton option pricing assumptions and pro forma net income and earnings per share amounts.

Diluted Earnings Per Share: The following table shows the additional shares added to weighted average basic shares outstanding to calculate diluted earnings per share. These amounts primarily represent the dilutive effect of stock options.

	2005	2004	2003
Additional shares	1,103,500	1,188,600	1,218,600

Options outstanding at each year-end with exercise prices in excess of the respective year's average common stock market price (antidilutive options) have been excluded from the diluted earnings per share calculation. Antidilutive options amounted to 403,100 in 2005, 428,300 in 2004 and none in 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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R. STOCKHOLDERS' EQUITY

Stockholder Rights Plan: The plan provides one right for each share of PACCAR common stock outstanding. Rights become exercisable if a person publicly announces the intention to acquire 15% or more of PACCAR's common stock or if a person (Acquiror) acquires such amount of common stock. In all cases, rights held by the Acquiror are not exercisable. When exercisable, each right entitles the holder to purchase for two hundred dollars a fractional share of Series A Junior Participating Preferred Stock. Each fractional preferred share has dividend, liquidation and voting rights which are no less than those for a share of common stock. Under certain circumstances, the rights may become exercisable for shares of PACCAR common stock or common stock of the Acquiror having a market value equal to twice the exercise price of the right. Also under certain circumstances, the Board of Directors may exchange exercisable rights, in whole or in part, for one share of PACCAR common stock per right. The rights, which expire in the year 2009, may be redeemed at one cent per right, subject to certain conditions. For this plan, 50,000 preferred shares are reserved for issuance. No shares have been issued.

Accumulated Other Comprehensive Income:

Following are the components of accumulated other comprehensive income:

	2005	2004	2003
Minimum pension liability adjustment	\$ (33.2)	\$ (13.0)	\$ (5.0)
Deferred tax asset	12.4	4.5	1.8
	(20.8)	(8.5)	(3.2)
Unrealized gain (loss) on derivative contracts	32.7	(5.4)	(24.9)
Deferred tax (liability) asset	(12.0)	1.3	9.8
	20.7	(4.1)	(15.1)
Unrealized (loss) gain on investments	(1.6)	.5	15.3
Deferred tax asset (liability)	.6	(.2)	(5.8)
	(1.0)	.3	9.5
Currency translation adjustment	155.8	323.4	156.7
Accumulated other comprehensive income	\$154.7	\$311.1	\$147.9

Other Capital Stock Changes: During 2005 the Company acquired 5.5 million of its common shares, of which five million were retired. In 2004, the Company acquired and retired two million of its outstanding common shares.

Stock Dividend: On December 9, 2003, the Board of Directors declared a 50% common stock dividend payable on February 5, 2004, to stockholders of record on January 19, 2004, with fractional shares paid in cash. This resulted in the issuance of 58,398,302 additional shares and 583 fractional shares paid in cash.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003 (currencies in millions)

S. SEGMENT AND RELATED INFORMATION

PACCAR operates in two principal segments, Truck and Financial Services.

The Truck segment includes the manufacture of trucks and the distribution of related aftermarket parts, both of which are sold through a network of company-appointed dealers. This segment derives a large proportion of its revenues and operating profits from operations in North America and Europe.

The Financial Services segment is composed of finance and leasing products and services provided to truck customers and dealers. Revenues are primarily generated from operations in North America and Europe.

Included in All Other is PACCAR's industrial winch manufacturing business. Also within this category are other sales, income and expenses not attributable to a reportable segment, including a portion of corporate expense. Intercompany interest income on cash advances to the financial services companies is included in All Other and was \$15.7, \$10.8 and \$9.3 for 2005, 2004 and 2003. Geographic revenues from external customers are presented based on the country of the customer.

PACCAR evaluates the performance of its Truck segment based on operating profits, which excludes investment income, other income and expense and income taxes. The Financial Services segment's performance is evaluated based on income before income taxes.

