

PACCAR

2006 ANNUAL REPORT

PACCAR is a global technology company that manufactures Class 8 commercial vehicles 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. The company also manufactures Class 4-7 trucks in the United Kingdom for sale throughout Europe, the Middle East, Asia and Africa under the DAF nameplate. PACCAR distributes aftermarket truck parts to its dealers through a worldwide network of Parts Distribution Centers. Finance and Leasing subsidiaries facilitate the sale of PACCAR products in many countries worldwide. Significant company assets are employed in financial services activities. PACCAR manufactures and markets industrial winches under the Braden, Gearmatic and Carco nameplates. 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.

CONTENTS

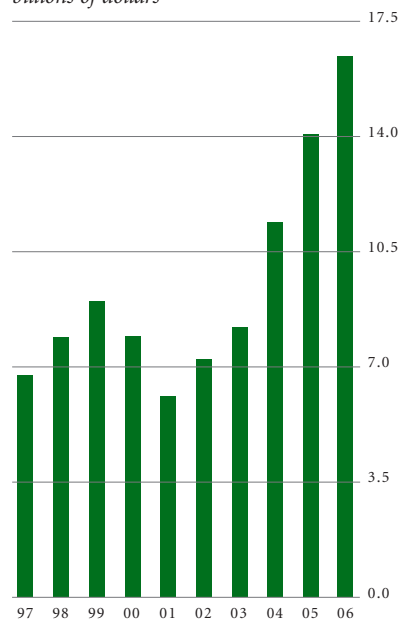
<p>1 <i>Financial Highlights</i></p> <p>2 <i>Message to Shareholders</i></p> <p>6 <i>PACCAR Operations</i></p> <p>22 <i>Financial Charts</i></p> <p>23 <i>Stockholder Return Performance Graph</i></p> <p>24 <i>Management's Discussion and Analysis</i></p> <p>31 <i>Consolidated Statements of Income</i></p> <p>32 <i>Consolidated Balance Sheets</i></p> <p>34 <i>Consolidated Statements of Cash Flows</i></p> <p>35 <i>Consolidated Statements of Stockholders' Equity</i></p> <p>36 <i>Consolidated Statements of Comprehensive Income</i></p> <p>36 <i>Notes to Consolidated Financial Statements</i></p>	<p>50 <i>Management's Report on Internal Control Over Financial Reporting</i></p> <p>50 <i>Report of Independent Registered Public Accounting Firm on the Company's Consolidated Financial Statements</i></p> <p>51 <i>Report of Independent Registered Public Accounting Firm on the Company's Internal Controls</i></p> <p>52 <i>Selected Financial Data</i></p> <p>52 <i>Common Stock Market Prices and Dividends</i></p> <p>53 <i>Quarterly Results</i></p> <p>54 <i>Market Risks and Derivative Instruments</i></p> <p>55 <i>Officers and Directors</i></p> <p>56 <i>Divisions and Subsidiaries</i></p>
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FINANCIAL HIGHLIGHTS

	2006	2005
	<i>(millions except per share data)</i>	
Truck and Other Net Sales and Revenues	\$15,503.3	\$13,298.4
Financial Services Revenues	950.8	759.0
<i>Total Revenues</i>	16,454.1	14,057.4
<i>Net Income</i>	1,496.0	1,133.2
<i>Total Assets:</i>		
Truck and Other	6,296.2	5,359.5
Financial Services	9,811.2	8,355.9
<i>Truck and Other Long-Term Debt</i>	20.2	20.2
<i>Financial Services Debt</i>	7,259.8	6,226.1
<i>Stockholders' Equity</i>	4,456.2	3,901.1
<i>Per Common Share:</i>		
Net Income:		
Basic	\$ 5.98	\$ 4.40
Diluted	5.95	4.37
Cash Dividends Declared	2.77	1.91

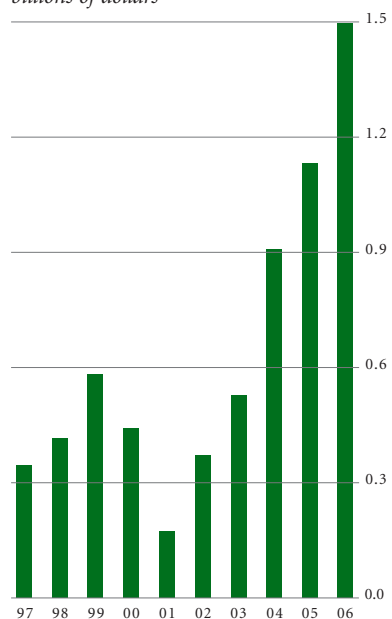
REVENUES

billions of dollars



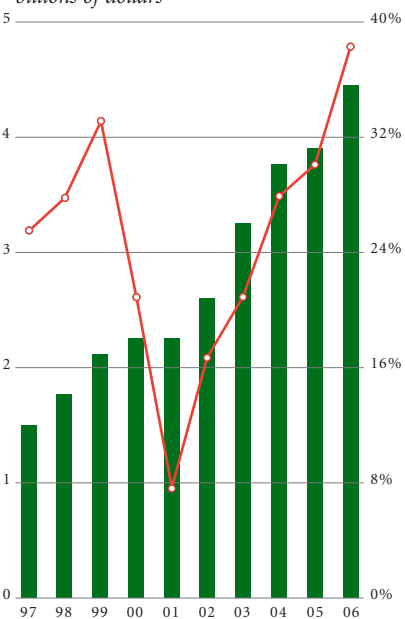
NET INCOME

billions of dollars



STOCKHOLDERS' EQUITY

billions of dollars



Return on Equity (percent)

PACCAR had a record year in 2006 due to its global diversification, strong markets, superior product quality, technology-led process efficiency and excellent results from aftermarket parts and financial services. PACCAR set new market share records in North America and Europe. Customers benefited from PACCAR's ongoing investments, which enhanced manufacturing capability, developed new aftermarket support programs and accelerated product development. PACCAR delivered a record 166,800 trucks and sold nearly \$2 billion of aftermarket parts. PACCAR Financial Services generated \$4.2 billion of new loan and lease volume.

Net income of \$1.496 billion was the highest in the company's 101-year history, and revenues of \$16.45 billion were 17 percent higher than in the previous year. PACCAR issued a 50 percent stock dividend during the year and declared cash dividends of \$2.77 per share, including a special dividend of \$2.00. Cash dividends have increased 640 percent in the last 10 years.

The North American truck market grew 13 percent in 2006 from the previous year, as a strong economy and the higher cost of 2007 EPA emission-compliant engines caused transport companies to "pull forward" their vehicle purchases. The Class 8 truck market in North America, including Mexico, was 348,000 vehicles, compared to 307,000 in the prior year. The European heavy truck market in 2006 was a record 268,000 vehicles, compared to 258,000 in 2005, due to strengthening economic growth in the Eurozone.

Competitors experienced improved results due to the stronger market. There was some consternation amongst the competitors as unsuccessful mergers and acquisitions distracted their market focus.

PACCAR continued to set the standard for financial performance for capital goods companies worldwide. After-tax return on beginning shareholder equity (ROE) improved to 38.3 percent in 2006, compared to 30.1 percent in 2005. The company's 2006 after-tax return

on revenues was 9.1 percent, a new company record. Profits were driven by strong truck and parts sales and margins and new finance contracts for over 60,000 units. PACCAR shareholder equity tripled over the last decade, to \$4.46 billion, as a result of excellent earnings. PACCAR has paid over \$2.4 billion in dividends in the past 10 years. PACCAR's average annual total shareholder return was 25.4 percent over the last decade, versus 8.4 percent for the Standard & Poor's 500 Index.

INVESTING FOR THE FUTURE — PACCAR's record profits, sparkling balance sheet, and intense focus on quality, technology and productivity enhancements have enabled the company to consistently invest in 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 its success. PACCAR has integrated new technology to profitably support its own business, as well as its dealers, customers and suppliers. Eighty-two new dealer locations were opened worldwide, and more are planned to enhance PACCAR's global distribution network.

Capital investments exceeded \$300 million in 2006. Major capital projects during the year included completion of a \$74 million truck assembly facility at PACCAR Mexico, construction of a distribution center in Oklahoma City, and the introduction of the new PACCAR PX-6 and PX-8 engines. Kenworth will complete a 30 percent capacity expansion at its Chillicothe, Ohio, facility in 2007. PACCAR announced the construction of a \$400 million engine facility in the Southeast United States that will be in operation in 2009.

PACCAR is judiciously examining business opportunities in Asia, with the primary focus being China and India. The company has sold transportation equipment in Asia since 1908. The rapidly developing highway systems in China and India will increase intra-country trade, resulting in demand for reliable high-quality commercial vehicles. PACCAR will open a purchasing and component sales office in Shanghai in 2007.

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, customer service and manufacturing processes. In addition, "High Impact Kaizen Events" (HIKE) leverage Six Sigma methods with production flow improvement concepts. The HIKE projects conducted in 2006 were instrumental in delivering improved performance across the company. Almost 10,000 employees have been trained in Six Sigma and 6,000 projects have been implemented since its inception. Six Sigma, in conjunction with Supplier Quality and Development, has been instrumental in delivering improved logistic performance and quality components by the company's suppliers.

INFORMATION TECHNOLOGY — PACCAR's Information Technology Division (ITD) and its 700

employees are 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. In 2006, ITD provided innovative advancements in GPS systems, new manufacturing software, infrastructure capacity upgrades and installation of over 3,000 new personal computers. Other major accomplishments include increased activities at the Electronic Dealerships in Renton and Eindhoven. Over 15,000 dealers, customers, suppliers and employees have experienced the interactive demonstration modules showing the automated finance applications, sales and service kiosks, tablet PCs and Radio Frequency Identification (RFID). New features include an electronic leasing and finance office and an electronic service analyst.

TRUCKS — U.S. and Canadian Class 8 retail sales in 2006 were 322,000 units, and the Mexican market totaled 26,000. Western Europe heavy truck sales were 268,000 units.

PACCAR's Class 8 retail sales in the U.S. and Canada achieved a market share record of 25.3 percent in 2006 compared to 23.1 percent last year. DAF's 15+ tonne truck market share in Europe increased to a record 14.5 percent. Industry Class 6 and 7 truck registrations in the U.S. and Canada numbered 107,000 units, a 3 percent increase from the previous year. In Europe, the 6- to 15-tonne market was 77,000 units, the same as 2005. PACCAR's North American and European market shares in the medium-duty truck segment were excellent, as the company delivered a record 27,000 medium-duty trucks and tractors in 2006.

The capital goods and financial services industries were robust in 2006, even with the negative cost effect of high commodity prices, especially steel and oil. PACCAR's excellent 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.

PACCAR's product quality continued to be recognized as the leader in the industry in 2006. 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 state-of-the-art Kenworth Mexico facility, installation of robotic cab paint systems in all factories and the attainment of record production levels at most 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, purchasing and manufacturing. DAF Trucks achieved record truck production, sales and profits, while increasing its market share for the seventh consecutive year. DAF was named the International Truck of the Year 2007 for its new XF105 and the PACCAR MX engine. DAF is the only OEM to earn the award three times during the last ten years.

Leyland Trucks is the United Kingdom's leading truck manufacturer. The Foden brand was retired in mid-2006. The last Foden vehicle is in the British Commercial Vehicle Museum and is a memorable treasure commemorating Foden's 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. KENMEX officially dedicated its world-class production facility and 80,000-square-foot fabrication center.

PACCAR Australia achieved excellent profit, sales and market share in 2006, supported by the third-highest production level in the company's history. The introduction of new Kenworth models and expansion of the DAF product range in Australia combined for a 21.7 percent heavy-duty market share in 2006. Aftermarket parts sales delivered another year of record performance.

PACCAR International exports trucks and parts to over 100 countries and had a record year due to strong sales in Latin America and South Africa. A highlight was a license agreement with Formosa Plastics Group in Taiwan to assemble DAF vehicles.

AFTERMARKET CUSTOMER SERVICES — PACCAR Parts had an outstanding year in 2006 as it earned its 14th consecutive year of record profits. With sales of nearly \$2.0 billion, PACCAR Parts is the primary source for aftermarket parts for PACCAR products, and supplies parts for other truck brands to PACCAR's dealer networks

around the world. Over five million heavy-duty trucks are operating in North America and Europe, and the average age of these vehicles is estimated to be over six years. This vehicle parc creates an excellent platform for future parts and service business, as well as moderating the cyclical nature of truck sales.

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 900 PACCAR dealers worldwide. MDI utilizes proprietary software technology to determine dealership parts replenishment schedules. Significant investments were also made in PACCAR's Call Center technology to improve the customer experience with 24-hour/365-day-a-year roadside assistance. PACCAR Parts enhanced its Connect program, a software solution for customer fleet-maintenance management. The program is a Web-based application providing fleets the tools to reduce their vehicle operating costs.

FINANCIAL SERVICES — The PACCAR Financial Services (PFS) group of companies has operations covering three continents and 17 countries. The global breadth of PFS, as well as its industry-leading funding structure and responsive credit application processes, enabled the portfolio to grow to more than 158,300 trucks and trailers, with total assets exceeding \$9.8 billion.

PACCAR Financial Corp.'s (PFC) conservative business approach, coupled with PACCAR's excellent S&P credit rating of AA- and complemented by the strength of the dealer network, enabled PFC to earn a record profit in 2006. PFC recorded increased finance volume in 2006 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. PFC is the preferred funding source in North America for Peterbilt and Kenworth trucks, financing 21.9 percent of dealer sales in 2006.

PACCAR Financial Europe (PFE) completed its fifth year of operations and increased profits as it served DAF dealers in 13 Western European countries. PFE provides wholesale and retail financing for DAF dealers and customers, and it finances almost 20 percent of DAF's vehicle sales.

PACCAR Leasing (PacLease) earned its 13th consecutive year of record operating profits and placed in service over 6,900 vehicles in 2006, a new record. The PacLease fleet grew to 28,500 vehicles as 21 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 2006, increasing the network to 281 outlets, and represents one of the largest full-service truck rental and leasing operations in North America.

ENVIRONMENTAL LEADERSHIP — PACCAR is a global environmental leader. In the last decade, the company has eliminated 59 percent of its factory dunnage (34,000 tons per year) by providing returnable containers, installation of new logistic software and capital investment in suppliers' manufacturing operations. PACCAR ISO 14001 certification is complete for Europe. DAF, Peterbilt and Kenworth vehicles are manufactured with environmentally friendly materials so that 80 percent of the truck, by weight, is recyclable. PACCAR is developing hybrid-electric vehicles, as well as proprietary technology to eliminate the need for customers' vehicle engines to idle at night. Van pools, car pools and bus passes are utilized by 30 percent of PACCAR employees in their local communities.

A LOOK AHEAD — PACCAR delivered the best results in its 101-year history in 2006. 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. The company continues to take aggressive steps to manage production rates and operating costs, consistent with its goal of achieving profitable market share growth.

A significant milestone in 2006 was the National Medal of Technology presentation at the White House. The recognition of 25 years of industry leadership provides a springboard for dramatically increased investment throughout PACCAR for the next decade. 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.

PACCAR and its employees are firmly committed to 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 pragmatically approach growth opportunities, such as Asia and financial services, with a long-term focus. 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 16, 2007



XF

XF 105

The New XF 105

DAF

XF

DAF

DAF surged to new sales, profit and production records in 2006, reinforcing its reputation as Europe's leading commercial vehicle manufacturer in quality, innovation, customer support and profitability. DAF further strengthened its competitive position with strong market share gains in the over-15-tonne and 6- to 15-tonne segments.

The flagship XF105 earned the International Truck of the Year 2007 award — the third time in the last 10 years DAF has earned that distinction. This prestigious award reflects rigorous analysis by road-transport journalists from 19 European countries. The XF105 also garnered the “Truck of the Year 2006” award in Poland. DAF's outstanding achievements reflect the success of its new highly efficient, innovative products and comprehensive customer support network.

New LF and CF series vehicles were also unveiled, featuring enhanced interiors and aerodynamic exteriors. One of the most important new enhancements for all models is DAF's Selective Catalytic Reduction (SCR) Technology, which achieves industry-leading emission compliance.

DAF introduced a new light-duty diesel-electric hybrid vehicle, the Model LE, targeted for production in 2008 for selected urban applications. Key components of the truck include a lithium ion battery pack, a sophisticated electric motor generator and a PACCAR 4.5-liter diesel engine.

DAF also launched its newly developed PACCAR 9.2-liter PR Engine with the Enhanced Environmentally friendly Vehicles (EEV) specification for use in buses. The engine achieves 50 percent lower emission levels than those stipulated by stringent Euro 5 regulations effective in 2009.

To enhance customer business capability, DAF announced its Telematics and Infotainment System, an industry-leading solution for in-cab data communications and fleet management. A Lane Departure Warning System, now available as an option, enhances safety by providing the driver with an audible signal if the vehicle strays too far into an adjacent lane.

DAF is completing construction of a 76,000-square-foot engine test and research facility in Eindhoven. The 20 test cells in the sophisticated development center will be the most technologically advanced in Europe and will be instrumental in the design of new PACCAR engines for global use.

DAF received a manufacturing excellence honor in 2006 — Lloyd's Quality Award — from Lloyd's Register Quality Assurance, a leading certification agency. This award complimented the company's progressive assembly philosophy and quality standards.

DAF expanded its extensive distribution network of over 1,000 dealer and service points, adding a record 53 new outlets in 2006 — including a state-of-the-art company-owned dealership in Frankfurt, Germany. DAF is one of the fastest growing brands in many countries in central Europe.





Peterbilt set new sales, production and profit records during 2006. Peterbilt earned J.D. Power and Associates' Award for Highest in Customer Satisfaction among Conventional Medium-Duty Trucks* for the fifth time in eight years.

9

In the most significant new-product introduction in the company's 68-year history, Peterbilt unveiled a full range of new medium- and heavy-duty vehicles. The \$100 million investment strengthens Peterbilt's offering in all major market segments — aerodynamic, traditional, vocational and medium-duty trucks. Each new model achieves new standards for quality, innovation, low operating cost and industry-leading fuel efficiency.

Peterbilt offers four aerodynamically styled truck models, the industry's broadest range in a market that accounts for over 70 percent of on-highway Class 8 vehicles in operation. The Model 387, Peterbilt's premium aerodynamic vehicle, introduced a day cab version — ideal for tanker and regional-haul applications where maneuverability and optimized weight distribution are important in addition to fuel economy.

The new aerodynamic Model 384, which can be configured as a day cab or with a full range of detachable Peterbilt Unibilt sleepers, features exceptional maneuverability and visibility for vocational and urban operations. The chassis is lightweight, supporting weight-sensitive applications with higher payload potential.

The new Model 388 and Model 389 provide improved operating performance for customers who prefer traditionally styled trucks. The new vehicles include aerodynamic design features such as a contoured sun visor, bumper, side fairings and headlamps that together improve aerodynamic efficiency by up to 30 percent. Forward visibility has been dramatically improved with the introduction of an advanced complex reflector lighting system.

Peterbilt's vocational lineup has been enhanced with the introduction of new Models 365 and 367. Advanced chassis designs improve weight distribution and maneuverability as well as ride and handling characteristics.

Three new medium-duty vehicles were introduced during 2006 — the Peterbilt Model 220, Model 330 and Model 340. These trucks join the Model 335 to cover the full range of Class 6 and 7 vehicle applications. The cabover Model 220 is based on the award-winning DAF LF design and is ideally suited for urban pickup and delivery applications where maneuverability is critical to operating performance.

All medium-duty models feature PACCAR PX-6 and PX-8 engines exclusively, providing customers with enhanced performance, serviceability and fuel efficiency.

Peterbilt continues to make significant investments in its manufacturing facilities, including a new training center, which will ensure products and customer services of the highest quality. The Peterbilt dealer network reached a record level with 233 locations throughout the U.S. and Canada.



Peterbilt represents the pinnacle of "classic" styling in conventional trucks. This Model 389, with a 70" Unibilt Ultracab sleeper, fuel-efficiency package and new headlamps, updates the traditional vehicle profile with exciting design changes that greatly enhance aerodynamic efficiency.



Kenworth earned three 2006 J.D. Power and Associates Awards for Highest in Customer Satisfaction among Class 8 truck owners in the Over The Road, Pickup and Delivery, and Dealer Service Segments — for the second consecutive year.* “The World’s Best” commitment to high quality and innovative product development delivered record profits, sales and production.

11

Kenworth’s record sales of Class 8 vehicles and outstanding Class 6/7 product deliveries were due to strong customer demand for the superior quality, operating efficiency and driver satisfaction inherent throughout its product line. Innovative capital investments in plant capacity and efficiency allowed Kenworth to reach record production and enhanced Kenworth’s reputation as a technology leader in the trucking industry.

The new T660 reaffirms Kenworth’s legacy as the leading manufacturer of America’s most aerodynamic commercial vehicle, a category that Kenworth invented decades ago. In addition to its contemporary styling and enhanced fuel economy, the T660 offers an advanced forward lighting system with 40 percent more down-the-road visibility, multiplexed electronic instrumentation, GPS navigation and a world-class automotive-quality cab interior.

Kenworth’s medium-duty trucks feature the fuel-efficient PACCAR PX-6 and PX-8 medium-duty engines. Kenworth added to its medium-duty range in 2006. A new T300 Class 6 conventional vehicle allows customers to expand their pool of drivers for non-CDL products. Kenworth also unveiled its K360 COE Class 7 model, based on the successful DAF LF. This medium-duty truck features a sleek aerodynamic exterior, easy-access cab, and best-in-class maneuverability and visibility.

The introduction of the environmentally friendly Kenworth Clean Power system provides significant fuel cost savings — an estimated 1,850 gallons annually for the average fleet truck — and reduces emissions by 10 percent. The factory-installed climate-control system provides heating and cooling, plus 110-volt “hotel load” power, for 10 hours without operating the engine.

Kenworth and Pendleton Woolen Mills combined to offer the ultimate in interior comfort and styling for owner-operators and top fleet drivers. Kenworth’s T660 and W900 Pendleton Limited Edition models were unveiled, incorporating rich leather trim, wood grain and distinctive wool fabric accents.

Kenworth began construction of a 30 percent expansion of its assembly plant in Chillicothe, Ohio, which will add 105,000 square feet to the facility. *Quality* magazine selected the facility as “Plant of the Year” in the large plant category.

The strong Kenworth dealer network operates 286 locations in the U.S. and Canada.



Kenworth’s new T660 sets a new standard for aerodynamic design and fuel-optimizing capability. Everything down to the smallest detail — including mirrors and flush-mounted headlights — was exhaustively refined to ensure improved performance for customers’ businesses.

* “Highest in Customer Satisfaction with Heavy-Duty Truck Dealer Service, Two Years in a Row,” “Highest in Customer Satisfaction among Pickup & Delivery Segment Class 8 Trucks, Two Years in a Row” and “Highest in Customer Satisfaction among Over the Road Segment Class 8 Trucks, Two Years in a Row.” J.D. Power and Associates 2006 Heavy Duty Truck Customer Satisfaction StudySM. www.jdpower.com

PACCAR Australia dominated the heavy-duty truck market again in 2006. The Kenworth brand defines custom-built quality and superior reliability — valued characteristics in one of the world’s toughest operating environments.