<i>Geographic Area Data</i>	2005	2004	2003
Revenues:			
United States	\$ 7,161.8	\$ 5,414.2	\$ 3,653.9
Continental Europe	2,889.5	2,640.3	1,928.3
United Kingdom	1,206.7	1,085.6	872.3
Other	2,799.4	2,256.2	1,740.4
	\$14,057.4	\$11,396.3	\$8,194.9

Long-lived assets:

Property, plant and equipment, net			
United States	\$ 443.0	\$ 424.7	\$ 371.8
The Netherlands	308.4	276.8	217.5
Other	391.6	336.3	304.1
	\$ 1,143.0	\$ 1,037.8	\$ 893.4

Goodwill and other intangibles, net

The Netherlands	\$ 105.7	\$ 122.7	\$ 121.2
Other	1.3	1.3	1.2
	\$ 107.0	\$ 124.0	\$ 122.4

<i>Geographic Area Data</i>	2005	2004	2003
Equipment on operating leases, net			
United States	\$ 400.7	\$ 340.9	\$ 198.7
United Kingdom	206.6	278.8	301.8
France	130.7	157.0	155.3
Other	468.9	411.8	310.0
	\$ 1,206.9	\$ 1,188.5	\$ 965.8

Business Segment Data

Net sales and revenues:

Truck			
Total	\$13,559.4	\$11,081.8	\$7,894.3
Less intersegment	(363.3)	(319.5)	(233.1)
External customers	13,196.1	10,762.3	7,661.2
All Other	102.3	71.4	59.9
	13,298.4	10,833.7	7,721.1
Financial Services	759.0	562.6	473.8
	\$14,057.4	\$11,396.3	\$8,194.9

Income before income taxes:

Truck	\$ 1,520.2	\$ 1,145.0	\$ 655.4
All Other	(3.4)	(5.1)	(14.8)
	1,516.8	1,139.9	640.6
Financial Services	199.9	168.4	123.6
Investment income	56.9	59.9	41.3
	\$ 1,773.6	\$ 1,368.2	\$ 805.5

Depreciation and amortization:

Truck	\$ 190.3	\$ 182.1	\$ 174.1
Financial Services	166.6	124.0	83.3
All Other	13.2	8.9	10.1
	\$ 370.1	\$ 315.0	\$ 267.5

Expenditures for long-lived assets:

Truck	\$ 419.3	\$ 222.7	\$ 127.2
Financial Services	413.7	386.1	228.1
Other	15.5	24.7	14.0
	\$ 848.5	\$ 633.5	\$ 369.3

Segment assets:

Truck	\$ 2,955.8	\$ 2,889.3	\$ 2,470.6
Other	187.9	174.5	163.3
Cash and marketable securities	2,215.8	2,184.1	1,700.3
	5,359.5	5,247.9	4,334.2
Financial Services	8,355.9	6,980.1	5,605.4
	\$13,715.4	\$12,228.0	\$9,939.6

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

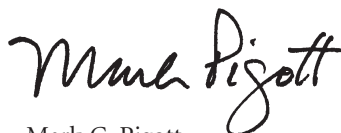
50

The management of PACCAR Inc (the Company) is responsible for establishing and maintaining satisfactory internal control over financial reporting. 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.

Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations. 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 and procedures may deteriorate.

Management assessed the Company's internal control over financial reporting as of December 31, 2005, based on criteria for effective internal control over financial reporting described in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we concluded that the Company maintained effective internal control over financial reporting as of December 31, 2005.

Management's assessment of the effectiveness of the Company's internal control over financial reporting has been audited by Ernst & Young LLP, an Independent Registered Public Accounting Firm, as stated in their report.



Mark C. Pigott
Chairman and Chief Executive Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS

Board of Directors and Stockholders
PACCAR Inc


We have audited the accompanying consolidated balance sheets of PACCAR Inc as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PACCAR Inc at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, 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), the effectiveness of PACCAR Inc's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 17, 2006, expressed an unqualified opinion thereon.

Seattle, Washington
February 17, 2006



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING
FIRM ON THE COMPANY'S INTERNAL CONTROLS

Board of Directors and Stockholders
PACCAR Inc

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We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that PACCAR Inc maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). PACCAR Inc'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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.

In our opinion, management's assessment that PACCAR Inc maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, PACCAR Inc maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PACCAR Inc as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2005, of PACCAR Inc, and our report dated February 17, 2006, expressed an unqualified opinion thereon.

Seattle, Washington
February 17, 2006

Ernst + Young LLP

SELECTED FINANCIAL DATA

	2005	2004	2003	2002	2001
<i>(millions except per share data)</i>					
Truck and Other Net Sales					
and Revenues	\$ 13,298.4	\$10,833.7	\$ 7,721.1	\$ 6,786.0	\$ 5,641.7
Financial Services Revenues	759.0	562.6	473.8	432.6	458.8
<i>Total Revenues</i>	\$ 14,057.4	\$11,396.3	\$ 8,194.9	\$ 7,218.6	\$ 6,100.5
<i>Net Income</i>	\$ 1,133.2	\$ 906.8	\$ 526.5	\$ 372.0	\$ 173.6
<i>Net Income Per Share:</i>					
Basic	6.60	5.19	3.01	2.15	1.01
Diluted	6.56	5.16	2.99	2.13	1.00
Cash Dividends Declared	2.87	2.75	1.37	1.00	.64
<i>Total Assets:</i>					
Truck and Other	5,359.5	5,247.9	4,334.2	3,590.2	3,155.4
Financial Services	8,355.9	6,980.1	5,605.4	5,112.3	4,758.5
<i>Truck and Other Long-Term Debt</i>	20.2	27.8	33.7	33.9	40.7
<i>Financial Services Debt</i>	6,226.1	4,788.6	3,786.1	3,527.6	3,426.2
<i>Stockholders' Equity</i>	3,901.1	3,762.4	3,246.4	2,600.7	2,252.6

COMMON STOCK MARKET PRICES AND DIVIDENDS

Common stock of the Company is traded on the NASDAQ National Market under the symbol PCAR. The table below reflects the range of trading prices as reported by NASDAQ and cash dividends declared. There were 2,187 record holders of the common stock at December 31, 2005.

QUARTER	2005			2004		
	CASH DIVIDENDS DECLARED	HIGH	LOW	CASH DIVIDENDS DECLARED	HIGH	LOW
First	\$.20	\$81.38	\$68.50	\$.15	\$59.82	\$49.61
Second	.21	74.04	63.84	.20	60.70	51.00
Third	.21	76.61	66.21	.20	69.25	52.95
Fourth	.25	73.59	63.30	.20	81.42	62.00
Year-End Extra	2.00			2.00		

The Company expects to continue paying regular cash dividends, although there is no assurance as to future dividends because they are dependent upon future earnings, capital requirements and financial conditions.

QUARTERLY RESULTS (UNAUDITED)

	QUARTER			
	FIRST	SECOND	THIRD	FOURTH
	<i>(millions except per share data)</i>			
2005				
Truck and Other Net Sales and Revenues	\$3,154.6	\$3,372.9	\$3,345.4	\$3,425.5
Truck and Other Gross Profit (Before SG&A and Interest)	464.9	496.5	502.9	493.6
Financial Services Revenues	171.4	182.5	195.6	209.5
Financial Services Gross Profit (Before SG&A)	75.1	80.0	83.2	86.9
Net Income (1)	274.0	241.5	304.8	312.9
Net Income Per Share (2):				
Basic	\$ 1.57	\$ 1.40	\$ 1.79	\$ 1.85
Diluted	1.56	1.39	1.78	1.83
2004				
Truck and Other Net Sales and Revenues	\$2,374.3	\$2,653.4	\$2,774.7	\$3,031.3
Truck and Other Gross Profit (Before SG&A and Interest)	330.8	398.2	395.8	440.3
Financial Services Revenues	127.0	133.4	143.1	159.1
Financial Services Gross Profit (Before SG&A)	59.6	64.4	69.0	73.5
Net Income (3)	182.2	236.5	246.7	241.4
Net Income Per Share (2):				
Basic	\$ 1.04	\$ 1.35	\$ 1.42	\$ 1.39
Diluted	1.03	1.34	1.41	1.38

(1) Second quarter net income includes a \$64.0 income tax provision for repatriation of foreign earnings.

(2) The sum of quarterly per share amounts may not equal per share amounts reported for year-to-date periods. This is due to changes in the number of weighted shares outstanding and the effects of rounding for each period.

(3) Fourth quarter net income includes \$23.3 for costs associated with the termination of an agreement regarding distribution of Leyland parts in the United Kingdom and \$5.4 for a gain on the sale of real estate.

Third quarter net income includes a \$9.5 tax benefit related to higher expected utilization of net operating loss carryforwards in the United Kingdom.

MARKET RISKS AND DERIVATIVE INSTRUMENTS

(currencies in millions)

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Interest Rate Risks – See Note P for a description of the Company’s hedging programs and exposure to interest rate fluctuations. The Company measures its interest rate risk by estimating the amount by which the fair value of interest rate sensitive assets and liabilities, including derivative financial instruments, would change assuming an immediate 100 basis point increase across the yield curve as shown in the following table:

Fair Value Gains (Losses)	2005	2004
CONSOLIDATED:		
<i>Assets</i>		
<i>Cash equivalents and marketable securities</i>	\$ (6.1)	\$ (9.9)
TRUCK AND OTHER:		
<i>Liabilities</i>		
<i>Borrowings and related swaps:</i>		
Long-term debt	.6	.7
Interest rate swaps related to commercial paper classified as long-term debt	(0.1)	.2
FINANCIAL SERVICES:		
<i>Assets</i>		
Loans and wholesale financing, net of unearned interest, less allowance for losses	(46.7)	(40.2)
<i>Liabilities</i>		
Term debt	.9	.9
Interest rate swaps related to financial services debt	54.6	45.0
Total	\$ 3.2	\$ (3.3)

Currency Risks – The Company enters into foreign exchange forward contracts to hedge its exposure to exchange rate fluctuations of foreign currencies, particularly the Canadian dollar, the euro, the British pound and the Mexican peso (See Note P for additional information concerning these hedges). The Company uses a sensitivity analysis to evaluate its exposure to foreign currency exchange rate fluctuations. This analysis measures the potential gain or loss in the fair value of forward contracts based on a percentage increase or decrease in exchange rates relative to the U.S. dollar. A hypothetical 10% weakening of the U.S. dollar relative to all other currencies would result in a potential unrealized loss of \$31.3 related to contracts outstanding at December 31, 2005, compared to \$17.9 at December 31, 2004. These amounts would be largely offset by changes in the values of the underlying hedged exposures.

OFFICERS AND DIRECTORS

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OFFICERS

Mark C. Pigott
Chairman and
Chief Executive Officer

Michael A. Tembreull
Vice Chairman

Thomas E. Plimpton
President

James G. Cardillo
Senior Vice President

Kenneth R. Gangl
Senior Vice President

Ronald E. Armstrong
Vice President and Controller

David C. Anderson
Vice President and
General Counsel

Richard E. Bangert, II
Vice President

Robert J. Christensen
Vice President

Aad Goudriaan
Vice President

Timothy M. Henebry
Vice President

William D. Jackson
Vice President

Thomas A. Lundahl
Vice President

Helene N. Mawyer
Vice President

Janice B. Skredsvig
Vice President and
Chief Information Officer

Daniel D. Sobic
Vice President

George E. West, Jr.
Vice President

Andrew J. Wold
Treasurer

Janice M. D'Amato
Secretary

DIRECTORS

Mark C. Pigott
Chairman and
Chief Executive Officer
PACCAR Inc (3)

Alison J. Carnwath
Chairman, Management Board
ISIS Equity Partners, LLP (2)

John M. Fluke, Jr.
Chairman
Fluke Capital Management, L.P. (1,2)

David K. Newbigging OBE
Chairman
Talbot Holdings Limited (2,4)

Stephen F. Page
Retired Vice Chairman and
Chief Financial Officer
United Technologies Corporation (1,4)

Robert T. Parry
Retired President and
Chief Executive Officer
Federal Reserve Bank
of San Francisco (2)

James C. Pigott
President
Pigott Enterprises, Inc. (3,4)

William G. Reed, Jr.
Retired Chairman
Simpson Investment Company (1,3)

Michael A. Tembreull
Vice Chairman
PACCAR Inc

Harold A. Wagner
Retired Chairman
Air Products and Chemicals, Inc. (1)

COMMITTEES OF THE BOARD

- (1) AUDIT COMMITTEE
- (2) COMPENSATION COMMITTEE
- (3) EXECUTIVE COMMITTEE
- (4) NOMINATING COMMITTEE

TRUCKS

Kenworth Truck Company
Division Headquarters:
 10630 N.E. 38th Place
 Kirkland, Washington 98033

Factories:
 Chillicothe, Ohio
 Renton, Washington

Peterbilt Motors Company
Division Headquarters:
 1700 Woodbrook Street
 Denton, Texas 76205

Factories:
 Denton, Texas
 Madison, Tennessee

PACCAR of Canada Ltd.
 Markborough Place I
 6711 Mississauga Road N.
 Mississauga, Ontario
 L5N 4J8 Canada

Factory:
 Ste-Thérèse, Quebec

Canadian Kenworth Company
Division Headquarters:
 Markborough Place I
 6711 Mississauga Road N.
 Mississauga, Ontario
 L5N 4J8 Canada

Peterbilt of Canada
Division Headquarters:
 Markborough Place I
 6711 Mississauga Road N.
 Mississauga, Ontario
 L5N 4J8 Canada

DAF Trucks N.V.
 Hugo van der Goeslaan 1
 P.O. Box 90065
 5600 PT Eindhoven
 The Netherlands

Factories:
 Eindhoven,
 The Netherlands
 Westerlo, Belgium

Leyland Trucks Ltd.
 Croston Road
 Leyland, Preston
 Lancs PR26 6LZ
 United Kingdom