The leading producer of commercial vehicles on the continent, PACCAR Australia continued to lead in the high-horsepower segment with 43 percent market share in 2006. The successor to the legendary Kenworth K104 — a virtual icon for the country’s challenging “B-Doubles” application — was introduced during 2006. The new Model K104B features improved cab access, LED step lights for safe nighttime entry, enhanced visibility, luxurious and ergonomic interior upgrades, additional personal storage capacity and aerodynamic refinements.

PACCAR Australia added an 8 x 4 variant to its popular aerodynamic Kenworth T404S conventional product lineup. Offering higher carrying capacities in the 450-horsepower segment, the 8 x 4 option maximizes payload — and profitability — for interurban line-haul operators.

Production capacity at the Bayswater manufacturing plant increased 35 percent in 2006 due to the addition of a new 65,000-square-foot facility that contains warehousing, fabrication, R&D and financial services.



The Kenworth T404SAR provides Australian customers with a rugged, reliable chassis that can tackle the toughest applications and haul up to a half tonne more payload per trip than competitive trucks.

PACCAR Mexico (KENMEX) achieved record sales, profits and production levels in 2006 — capturing more than 53 percent of heavy-duty tractor sales. Kenworth’s superior product quality combined with extensive aftermarket support contributed to this excellent result.

KENMEX celebrated the opening of a new \$74 million Mexicali plant, which increased production capacity by 50 percent. The plant features state-of-the-art cab paint robotics, advanced production-line logistics and sophisticated information systems. A new 80,000-square-foot fabrication center incorporates integrated machining cells and automated transfer lines.

For 47 years, Kenworth has set the standard for excellence in Mexico’s trucking industry, reinforced this year by the introduction of its new leading-edge aerodynamic model, the T660. The truck features outstanding fuel economy, enhanced forward lighting and a world-class interior.

KENMEX unveiled a new Kenworth T300 Class 6 vehicle equipped with air brakes for pickup and delivery and specialized applications that benefit from the truck’s exceptional maneuverability, visibility and ergonomic design. The T300 complements the KW45 and KW55 medium-duty cabover for use in metropolitan delivery applications.

KENMEX increased the country’s most extensive parts and service network to 112 locations nationwide.



The Kenworth W900 symbolizes heavy-duty trucking in Mexico. Customers cite the superior quality of products, dealers, financial services and aftermarket support as reasons for their unwavering commitment to the brand.

Leyland, the United Kingdom's leading truck manufacturer, delivered a record 17,200 vehicles to customers in Europe and North America in 2006. Leyland reinforced its innovative manufacturing success with the introduction of on-line van body building.

In its world-class manufacturing facility, Leyland produces a highly complex mix of DAF vehicles for delivery throughout the world. Recognized as one of the most efficient truck plants in the industry, Leyland is renowned for its extraordinary quality — one of the reasons DAF is the fastest-growing commercial vehicle OEM in Europe.

The implementation last year of a new robotic chassis paint facility — a first in the commercial vehicle industry — has enhanced capacity and finish quality. The system employs patent-pending PACCAR-developed software to manage the wide variety of truck configurations. In addition, Leyland introduced a new state-of-the-art Advanced Planning and Scheduling system to further boost efficiency.

Leyland began production of a unique in-house-designed van body for DAF LF vehicles. The body-builder initiative establishes new industry quality thresholds and improves the delivery schedule for complete vehicles.

Leyland produced the final Foden chassis in 2006, retiring the revered 150-year-old brand. The truck, a Foden A3-8R, is the centerpiece of the Foden exhibit at the British Commercial Vehicle Museum in Leyland, England.



Leyland streamlined delivery schedules for customers of DAF LF vehicles by launching a van body build program. High-quality proprietary-design van bodies are constructed and installed in the Leyland factory.

PACCAR International, a leader in delivering Kenworth, Peterbilt and DAF trucks to customers worldwide, posted record sales and profits during 2006. A buoyant global economy increased demand for premium-quality PACCAR vehicles.

Worldwide demand for PACCAR's custom-built transportation solutions remained strong in 2006. High crude oil prices created substantial demand for off-highway products to support oilfield exploration, drilling and servicing segments. On-highway vehicle sales to Latin America and Asia, fueled by healthy economies, remained strong.

Kenworth and Peterbilt products have been an integral asset in oilfields around the world for decades, hauling prodigious loads long distances over difficult terrain under severe climatic conditions. The Kenworth 963 model was redesigned to incorporate new electronic engines, an updated cab, a new hood for improved visibility, and superior air-conditioning and vehicle cooling systems — vital in desert conditions where temperatures exceed 120 degrees F.

PACCAR International licensed Formosa Plastics Group in Taiwan to assemble DAF CF trucks. Customers in over 100 countries benefit from the durability and reliability of PACCAR trucks and on-time delivery of parts and services.



PACCAR International facilitates truck sales worldwide, utilizing PACCAR's extensive manufacturing resources to build and deliver high-quality transportation solutions — such as this DAF CF, assembled in Taiwan.

PACCAR Parts celebrated 14 consecutive years of record sales and profits in 2006 as a result of a strong dealer network, advanced information technology applications and excellent customer service.

PACCAR Parts business has tripled since 1996, shipping 14.3 million order lines in 2006, due to an increased population of PACCAR vehicles and strong demand for comprehensive PACCAR-branded aftermarket product lines. To support a growing network of dealers and customers, PACCAR Parts is constructing two new state-of-the-art parts distribution centers (PDCs). A 260,000-square-foot distribution center will open in 2007 in Oklahoma City, and construction will begin during 2007 on a PDC in Budapest, Hungary — expanding the network to 13 strategically located PDCs worldwide.

Parts availability and extensive product offerings across PACCAR’s dealer network are supported by the industry-leading Managed Dealer Inventory (MDI) system — an automated electronic parts-replenishment program.

In an industry first, PACCAR Parts introduced customer loyalty cards — the Kenworth Privileges card and Peterbilt Preferred card. The card replaces coupon books and provides owner-operators, fleets and service facilities with an electronic medium to access quality brand-name parts 24/7.



PACCAR Parts employs industry-leading technologies to strengthen its competitive advantage throughout its distribution system. Its global aftermarket operation supplies 1,800 Kenworth, Peterbilt and DAF dealer locations with parts for 6- to 50-tonne commercial vehicles.

PACCAR Winch Division is the premium full-line producer of industrial winches in the world. Robust global commodity demand in 2006 provided the foundation for the division to set new records in sales, profits and market share.

PACCAR Winch's broad product line of Braden recovery winches, hoists and drives, Gearmatic planetary hoists and Carco tractor winches deliver superior quality and performance to customers worldwide. Double-digit sales growth was achieved in every major segment in 2006.

The Winch Division strengthened its leadership in the oilfield industry during 2006, introducing its innovative Pipelayer Winch System. The proprietary winch design replaces complicated mechanical winches with more reliable tandem-mounted hydraulically driven winches.

The division also successfully launched its Electronic Maintenance Module (EMM) in 2006. An industry first, this innovative system tracks winch duty cycles, enabling customers to schedule preventative maintenance based on actual — instead of estimated — usage.

PACCAR Winch also broadened its family of hydraulically driven tractor winches, including the H200 for 500-horsepower crawler tractors used in demanding phosphate mining applications.



PACCAR Winch Division's Braden, Carco and Gearmatic nameplates — known for engineering excellence and dependability in challenging environments — have established themselves in market-leading positions in a multitude of industries.

PACCAR Financial Services Companies (PFS), which support the sale of PACCAR trucks worldwide, achieved record income in 2006. PFS portfolios are comprised of more than 158,300 trucks and trailers, with total assets surpassing \$9.8 billion.

PACCAR Financial Corp. (PFC), the preferred source of financing for Kenworth and Peterbilt trucks in North America, established new records for finance volume and profitability in 2006. Superior customer service, streamlined credit processing, and a breadth of new innovative finance and insurance products heightened demand for PFC in every market segment. In addition, PFC implemented a new state-of-the-art collection system that utilizes the latest in technology, which enables PFC to increase collection efficiencies and systemically monitor a growing portfolio.

PACCAR Financial Europe (PFE) celebrated its fifth anniversary during 2006 with profitable growth to over \$2.0 billion in assets, record profit and expanded service to DAF dealers and customers in 13 countries. PFE is the market leader in providing financing solutions for DAF customers and dealers in Europe.

PACCAR Financial subsidiaries in Mexico and Australia enhanced their dealer and customer-service capabilities to further build on the leading position of the PACCAR brands in those countries.



PACCAR Leasing achieved its 13th consecutive year of record profits in 2006 — delivering a record number of new Kenworth and Peterbilt trucks. The PacLease fleet contains over 28,500 units, including 2,000 leased vehicles serving Mexico.

The market for full-service leasing and outsourced fleet services is a significant segment of the transportation industry, consuming more than 21 percent of all Class 6, 7 and 8 vehicles produced. PacLease is one of the fastest-growing and most innovative truck-leasing networks in North America. Growth in 2006 resulted from a focus on both local and national fleet business served by an expanding franchise network.

PACCAR Leasing launched PacTrac this year, a telematics solution designed to help customers reduce operating costs, improve asset utilization and enhance their logistics capability. The onboard wireless computing and communications system provides real-time diagnostic, GPS location and performance data to fleet managers.

PACCAR Leasing provides a competitive advantage by offering only premium-quality PACCAR trucks, which have exceptional residual value and superior fuel efficiency. In addition, locally owned and highly responsive franchise dealers deliver custom transportation solutions that meet customers' unique needs. During 2006, PacLease strengthened its market presence by increasing its network to 281 North American outlets.



PACCAR Leasing continues to expand its fleet and penetration of the medium-duty market with an increasing number of premium-quality Class 6-7 trucks, such as this popular Kenworth T300.

PACCAR's world-class Technical Centers leverage advanced simulation technologies to dramatically accelerate product development and ensure that PACCAR continues to provide the highest-quality products in the industry.

PACCAR Technical Centers are world-class facilities with state-of-the-art product test and validation capabilities. The U.S. Technical Center concluded three years of rigorous development and testing of 2007 diesel engine emission systems. The comprehensive process resulted in significant new technologies for engine cooling, electrical systems and exhaust aftertreatment. One hundred trucks were field tested over 13 million miles. The Technical Center was also instrumental in the development of the new ComfortClass and Kenworth Clean Power auxiliary power systems, advanced multiplexed electronics and industry-leading ergonomically refined interiors for Kenworth and Peterbilt.

PACCAR's European center was at the forefront in the development and validation of the new DAF truck models, interior and exterior updates, and a complete range of fuel-efficient PACCAR engines. A new state-of-the-art engine lab is currently under construction in Eindhoven. When complete, the facility will feature 20 new test cells equipped with the latest technologies and will generate up to 20 percent of the total energy needed at DAF's Eindhoven factory.



PACCAR's Technical Centers are leading the way in development of hybrid-powered PACCAR trucks — targeting an ambitious goal of 30 percent improvement in medium-duty vehicle fuel efficiency in 2008. This DAF LE Hybrid Truck utilizes an advanced diesel/electric drive system.

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 in R&D, sales, manufacturing, financial services and aftermarket support.