Factory:
 Leyland, Lancashire

Kenworth Mexicana, S.A. de C.V.
 Kilometro 10.5
 Carretera a San Luis
 Mexicali, Baja California
 Mexico

Factory:
 Mexicali, Baja California

PACCAR Australia Pty. Ltd. Kenworth Trucks
 64 Canterbury Road
 Bayswater, Victoria 3153
 Australia

Factory:
 Bayswater, Victoria

TRUCK PARTS AND SUPPLIES

PACCAR Parts
Division Headquarters:
 750 Houser Way N.
 Renton, Washington 98055

Dynacraft
Division Headquarters:
 650 Milwaukee Avenue N.
 Altona, Washington 98001

WINCHES

PACCAR Winch Division
Division Headquarters:
 800 E. Dallas Street
 Broken Arrow, Oklahoma
 74012

Factories:
 Broken Arrow, Oklahoma
 Okmulgee, Oklahoma

PRODUCT TESTING, RESEARCH AND DEVELOPMENT

PACCAR Technical Center
Division Headquarters:
 12479 Farm to Market Road
 Mount Vernon, Washington
 98273

DAF Trucks Test Center
 Weverspad 2
 5491 RL St. Oedenrode
 The Netherlands

PACCAR FINANCIAL SERVICES GROUP

PACCAR Financial Corp.
 PACCAR Building
 777 106th Avenue N.E.
 Bellevue, Washington 98004

PACCAR Financial Europe B.V.
 Hugo van der Goeslaan 1
 P.O. Box 90065
 5600 PT Eindhoven
 The Netherlands

PACCAR Capital México S.A. de C.V.
 Kilometro 10.5
 Carretera a San Luis
 Mexicali, Baja California
 Mexico

PacLease Mexicana S.A. de C.V.
 Kilometro 10.5
 Carretera a San Luis
 Mexicali, Baja California
 Mexico

PACCAR Financial Services Ltd.
 Markborough Place I
 6711 Mississauga Road N.
 Mississauga, Ontario
 L5N 4J8 Canada

PACCAR Financial Pty. Ltd.
 64 Canterbury Road
 Bayswater, Victoria 3153
 Australia

PACCAR Leasing Company
 Division of PACCAR
 Financial Corp.
 PACCAR Building
 777 106th Avenue N.E.
 Bellevue, Washington 98004

EXPORT SALES

PACCAR International
Division Headquarters:
 PACCAR Building
 777 106th Avenue N.E.
 Bellevue, Washington 98004

Offices:
 Beijing, People's Republic
 of China
 Jakarta, Indonesia
 Manama, Bahrain
 Miami, Florida
 Sandbach, United Kingdom

STOCKHOLDERS' INFORMATION

Corporate Offices
PACCAR Building
777 106th Avenue N.E.
Bellevue, Washington
98004

Mailing Address
P.O. Box 1518
Bellevue, Washington
98009

Telephone
425.468.7400

Facsimile
425.468.8216

Homepage
<http://www.paccar.com>



Stock Transfer and Dividend Dispersing Agent
Wells Fargo Bank
Minnesota, N.A.
Shareowner Services
P.O. Box 64854
St. Paul, Minnesota
55164-0854
800.468.9716
[www.wellsfargo.com/
shareownerservices](http://www.wellsfargo.com/shareownerservices)

PACCAR's transfer agent maintains the company's shareholder records, issues stock certificates and distributes dividends and IRS Form 1099. Requests concerning these matters should be directed to Wells Fargo.

Online Delivery of Annual Report and Proxy Statement
PACCAR's 2005 Annual Report and the 2006 Proxy Statement are available on PACCAR's Web site at www.paccar.com/financials.asp

Registered stockholders can sign up to receive future proxy statements and annual reports in electronic format, instead of receiving paper documents, by visiting www.econsent.com/pcar/

Stockholders who hold PACCAR stock in street name may inquire of their bank or broker about the availability of electronic delivery of annual meeting documents.

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Independent Auditors
Ernst & Young LLP
Seattle, Washington

SEC Form 10-K
PACCAR's annual report to the Securities and Exchange Commission will be furnished to stockholders on request to the Corporate Secretary, PACCAR Inc, P.O. Box 1518, Bellevue, Washington 98009. It is also available online at www.paccar.com/financials.asp, under SEC Filings.

Annual Stockholders' Meeting
April 25, 2006, 10:30 a.m.
Meydenbauer Center
11100 N.E. Sixth Street
Bellevue, Washington
98004

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