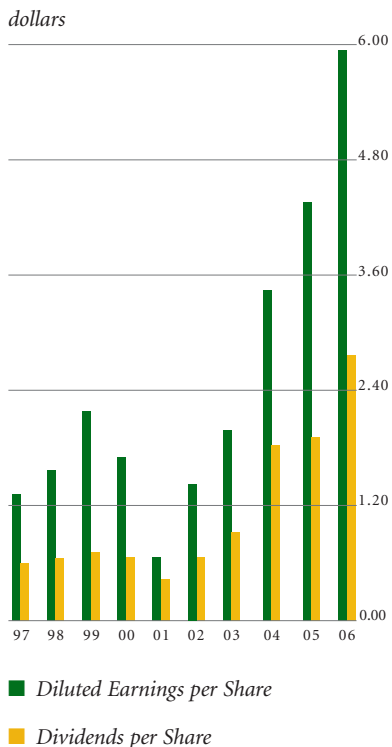
PACCAR ITD earned recognition as one of the most innovative technology organizations in the world, receiving honors from *InformationWeek* and *Computerworld* magazines during 2006. ITD partners with world-class suppliers to pioneer emerging hardware and software tools that accelerate innovation throughout PACCAR. Six Sigma methods are used to identify high-value opportunities where breakthrough technologies can be applied to enhance processes, products and profits.

In 2006, ITD implemented a sophisticated manufacturing system at DAF’s facility in Westerlo, Belgium. World-class software provides real-time access to assembly and quality-control information, instantly available through touch panels and tablet PCs. Industry-leading telematics products were launched in over 5,000 Kenworth, Peterbilt and DAF vehicles to reduce fleet operating costs and improve their competitive advantage. PACCAR dealers use ITD-developed state-of-the-art tools such as wireless truck connections that automatically diagnose and update electronic components, enhancing customer support and improving their asset utilization.

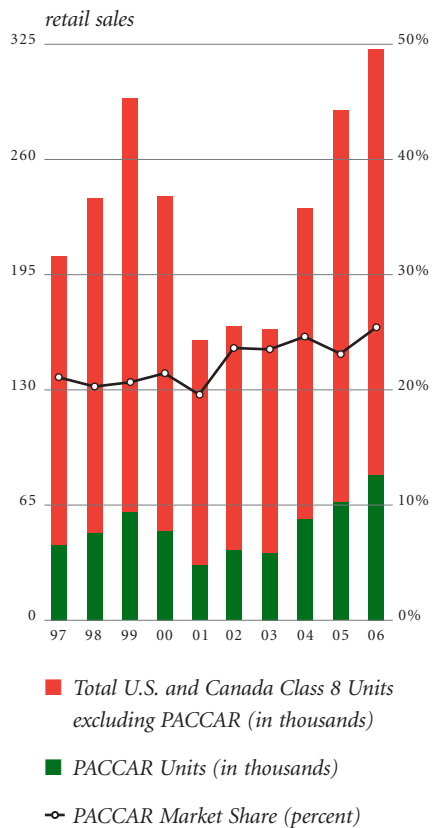


One of the most innovative technology organizations in the world, PACCAR ITD partners with leading-edge hardware and software manufacturers to continually fine-tune the Company’s competitiveness. Its award-winning Global Operations Support Center provides 24/7 monitoring of PACCAR systems worldwide.

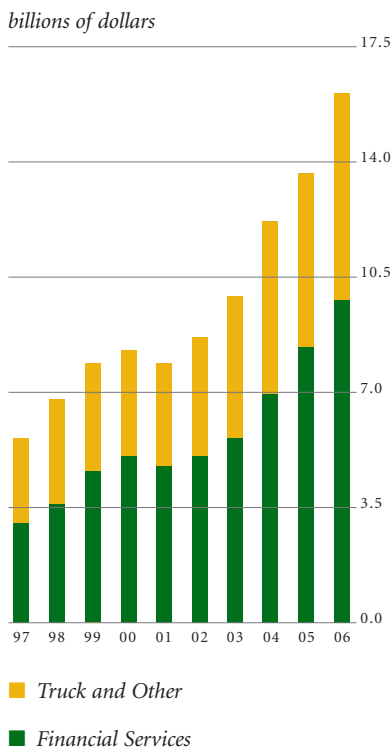
EARNINGS & DIVIDENDS PER SHARE



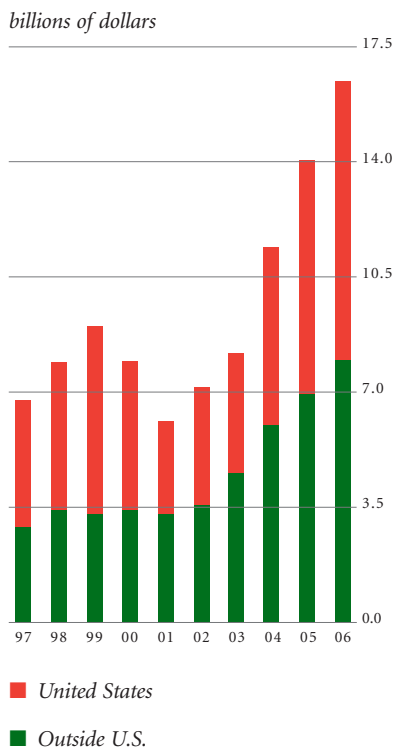
U.S. AND CANADA CLASS 8 TRUCK MARKET SHARE



TOTAL ASSETS

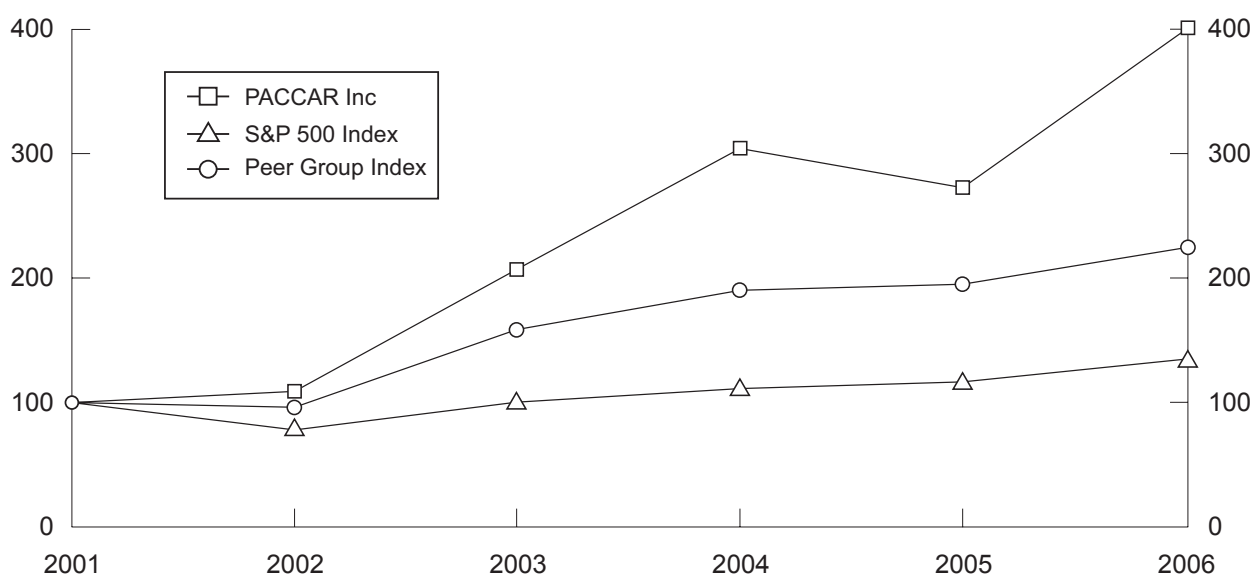


GEOGRAPHIC REVENUE



STOCKHOLDER RETURN PERFORMANCE GRAPH

The following line graph compares the yearly percentage change in the cumulative total stockholder return on the Company's common stock to the cumulative total return of the Standard & Poor's Composite 500 Stock Index and the return of an industry peer group of companies identified in the graph (the Peer Group Index) for the last five fiscal years ending December 31, 2006. Standard & Poor's has calculated a return for each company in the Peer Group Index weighted according to its respective capitalization at the beginning of each period with dividends reinvested on a monthly basis. Management believes that the identified companies and methodology used in the graph for the Peer Group Index provides a better comparison than other indices available. The Peer Group Index consists of ArvinMeritor, Inc., Caterpillar Inc., Cummins, Inc., Dana Corp., Deere & Co., Eaton Corp., Ingersoll-Rand Co. Ltd., Navistar International Corp., and Oshkosh Truck Corp. The comparison assumes that \$100 was invested December 31, 2001 in the Company's common stock and in the stated indices and assumes reinvestment of dividends.



	2001	2002	2003	2004	2005	2006
PACCAR Inc	100.00	109.04	206.66	304.05	272.37	400.45
S&P 500 Index	100.00	77.90	100.25	111.15	116.61	135.03
Peer Group Index	100.00	96.09	158.07	189.88	196.95	224.46

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

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

24

RESULTS OF OPERATIONS:

	2006	2005	2004
Net sales and revenues:			
Truck and			
Other	\$15,503.3	\$13,298.4	\$10,833.7
Financial Services	950.8	759.0	562.6
	\$16,454.1	\$14,057.4	\$11,396.3
Income before taxes:			
Truck and			
Other	\$ 1,846.6	\$ 1,516.8	\$ 1,139.9
Financial			
Services	247.4	199.9	168.4
Investment			
income	81.3	56.9	59.9
Income taxes	(679.3)	(640.4)	(461.4)
Net Income	\$ 1,496.0	\$ 1,133.2	\$ 906.8
Diluted Earnings			
Per Share	\$ 5.95	\$ 4.37	\$ 3.44

Overview:

PACCAR is a global technology 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 17% to a record \$16.45 billion from \$14.06 billion in 2005 due to strong global demand for the Company's high-quality trucks, aftermarket parts and financial services. Financial Services revenues increased 25% to \$950.8 million in 2006.

PACCAR achieved record net income in 2006 of \$1,496.0 million (\$5.95 per diluted share), which was an increase of 32% over 2005 net income of \$1,133.2 million (\$4.37 per diluted share). Excellent results were achieved in the Truck and Other businesses due to revenue growth, increased margins and ongoing cost control. Financial Services income before taxes increased 24% to a record \$247.4 million compared to \$199.9 million in 2005 as a result of strong asset growth, low credit losses and stable finance margins.

Selling, general and administrative (SG&A) expense for Truck and Other increased to \$457.3 million in 2006 compared to \$429.9 million in 2005. SG&A increased to support expanded sales and higher production levels. However, as a percent of revenues, SG&A expense decreased to a record low of 3.0% in 2006 from 3.2% in 2005 as the Company continued to implement Six Sigma initiatives and process improvements in all facets of the business.

Investment income of \$81.3 million in 2006 increased from \$56.9 million in 2005. Investment income was higher in 2006 due to higher average cash and marketable debt security balances and higher interest rates compared to 2005.

The 2006 effective income tax rate was 31.2% compared to 32.5% in 2005 (excluding the \$64.0 million tax on the 2005 repatriation of \$1.5 billion of foreign earnings). The lower 2006 effective income tax rate reflects the impact of a favorable tax settlement and higher tax-exempt investment income in the U.S.

The Company's return on revenues was a record 9.1% compared to 8.1% in 2005.

Truck

PACCAR's truck segment, which includes the manufacture and distribution of trucks and related aftermarket parts, accounted for 93% of revenues in 2006 and 94% of revenues in 2005 and 2004. In North America, trucks are sold under the Kenworth and Peterbilt nameplates and, in Europe, under the DAF nameplate.

	2006	2005	2004
Truck net sales			
and revenues	\$15,367.3	\$13,196.1	\$10,762.3
Truck income			
before taxes	\$ 1,848.8	\$ 1,520.2	\$ 1,145.0

The Company achieved record new truck deliveries in every major market during 2006 as summarized below:

	2006	2005	2004
United States	82,600	71,900	59,200
Canada	12,900	10,900	9,100
U.S. and Canada	95,500	82,800	68,300
Europe	55,900	52,200	45,300
Mexico, Australia and other	15,400	13,500	10,500
Total units	166,800	148,500	124,100

2006 Compared to 2005:

PACCAR's worldwide truck sales and revenues increased 16% to \$15.37 billion in 2006 due to high demand for the Company's trucks and related aftermarket parts in all major markets.

Truck income before taxes was \$1.85 billion compared to \$1.52 billion in 2005. The increase from the prior year was 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 2006.

In the U.S. and Canada, Peterbilt and Kenworth delivered a record 95,500 medium and heavy trucks during 2006, an increase of 15% over 2005. The increased deliveries reflect overall market growth and increased market share. The Class 8 market increased 12% to a record 322,500 units in 2006 from 287,500 in 2005. The market benefited partially from vehicle sales "pulled forward" prior to the January 1, 2007 implementation of new higher cost EPA emission compliant engines in the United States. PACCAR's market share increased to 25.3% in 2006 from 23.1% in 2005. The total medium-duty market increased 3% to 107,000 units.

In Europe, DAF trucks delivered a record 55,900 units during 2006, an increase of 7% over 2005. The 15 tonne and above truck market improved to 268,500 units, a 4% increase from 2005 levels. DAF increased its share of the 15 tonne and above market for the seventh year in a row, growing to 14.5% in 2006 from 13.7% in 2005. DAF market share in the 6 to 15 tonne market also increased. Truck and parts sales in Europe represented 28% of PACCAR's total truck segment net sales and revenues in 2006 compared to 31% in 2005.

Truck unit deliveries in Mexico, Australia and other countries outside the Company's primary markets increased 14%. 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 9% of truck segment profit in 2006.

PACCAR's worldwide aftermarket parts revenues were \$1.94 billion, an increase of 15% compared to \$1.68 billion in 2005. Parts operations benefited from a growing truck population and the continued integration of PACCAR technology with dealer business systems to provide competitive sales programs to more customers.

Truck segment gross margin as a percentage of net sales and revenues improved to 14.7% in 2006 from 14.5% in 2005 as a result of improved operating efficiencies and strong demand for the Company's products. Higher material costs from suppliers, including the impacts of higher crude oil, copper, steel, aluminum and other commodities have generally been reflected in higher costs and sales prices for new trucks.

2005 Compared to 2004:

PACCAR's worldwide truck sales and revenues increased \$2.43 billion to \$13.20 billion in 2005 due to higher 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.

Peterbilt and Kenworth delivered 82,800 medium and heavy trucks in the U.S. and Canada during 2005, an increase of 21% from 2004. Industry retail sales of new Class 8 trucks in the U.S. and Canada were 287,500 units in 2005 up 23% from 233,000 in 2004. The medium-duty market increased 7% to 103,200 units.

In Europe, new truck deliveries increased 15% to 52,200 units. The 15 tonne and above truck market improved to 259,000 units, a 9% increase from 2004 levels. 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 increased 29%, primarily due to a larger market in Mexico. Combined results in these countries were 10% of total truck segment sales and 11% of truck segment profit in 2005.

PACCAR's worldwide aftermarket parts revenues of \$1.68 billion in 2005 increased from 2004 due to a growing truck population and improved business system integration with dealers.

Truck Outlook

Demand for heavy-duty trucks in the U.S. and Canada is currently forecast to decline 30% to 40% in 2007, with industry retail sales expected to be 200,000–230,000 trucks. Western European heavy-duty registrations for 2007 are projected to remain strong at 250,000–270,000 units. Demand for the Company's products in Mexico, Australia and international markets is expected to remain strong.

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. Over the last ten years, the asset portfolio and income before taxes have grown at a compound annual growth rate of 14%.

	2006	2005	2004
Financial Services:			
Average earning assets	\$8,746.0	\$7,389.0	\$5,945.0
Revenues	950.8	759.0	562.6
Income before taxes	247.4	199.9	168.4

2006 Compared to 2005:

PACCAR Financial Services (PFS) revenues increased 25% to \$950.8 million due to higher earning assets worldwide and higher interest rates. New business volume was a record \$4.24 billion, up 14% from 2005 on higher truck sales levels and solid market share. PFS provided loan and lease financing for over 25% of PACCAR new trucks delivered in 2006.

Income before taxes increased 24% to a record \$247.4 million from \$199.9 million in 2005. This improvement was primarily due to higher finance gross profit and lower credit losses, partly offset by an increase in selling, general and administrative expenses to support business growth. The increase in finance gross profit was due to higher asset levels and higher interest rates, offset partly by a higher cost of funds. Net portfolio charge-offs were \$13.9 million compared to \$19.3 million in 2005. At December 31, 2006, the earning asset portfolio quality was excellent with the percentage of accounts 30+ days past-due at 1.2%, the same percentage as the end of 2005.

During the year, PFS expanded its financing operations into Hungary and the Czech Republic and now operates in 17 countries worldwide.

2005 Compared to 2004:

PFS revenues increased 35% to \$759.0 million due to higher asset levels in the Company's primary operating markets. New business volume was \$3.73 billion, up 20% on higher truck sales levels and strong market share.

Income before taxes increased 19% to \$199.9 million from \$168.4 million in 2004. This improvement was primarily due to higher finance gross profit, partly offset by a higher provision for losses. The increase in finance margins was due to the 24% increase in assets and higher interest rates, offset partly by a higher cost of funds. The higher provision for losses resulted from the growth in the asset base.

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 expected to be modest in the U.S. and Canada as new business volume will approximate asset repayments. Asset growth is likely in Europe, consistent with the anticipated strong truck market. 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 2006, 2005 and 2004.

LIQUIDITY AND CAPITAL RESOURCES:

	2006	2005	2004
Cash and cash equivalents	\$1,852.5	\$1,698.9	\$1,614.7
Marketable debt securities	821.7	591.4	604.8
	\$2,674.2	\$2,290.3	\$2,219.5

The Company's total cash and marketable debt securities increased \$383.9 million in 2006. Cash provided by operations of \$1,852.7 million was used primarily to pay dividends of \$530.4 million, make capital additions totaling \$312.0 million and repurchase PACCAR stock for \$312.0 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 \$2.24 billion. The unused portion of these credit lines was \$2.17 billion at December 31, 2006 and is primarily maintained to provide backup liquidity for commercial paper borrowings of the financial services companies. Included in these arrangements is a \$2.0 billion bank facility, of which \$1.0 billion matures in 2007 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.

In December 2006, PACCAR's Board of Directors approved the repurchase of an additional \$300 million of the Company's common stock.

Truck and Other

The Company provides funding for working capital, capital expenditures, research and development, dividends, stock repurchases 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 totaled \$20.2 million as of December 31, 2006.

Expenditures for property, plant and equipment in 2006 totaled \$312 million compared to \$299 million in 2005. Major capital projects included the completion of the new \$74 million truck and fabrication facilities in Mexico and a parts distribution facility in Oklahoma, substantial completion of a 30 percent expansion to the Kenworth truck factory in Ohio and the beginning of construction of a new engine test facility at DAF in the Netherlands. In addition, the Company made significant investments related to new product introductions for 2007 in the areas of vehicle styling, telematics, engine technology and light-weight materials to improve product quality, fuel economy and increase customer satisfaction. Over the last ten years, the Company's combined investments in worldwide capital projects and research and development totaled \$2.83 billion.

Spending for capital investments and research and development in 2007 is expected to increase from 2006 levels. PACCAR is investing in key product development areas, including onboard energy management systems for Class 8 and medium-duty vehicles and diesel-electric hybrid technology to deliver improved fuel economy in medium-duty vehicles. In mid 2007, the Company will begin construction of a \$400 million, 400,000 square-foot engine manufacturing facility and technology center in the Southeast United States which is expected to be completed in 2009. In addition, the Company will construct a new parts distribution center in Hungary to serve the growing Central and Eastern European markets.

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.

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 filed a shelf registration under the Securities Act of 1933 in November 2006. The registration expires in 2009 and does not limit the principal amount of debt securities that may be issued during the period.

In September 2006, PACCAR's European finance subsidiary, PACCAR Financial Europe, renewed the registration of a €1 billion medium-term note program with the London Stock Exchange. On December 31, 2006, €289 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, servicing debt and paying dividends 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, 2006:

	Maturity		Total
	Within One Year	More than One Year	
Borrowings	\$4,637.8	\$2,642.2	\$7,280.0
Operating leases	29.1	49.4	78.5
Other obligations	181.2	125.8	307.0
Total	\$4,848.1	\$2,817.4	\$7,665.5

At the end of 2006, the Company had \$7.70 billion of cash commitments, including \$4.85 billion maturing within one year. Of the total cash commitments, \$7.26 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 issued by 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, 2006:

	Commitment Expiration		Total
	Within One Year	More than One Year	
Letters of credit	\$ 17.7	\$ 16.7	\$ 34.4
Loan and lease commitments	280.3		280.3
Equipment acquisition commitments	23.0	30.1	53.1
Residual value guarantees	96.6	188.5	285.1
Total	\$417.6	\$235.3	\$652.9

Loan and lease commitments are for funding 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 in 2006, 2005 and 2004 were immaterial.

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 an accrual for the estimated costs to investigate and complete cleanup actions where it is probable that the Company will incur such costs in the future. Management expects that these matters will not have a significant 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, the expected usage of the truck and anticipated market demand. 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 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 materially impacted.

Product Warranty

The expenses related to product warranty are estimated and recorded at the time products are sold based on historical and current data and reasonable expectations for the future regarding the 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 materially differ from the estimated amounts and require 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. Management determines appropriate assumptions about the future to be used by actuaries to estimate net costs and liabilities. These assumptions include discount rates, long-term rates of return on plan assets, health care cost trends, inflation rates, 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. Changes in the discount rate affect the valuation of the plan benefits obligation and funded status of the plans.

The long-term rate of return on plan assets is based on projected returns for each asset class and relative weighting of those asset classes in the plans.

Actual results that differ from these assumptions are accumulated and amortized into expense over future periods. 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 and the balance sheet funded status of the 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	2006	2005	2004
	<i>(millions except per share data)</i>		
TRUCK AND OTHER:			
Net sales and revenues	\$15,503.3	\$13,298.4	\$10,833.7
Cost of sales and revenues	13,199.7	11,340.5	9,268.6
Selling, general and administrative	457.3	429.9	390.4
Interest and other (income) expense, net	(.3)	11.2	34.8
	13,656.7	11,781.6	9,693.8
<i>Truck and Other Income Before Income Taxes</i>	1,846.6	1,516.8	1,139.9
FINANCIAL SERVICES:			
Revenues	950.8	759.0	562.6
Interest and other	573.7	433.8	296.1
Selling, general and administrative	95.9	84.9	80.0
Provision for losses on receivables	33.8	40.4	18.1
	703.4	559.1	394.2
<i>Financial Services Income Before Income Taxes</i>	247.4	199.9	168.4
Investment income	81.3	56.9	59.9
<i>Total Income Before Income Taxes</i>	2,175.3	1,773.6	1,368.2
Income taxes	679.3	640.4	461.4
<i>Net Income</i>	\$ 1,496.0	\$ 1,133.2	\$ 906.8
Net Income Per Share			
Basic	\$ 5.98	\$ 4.40	\$ 3.46
Diluted	\$ 5.95	\$ 4.37	\$ 3.44
Weighted average number of common shares outstanding			
Basic	250.1	257.6	261.8
Diluted	251.4	259.2	263.6

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

32

ASSETS

<i>December 31</i>	2006	2005
	<i>(millions of dollars)</i>	
TRUCK AND OTHER:		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 1,806.3	\$ 1,624.4
Trade and other receivables, net	665.0	582.2
Marketable debt securities	821.7	591.4
Inventories	693.7	495.5
Deferred taxes and other current assets	212.8	214.9
<i>Total Truck and Other Current Assets</i>	4,199.5	3,508.4
Equipment on operating leases, net	418.2	361.0
Property, plant and equipment, net	1,347.2	1,143.0
Other noncurrent assets	331.3	347.1
<i>Total Truck and Other Assets</i>	6,296.2	5,359.5
FINANCIAL SERVICES:		
Cash and cash equivalents	46.2	74.5
Finance and other receivables, net	8,542.7	7,262.5
Equipment on operating leases, net	1,033.1	845.9
Other assets	189.2	173.0
<i>Total Financial Services Assets</i>	9,811.2	8,355.9
	\$16,107.4	\$13,715.4

LIABILITIES AND STOCKHOLDERS' EQUITY

<i>December 31</i>	2006	2005
	<i>(millions of dollars)</i>	
TRUCK AND OTHER:		
<i>Current Liabilities</i>		
Accounts payable and accrued expenses	\$ 2,240.5	\$ 1,834.9
Current portion of long-term debt and commercial paper		8.6
Dividend payable	497.0	338.7
<i>Total Truck and Other Current Liabilities</i>	2,737.5	2,182.2
Long-term debt and commercial paper	20.2	20.2
Residual value guarantees and deferred revenues	477.5	410.4
Deferred taxes and other liabilities	383.7	344.0
<i>Total Truck and Other Liabilities</i>	3,618.9	2,956.8
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	243.2	168.9
Commercial paper and bank loans	4,222.6	3,568.6
Term debt	3,037.2	2,657.5
Deferred taxes and other liabilities	529.3	462.5
<i>Total Financial Services Liabilities</i>	8,032.3	6,857.5
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 248.5 million and 169.4 million shares	248.5	169.4
Additional paid-in capital	27.5	140.6
Treasury stock – at cost	(2.1)	(35.1)
Retained earnings	4,026.1	3,471.5
Accumulated other comprehensive income	156.2	154.7
<i>Total Stockholders' Equity</i>	4,456.2	3,901.1
	\$16,107.4	\$13,715.4

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31	2006	2005	2004
	(millions of dollars)		
OPERATING ACTIVITIES:			
<i>Net income</i>	\$ 1,496.0	\$ 1,133.2	\$ 906.8
<i>Items included in net income not affecting cash:</i>			
Depreciation and amortization:			
Property, plant and equipment	163.4	133.3	122.0
Equipment on operating leases and other	271.2	236.8	193.0
Provision for losses on financial services receivables	33.8	40.4	18.1
Other, net	61.2	(19.8)	19.4
<i>Change in operating assets and liabilities:</i>			
(Increase) decrease in assets other than cash and equivalents:			
Receivables:			
Trade and other	(80.5)	(80.1)	(53.0)
Wholesale receivables on new trucks	(64.6)	(398.9)	(298.4)
Sales-type finance leases and dealer direct loans on new trucks	(232.4)	(194.3)	(164.0)
Inventories	(168.5)	(30.1)	(142.1)
Other, net	(2.2)	(37.5)	(30.2)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	423.3	147.1	409.7
Residual value guarantees and deferred revenues	72.9	45.5	(69.5)
Other, net	(120.9)	11.2	(20.8)
<i>Net Cash Provided by Operating Activities</i>	1,852.7	986.8	891.0
INVESTING ACTIVITIES:			
Retail loans and direct financing leases originated	(3,318.5)	(2,946.4)	(2,333.1)
Collections on retail loans and direct financing leases	2,543.8	2,202.5	1,816.0
Net (increase) decrease in wholesale receivables on used equipment	(27.5)	(15.5)	7.1
Marketable securities purchases	(1,458.2)	(1,172.4)	(876.3)
Marketable securities sales and maturities	1,225.4	1,135.1	710.5
Acquisition of property, plant and equipment	(312.0)	(300.4)	(231.9)
Acquisition of equipment for operating leases	(642.3)	(548.1)	(401.6)
Proceeds from asset disposals	162.2	96.1	103.2
Other, net	1.0	46.5	
<i>Net Cash Used in Investing Activities</i>	(1,826.1)	(1,502.6)	(1,206.1)
FINANCING ACTIVITIES:			
Cash dividends paid	(530.4)	(496.9)	(270.9)
Purchase of treasury stock	(312.0)	(367.2)	(107.7)
Stock option transactions	37.7	11.9	15.7
Net increase in commercial paper and bank loans	576.0	1,148.4	148.2
Proceeds from long-term debt	2,222.6	1,016.9	1,588.6
Payments on long-term debt	(1,951.4)	(592.1)	(857.6)
<i>Net Cash Provided by Financing Activities</i>	42.5	721.0	516.3
Effect of exchange rate changes on cash	84.5	(121.0)	66.5
Net Increase in Cash and Cash Equivalents	153.6	84.2	267.7
Cash and cash equivalents at beginning of year	1,698.9	1,614.7	1,347.0
<i>Cash and cash equivalents at end of year</i>	\$ 1,852.5	\$ 1,698.9	\$ 1,614.7

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

December 31	2006	2005	2004
	<i>(millions of dollars except per share data)</i>		
COMMON STOCK, \$1 PAR VALUE:			
Balance at beginning of year	\$ 169.4	\$ 173.9	\$ 175.1
Treasury stock retirement	(5.0)	(5.0)	(2.0)
50% stock dividend	83.1		
Stock options exercised and other stock compensation	1.0	.5	.8
Balance at end of year	248.5	169.4	173.9
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	140.6	450.5	524.2
Treasury stock retirement	(160.8)	(338.4)	(105.7)
Stock options and tax benefit	42.6	27.0	25.6
Other stock compensation	5.1	1.5	6.4
Balance at end of year	27.5	140.6	450.5
TREASURY STOCK, AT COST:			
Balance at beginning of year	(35.1)		
Purchases	(301.5)	(378.5)	(107.7)
Retirements	334.5	343.4	107.7
Balance at end of year	(2.1)	(35.1)	
RETAINED EARNINGS:			
Balance at beginning of year	3,471.5	2,826.9	2,399.2
Net income	1,496.0	1,133.2	906.8
Cash dividends declared on common stock, per share: 2006-\$2.77; 2005-\$1.91; 2004-\$1.83	(689.6)	(488.6)	(479.1)
Treasury stock retirement	(168.7)		
50% stock dividend	(83.1)		
Balance at end of year	4,026.1	3,471.5	2,826.9
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Balance at beginning of year	154.7	311.1	147.9
FAS 158 accounting change, net of \$87.5 tax effect	(160.2)		
Other comprehensive income (loss)	161.7	(156.4)	163.2
Balance at end of year	156.2	154.7	311.1
<i>Total Stockholders' Equity</i>	\$ 4,456.2	\$ 3,901.1	\$ 3,762.4

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

36

Year Ended December 31	2006	2005	2004
		<i>(millions of dollars)</i>	
Net income	\$1,496.0	\$1,133.2	\$ 906.8
Other comprehensive income (loss):			
Unrealized (losses) gains on derivative contracts			
Gains (losses) arising during the period	13.1	28.5	(11.9)
Tax effect	(4.7)	(10.5)	3.8
Reclassification adjustment	(17.4)	9.6	31.4
Tax effect	5.9	(2.8)	(12.3)
	(3.1)	24.8	11.0
Unrealized losses on investments			
Net holding loss	(.6)	(1.6)	(1.2)
Tax effect	.3	.6	.4
Reclassification adjustment		(1.5)	(13.6)
Tax effect		.2	5.2
	(.3)	(1.3)	(9.2)
Minimum pension liability adjustment	26.0	(20.2)	(8.0)
Tax effect	(9.8)	7.9	2.7
	16.2	(12.3)	(5.3)
Foreign currency translation gains (losses)	148.9	(167.6)	166.7
Net other comprehensive income (loss)	161.7	(156.4)	163.2
<i>Comprehensive Income</i>	\$1,657.7	\$ 976.8	\$1,070.0

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006, 2005 and 2004 (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 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 tested for impairment on an annual basis. There were no impairment charges during the three years ended December 31, 2006.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006, 2005 and 2004 (currencies in millions except per share amounts)

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. Translation adjustments 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 are remeasured 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 \$150.6 in 2006, \$117.8 in 2005 and \$103.2 in 2004.

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 effects of stock-based compensation awards under the treasury stock method.

Stock-Based Compensation: Effective January 1, 2003, PACCAR elected to recognize compensation expense on all new employee stock option awards over the vesting period, generally three years, pursuant to FASB Statement No. 123, *Accounting for Stock-Based*

Compensation. Stock-based compensation expense, net of tax, was \$6.9 in 2006 and \$4.8 in 2005. Had compensation expense been recognized for options granted prior to 2003, net income and earnings per share for 2004 would have been adjusted to the pro forma amounts shown below:

Net income, as reported	\$906.8
Add: Stock-based compensation included in net income, net of related tax effects	2.8
Deduct: Fair value of stock compensation, net of tax	(4.0)
<u>Pro forma net income</u>	<u>\$905.6</u>

The adoption of FASB Statement No. 123(R), *Share-Based Payment* (FAS 123(R)) on January 1, 2006 had an immaterial effect on the consolidated financial statements.

Realized tax benefits for 2006 of \$15.3 related to the excess of deductible amounts over compensation costs recognized have been classified as a financing cash flow, in accordance with FAS 123(R).

As of December 31, 2006, there was \$7.4 of unamortized compensation cost related to unvested stock option awards, which is expected to be recognized over a remaining weighted-average vesting period of 1.5 years. Unamortized compensation cost at December 31, 2006 related to unvested restricted stock awards was \$1.7, which is expected to be recognized over a remaining weighted-average vesting period of 1.3 years.

The estimated fair value of stock options granted during 2006, 2005 and 2004 was \$11.94, \$14.17 and \$12.58 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:

	2006	2005	2004
Risk-free interest rate	4.44%	3.73%	3.11%
Expected volatility	34%	39%	45%
Expected dividend yield	4.0%	3.2%	3.0%
Expected term	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, 2006, 2005 and 2004 (currencies in millions)

38

New Accounting Pronouncements: In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (FAS 158). FAS 158 requires an employer to recognize the funded status of each of its defined benefit postretirement plans as an asset or liability and to recognize changes in the funded status as a component of comprehensive income. Upon adoption at December 31, 2006, total assets were reduced by \$114.7, total liabilities were increased by \$45.5 and stockholders' equity was reduced by \$160.2, net of tax.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 is an interpretation of Statement No. 109, *Accounting for Income Taxes*, that clarifies the criteria for recognition of income tax benefits and becomes effective January 1, 2007. The Company does not expect this pronouncement to have a significant effect on its consolidated results of operations or financial position.

Reclassifications: Certain prior-year amounts have been reclassified to conform to the 2006 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 and unrealized gains and losses on marketable debt securities were not significant for any of the three years ended December 31, 2006.

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 consisted of the following at December 31:

2006	AMORTIZED COST	FAIR VALUE
U.S. tax-exempt securities	\$752.3	\$750.9
U.S. government securities	59.4	58.5
Other debt securities	12.2	12.3
	\$823.9	\$821.7

2005	AMORTIZED COST	FAIR VALUE
U.S. tax-exempt securities	\$553.6	\$552.7
U.S. government securities	39.3	38.7
	\$592.9	\$591.4

The contractual maturities of debt securities at December 31, 2006, were as follows:

<i>Maturities:</i>	AMORTIZED COST	FAIR VALUE
Within one year	\$230.5	\$230.4
One to five years	465.1	463.0
Five to ten years	.9	.9
10 or more years	127.4	127.4
	\$823.9	\$821.7

Marketable debt securities include \$128.4 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, 2006 or 2005. Gross realized gains on marketable equity securities were \$14.1 for the year ended December 31, 2004.

C. INVENTORIES

Inventories include the following:

At December 31,	2006	2005
Finished products	\$365.4	\$299.3
Work in process and raw materials	472.1	330.1
	837.5	629.4
Less LIFO reserve	(143.8)	(133.9)
	\$693.7	\$495.5

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 53% and 49% of consolidated inventories before deducting the LIFO reserve at December 31, 2006 and 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006, 2005 and 2004 (currencies in millions)

D. FINANCE AND OTHER RECEIVABLES

Finance and other receivables are as follows:

At December 31,	2006	2005
Loans	\$4,226.7	\$3,642.3
Retail direct financing leases	2,322.1	1,881.8
Sales-type finance leases	909.2	701.2
Dealer wholesale financing	1,562.6	1,402.8
Interest and other receivables	112.1	86.6
Unearned interest:		
Finance leases	(421.0)	(307.0)
	8,711.7	7,407.7
Less allowance for losses	(169.0)	(145.2)
	\$8,542.7	\$7,262.5

The majority of the Company's customers are located in the United States, which represented 58% of total receivables at December 31, 2006 and December 31, 2005. 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 others will be extended or renewed.

Included in Loans are dealer direct loans on the sale of new trucks of \$50.9 and \$29.6 as of December 31, 2006 and 2005.

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

Annual payments due on loans beginning January 1, 2007, are \$1,614.2, \$1,093.6, \$852.0, \$533.6, \$246.6 and \$37.1 thereafter.

Annual minimum lease payments due on finance leases beginning January 1, 2007, are \$874.0, \$750.4, \$647.0, \$437.0, \$239.1 and \$110.1 thereafter. Estimated residual values included with finance leases amounted to \$173.7 in 2006 and \$134.4 in 2005.

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, 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
Provision for losses	.3	33.8
Net losses	(6.0)	(13.9)
Currency translation	.5	3.9
Balance, December 31, 2006	\$ 5.7	\$169.0

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, Truck and Other and Financial Services receivables are collateralized by the related equipment and parts.

F. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include the following:

At December 31,	2006	2005
Land	\$ 142.5	\$ 123.6
Buildings	731.3	633.3
Machinery and equipment	1,838.0	1,569.7
	2,711.8	2,326.6
Less allowance for depreciation	(1,364.6)	(1,183.6)
	\$1,347.2	\$1,143.0

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, 2006, 2005 and 2004 (currencies in millions)

40

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:

At December 31,	2006	2005
Equipment on lease	\$589.7	\$493.4
Less allowance for depreciation	(171.5)	(132.4)
	\$418.2	\$361.0

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:

At December 31,	2006	2005
Deferred lease revenues	\$192.4	\$163.4
Residual value guarantee	285.1	247.0
	\$477.5	\$410.4

The deferred lease revenue is amortized on a straight-line basis over the RVG contract period. At December 31, 2006, the annual amortization of deferred revenue beginning January 1, 2007, is \$82.2, \$54.7, \$33.3, \$15.9, \$5.4 and \$.9 thereafter. Annual maturities of the residual value guarantees beginning January 1, 2007, are \$96.5, \$71.2, \$61.1, \$36.7, \$16.7 and \$2.9 thereafter.

Financial Services:

Equipment on operating leases is as follows:

At December 31,	2006	2005
Transportation equipment	\$1,397.1	\$1,130.7
Less allowance for depreciation	(364.0)	(284.8)
	\$1,033.1	\$845.9

Annual minimum lease payments due on operating leases beginning January 1, 2007, are \$253.2, \$182.5, \$113.5, \$52.1, \$17.2 and \$3.3 thereafter.

H. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses include the following:

At December 31,	2006	2005
<i>Truck and Other:</i>		
Accounts payable	\$1,211.6	\$983.2
Salaries and wages	155.7	137.2
Product support reserves	305.1	253.3
Other	568.1	461.2
	\$2,240.5	\$1,834.9

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:

At December 31,	2006	2005
Beginning balance	\$391.5	\$376.3
Cost accruals and revenue deferrals	302.4	289.2
Payments and revenue recognized	(271.0)	(240.5)
Currency translation	35.4	(33.5)
	\$458.3	\$391.5

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

At December 31,	2006	2005
<i>Truck and Other:</i>		
Accounts payable and accrued expenses	\$305.1	\$253.3
Deferred taxes and other liabilities	64.8	66.9
<i>Financial Services:</i>		
Deferred taxes and other liabilities	88.4	71.3
	\$458.3	\$391.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006, 2005 and 2004 (currencies in millions)

J. 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, 2007, are \$29.1, \$18.1, \$10.8, \$7.6, \$3.7 and \$9.2 thereafter.

Total rental expenses under all leases amounted to \$41.4, \$42.3 and \$34.3 for 2006, 2005 and 2004.

K. BORROWINGS AND CREDIT ARRANGEMENTS

Borrowings include the following at December 31:

	2006	2005
<i>Truck and Other:</i>		
Noninterest bearing notes	\$ 20.2	\$ 20.2
Commercial paper		8.6
	20.2	28.8
Less current portion		(8.6)
	\$ 20.2	\$ 20.2

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

	EFFECTIVE RATE	2006	2005
<i>Financial Services:</i>			
Commercial paper	4.8%	\$4,200.6	\$3,566.3
Bank loans	6.6%	22.0	2.3
		\$4,222.6	\$3,568.6
<i>Term debt:</i>			
Fixed rate	9.5%	\$ 48.3	\$ 127.3
Floating rate	4.5%	2,988.9	2,530.2
		\$3,037.2	\$2,657.5

The effective rate is the weighted average rate as of December 31, 2006, and includes the effects of interest-rate agreements.

Annual maturities of term debt beginning January 1, 2007, are \$415.2, \$709.1, \$1,911.9, and \$1.0. Maturities for 2008 include \$300.0 of floating rate extendible notes, which were issued in 2005 and 2006. 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 \$281.6, \$204.0 and \$134.4 in 2006, 2005 and 2004.

The weighted average interest rate on consolidated commercial paper and bank loans was 4.8%, 4.0% and 3.4% at December 31, 2006, 2005 and 2004.

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 filed a shelf registration under the Securities Act of 1933 in November 2006. The registration expires in 2009 and the Company has authorized \$5,000 available for issuance during the three year registration period. At December 31, 2006, \$4,700 of debt remained available for issuance under this program. In September 2006, PFE renewed the registration of a €1,000 medium-term note program with the London Stock Exchange. On December 31, 2006, €289 of debt remained available for issuance under this program.

The Company has line of credit arrangements of \$2,236.9. Included in these arrangements is a \$2,000 bank facility, of which \$1,000 matures in 2007 and \$1,000 matures in 2010. The unused portion of these credit lines was \$2,166.0 at December 31, 2006, of which the majority is maintained to provide backup liquidity for commercial paper borrowings. Compensating balances are not required on the lines, and service fees are immaterial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006, 2005 and 2004 (currencies in millions)

42

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 \$149.7 to its pension plans in 2006 and \$63.7 in 2005. The Company expects to contribute in the range of \$50.0 to \$90.0 to its pension plans in 2007, of which \$14.8 is estimated to satisfy minimum funding requirements. Annual benefits expected to be paid beginning January 1, 2007, are \$37.2, \$41.8, \$45.5, \$49.3, \$54.5, and for the five years thereafter, a total of \$343.7.

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 2006	2005
<i>Plan assets allocation as of December 31:</i>			
Equity securities	55 - 70%	67.3%	63.9%
Debt securities	30 - 45%	32.7	36.1
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:

At December 31,	2006	2005
<i>Weighted Average Assumptions:</i>		
Discount rate	5.7%	5.5%
Rate of increase in future compensation levels	4.2%	4.2%
Assumed long-term rate of return on plan assets	7.4%	7.4%

	2006	2005
<i>Change in Projected Benefit Obligation:</i>		
Benefit obligation at January 1	\$ 1,044.6	\$ 935.2
Service cost	50.5	40.8
Interest cost	60.8	52.8
Benefits paid	(37.5)	(29.4)
Actuarial loss	30.5	61.0
Plan amendments	9.7	
Currency translation	30.4	(19.7)
Participant contributions	4.4	3.9
Projected benefit obligation at December 31	\$ 1,193.4	\$ 1,044.6

	2006	2005
<i>Change in Plan Assets:</i>		
Fair value of plan assets at January 1	\$ 973.7	\$ 880.3
Employer contributions	149.7	63.7
Actual return on plan assets	120.3	75.4
Benefits paid	(37.5)	(29.4)
Currency translation	31.5	(20.2)
Participant contributions	4.4	3.9
Fair value of plan assets at December 31	1,242.1	973.7
Funded Status at December 31	\$ 48.7	\$ (70.9)

	2006	2005
<i>Amounts Recorded in Balance Sheet:</i>		
Other noncurrent assets	\$ 94.5	\$ 166.8
Other noncurrent liabilities	(45.8)	(30.9)
Accumulated other comprehensive loss	\$ 146.8	\$ 20.8

As described more fully in Note A, FAS 158 changed the balance sheet accounting for defined benefit plans for 2006 on a prospective basis. Under FAS 158, the funded status of each defined benefit plan is recorded as an asset or a liability. The December 31, 2005 balance sheet assets and liabilities include the effects of unrecognized actuarial losses, prior service cost and net initial obligations and these items are now included in accumulated other comprehensive income, net of tax. In addition, minimum pension liabilities and intangible assets related to defined benefit plans are no longer recognized.

Included in accumulated other comprehensive income at December 31, 2006, was \$129.4 of unrecognized actuarial loss, \$15.9 of unrecognized prior service cost and \$1.5 of unrecognized net initial obligation.

Of the December 31, 2006 amounts in accumulated other comprehensive income, \$5.1 of unrecognized actuarial loss and \$2.7 of unrecognized prior service cost is expected to be amortized into net pension expense in 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006, 2005 and 2004 (currencies in millions)

The projected benefit obligation includes \$41.2 and \$38.6 at December 31, 2006 and 2005 related to an unfunded supplemental plan. The accumulated benefit obligations for this same plan were \$30.5 and \$27.9 at December 31, 2006 and 2005.

The accumulated benefit obligation for all pension plans of the Company, except for certain multi-employer and foreign-insured plans, was \$1,035.4 at December 31, 2006, and \$904.9 at December 31, 2005.

Year Ended December 31,	2006	2005	2004
<i>Components of Pension Expense:</i>			
Service cost	\$ 50.5	\$ 40.8	\$ 32.2
Interest on projected benefit obligation	60.8	52.8	48.5
Expected return on assets	(76.7)	(64.1)	(59.5)
Amortization of prior service costs	3.6	3.6	3.4
Recognized actuarial loss	12.7	9.2	3.8
Other	.1	.1	.2
Net pension expense	\$ 51.0	\$ 42.4	\$ 28.6

Pension expense for multi-employer and foreign-insured plans was \$32.0, \$29.0 and \$24.9 in 2006, 2005 and 2004.

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 \$22.1, \$20.6 and \$18.5 in 2006, 2005 and 2004.

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 death benefit.

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

Year Ended December 31,	2006	2005	2004
<i>Components of Retiree Expense:</i>			
Service cost	\$ 5.4	\$ 3.6	\$ 2.6
Interest cost	4.8	4.2	3.7
Recognized actuarial loss	1.4	1.5	.7
Recognized prior service cost	.1	.2	.1
Recognized net initial obligation	.5	.4	.5
Net retiree expense	\$ 12.2	\$ 9.9	\$ 7.6

The discount rate used for calculating the accumulated plan benefits was 5.9% for 2006 and 5.6% for 2005. In 2006 the assumed long-term medical inflation rate was 11% declining to 6% over five years. In 2005 the rate assumption was 12% declining to 6% over six years. Annual benefits expected to be paid beginning January 1, 2007, are \$3.2, \$3.9, \$4.9, \$6.0, \$7.3 and for the five years thereafter, a total of \$47.0.

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	\$ 1.2	\$ (1.4)
Effect on accumulated postretirement benefit obligation	\$ 9.7	\$ (8.4)
	2006	2005

Change in Projected Benefit Obligation:

Benefit obligation at January 1	\$ 76.7	\$ 69.3
Service cost	5.4	3.6
Interest cost	4.8	4.2
Benefits paid	(2.2)	(1.4)
Actuarial loss	7.7	1.0
Projected benefit obligation at December 31	\$ 92.4	\$ 76.7

Unfunded Status at December 31 **\$ (92.4)** **\$ (76.7)**

Amounts Recorded in Balance Sheet:

Other noncurrent liabilities	\$ (92.4)	\$ (53.5)
Accumulated other comprehensive income	\$ 18.0	

The December 31, 2005 balance sheet assets and liabilities include the effects of unrecognized actuarial losses, prior service cost and net initial obligations and these items are now included in accumulated other comprehensive income, net of tax.

Included in accumulated other comprehensive income at December 31, 2006, was \$16.2 of unrecognized actuarial loss, \$.3 of unrecognized prior service cost and \$1.5 of unrecognized net initial obligation.

Of the December 31, 2006 amounts in accumulated other comprehensive income, \$.7 of unrecognized actuarial loss and \$.3 of unrecognized net initial obligation is expected to be amortized into net retiree expense in 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006, 2005 and 2004 (currencies in millions)

44

M. INCOME TAXES

Year Ended December 31,	2006	2005	2004
<i>Income Before Income Taxes:</i>			
Domestic	\$1,149.3	\$ 960.3	\$ 643.5
Foreign	1,026.0	813.3	724.7
	\$2,175.3	\$1,773.6	\$1,368.2

Provision for Income Taxes:

Current provision:			
Federal	\$ 280.4	\$ 394.7	\$ 139.9
State	39.6	41.9	22.1
Foreign	292.4	257.7	251.4
	612.4	694.3	413.4
Deferred provision (benefit):			
Federal	49.6	(35.7)	64.7
State	4.7	.4	6.7
Foreign	12.6	(18.6)	(23.4)
	66.9	(53.9)	48.0
	\$ 679.3	\$ 640.4	\$ 461.4

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

	2006	2005	2004
Statutory rate	35%	35%	35%
Statutory tax	\$ 761.4	\$ 620.8	\$ 478.9
Effect of:			
State income taxes	27.3	27.5	18.7
Repatriated earnings	(10.0)	64.0	
Foreign income taxes	(48.8)	(45.3)	(25.7)
Other, net	(50.6)	(26.6)	(10.5)
	\$ 679.3	\$ 640.4	\$ 461.4

A provision of \$64.0 for the repatriation of foreign earnings was recorded as current income tax expense during 2005. In 2006, a benefit of \$10.0 was recorded from the final calculation of taxes related to the 2005 repatriation of foreign earnings.

United States income taxes are not provided on the undistributed earnings of the Company's foreign subsidiaries that are considered to be indefinitely reinvested. At December 31, 2006, the amount of undistributed earnings which are considered to be indefinitely reinvested is \$1,918.7. U.S. income taxes were provided for the \$610.2 not indefinitely reinvested.

During 2005, the Company generated \$50.0 in U.S. foreign tax credit carryforwards. The Company did not expect to utilize these credits, and recorded a full valuation allowance in 2005. During 2006, the Company utilized a portion of these credits and has \$36.4 available at December 31, 2006. These credits are expected to be utilized in the future and the remaining valuation allowance was reversed in 2006.

At December 31, 2006, the Company's net tax operating loss carryforwards were \$227.1. 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 a regular basis, including a review of historical and projected future operating results.

At December 31	2006	2005
<i>Components of Deferred Tax Assets (Liabilities):</i>		
<i>Assets:</i>		
Provisions for accrued expenses	\$ 245.9	\$ 232.3
Net operating loss carryforwards	67.2	64.5
Allowance for losses on receivables	55.8	50.8
U.S. foreign tax credit carryforward	36.4	50.0
Foreign product development costs	40.5	41.1
Postretirement benefit plans	90.1	
Other	57.8	71.7
	593.7	510.4
Valuation allowance	(45.1)	(95.5)
	548.6	414.9
<i>Liabilities:</i>		
Financial Services leasing depreciation	(390.3)	(343.9)
Depreciation and amortization	(89.4)	(91.5)
Postretirement benefit plans	(68.6)	(56.2)
Other	(122.0)	(68.2)
	(670.3)	(559.8)
Net deferred tax liability	\$(121.7)	\$(144.9)

At December 31	2006	2005
<i>Classification of Deferred Tax Assets (Liabilities):</i>		
<i>Truck and Other:</i>		
Deferred taxes and other current assets	\$ 133.5	\$ 132.4
Other noncurrent assets	96.4	43.6
Deferred taxes and other liabilities	(15.6)	(22.1)
<i>Financial Services:</i>		
Other assets	29.3	27.8
Deferred taxes and other liabilities	(365.3)	(326.6)
Net deferred tax liability	\$(121.7)	\$(144.9)

Cash paid for income taxes was \$611.5, \$722.0 and \$418.7 in 2006, 2005 and 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006, 2005 and 2004 (currencies in millions)

N. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company used the following methods and assumptions to determine the fair values of its financial instruments:

Cash and Cash Equivalents: Carrying amounts approximate fair value.

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

Financial Services Net Receivables: For floating-rate loans, wholesale financings, and interest and other receivables, fair values approximate carrying values. For fixed-rate loans, fair values are estimated using discounted cash flow analysis based on current rates for comparable loans. Finance lease receivables and related loss provisions approximate fair value and have been excluded from the accompanying table.

Derivative Instruments: Derivative instruments, including interest rate contracts and foreign currency exchange contracts, are carried at fair value. Fair values are based on quoted market prices or pricing models using current market rates and represent the amounts that the Company would receive or pay to terminate the contracts.

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

Trade Receivables and Payables: Carrying amounts approximate fair value.

Balance sheet captions which include financial instruments that are not carried at approximate fair value are as follows at December 31:

2006	CARRYING AMOUNT	FAIR VALUE
<i>Truck and Other:</i>		
Long-term debt	\$ 20.2	\$ 16.8
<i>Financial Services:</i>		
Net receivables	5,672.9	5,580.8
Term debt	3,037.2	3,038.2
2005		
<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

O. COMMITMENTS AND CONTINGENCIES

45

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 an accrual to provide for the estimated costs to investigate and complete cleanup actions where it is probable that the Company will incur such costs in the future. Expenditures related to environmental activities in 2006, 2005 and 2004 were not significant.

While the timing and amount of the ultimate costs associated with future environmental cleanup cannot be determined, management expects that these matters will not have a significant effect on the Company's consolidated financial position.

At December 31, 2006, PACCAR had standby letters of credit of \$34.4, which guarantee various insurance and financing activities. The Company is committed, under specific circumstances, to purchase equipment at a cost of \$23.0 in 2007 and \$30.1 in 2008. At December 31, 2006, PACCAR's financial services companies, in the normal course of business, had outstanding commitments to fund new loan and lease transactions amounting to \$280.3. The commitments generally expire in 90 days. The Company had other commitments, primarily to purchase production inventory, amounting to \$181.2 in 2007 and \$125.8 thereafter.

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, 2006, 2005 and 2004 (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, 2006.

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, 2006, the Company had 510 interest-rate contracts outstanding. The notional amount of these contracts totaled \$4,790.4, 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 \$36.0 and a liability of \$17.3 at December 31, 2006. Fair values at December 31, 2005 amounted to an asset of \$38.0 and a liability of \$9.7.

Notional maturities for all interest-rate contracts for the six years beginning January 1, 2007, are \$1,348.9, \$1,418.8, \$1,353.8, \$493.1, \$150.9 and \$24.9. 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. Cross currency interest-rate swaps are also used to hedge foreign currency exposure in addition to modifying the interest-rate characteristics of debt.

Foreign Currency Exchange Contracts: PACCAR enters into foreign currency exchange contracts to hedge certain anticipated transactions and borrowings 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 \$279.3 and \$321.1 U.S. dollars at December 31, 2006 and 2005, respectively. The net fair value of these foreign exchange contracts was an asset of \$2.0 and a liability of \$.5 at December 31, 2006. Fair values at December 31, 2005 amounted to an asset of \$1.8 and a liability of \$2.5.

Derivative assets are included in the 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. The Company uses regression and the change in variable cash flows method to assess and measure effectiveness of interest-rate contracts. For foreign currency exchange contracts, the Company performs quarterly assessments to ensure that key terms continue to match. 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, 2006.

Amounts in accumulated other comprehensive income are reclassified into net income in the same period in which the hedged 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, 2006, \$9.4, net of taxes, is expected to be reclassified to interest expense or cost of sales in 2007. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006, 2005 and 2004 (currencies in millions except per share amounts)

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. Officers and 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 31.1 million. As of December 31, 2006, the maximum number of shares available for future grants under these plans is 13.6 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 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 12/31/03	5,835,400	\$ 16.37
Granted	686,400	37.97
Exercised	(1,104,200)	13.85
Cancelled	(405,700)	21.77
Outstanding at 12/31/04	5,011,900	19.45
Granted	622,000	48.17
Exercised	(726,700)	15.73
Cancelled	(152,900)	29.37
Outstanding at 12/31/05	4,754,300	23.46
Granted	643,100	48.34
Exercised	(1,255,600)	16.72
Cancelled	(33,800)	43.70
Outstanding at 12/31/06	4,108,000	\$ 29.25

For options exercised, the aggregate difference between the strike price and market price on the date of exercise was \$43.2 in 2006, \$23.8 in 2005 and \$29.4 in 2004.

The following table summarizes information about stock options outstanding at December 31, 2006:

RANGE OF EXERCISE PRICES	NUMBER OF SHARES	REMAINING CONTRACTUAL LIFE IN YEARS	AVERAGE EXERCISE PRICE*
<i>Exercisable:</i>			
\$10.85-12.37	486,300	2.0	\$11.80
15.30-15.94	715,800	3.0	15.62
18.80-20.93	1,097,400	5.6	19.97
	2,299,500		16.89
<i>Not Exercisable:</i>			
37.97	579,600	7.0	37.97
48.17-48.34	1,228,900	8.6	48.26
	1,808,500	8.1	44.96
	4,108,000	5.8	\$29.25

*Weighted Average

See Note A for information regarding estimated fair values and option pricing assumptions.

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.

At December 31:	2006	2005	2004
Additional shares	1,376,200	1,655,300	1,782,900

Antidilutive options amounted to 632,000 in 2006, 604,700 in 2005 and 642,500 in 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006, 2005 and 2004 (currencies in millions except share amounts)

48

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:

	2006	2005	2004
Unrealized (loss) gain on investments	\$ (2.2)	\$ (1.6)	\$.5
Deferred tax asset (liability)	.9	.6	(.2)
	(1.3)	(1.0)	.3
Unrealized gain (loss) on derivative contracts	28.5	32.7	(5.4)
Deferred tax (liability) asset	(10.9)	(12.0)	1.3
	17.6	20.7	(4.1)
Pension and postretirement:			
Minimum pension liability adjustment		(33.2)	(13.0)
Unrecognized:			
Actuarial loss	(225.2)		
Prior service cost	(25.3)		
Net initial obligation	(4.4)		
Deferred tax asset	90.1	12.4	4.5
	(164.8)	(20.8)	(8.5)
Currency translation adjustment	304.7	155.8	323.4
Accumulated other comprehensive income	\$ 156.2	\$ 154.7	\$ 311.1

Other Capital Stock Changes: During 2006, the Company retired 5.0 million of its common shares, of which 4.5 million were acquired during the year. During 2005, the Company acquired 5.5 million of its common shares, of which 5.0 million were retired. In 2004, the Company acquired and retired 2.0 million of its outstanding common shares.

At December 31, 2006, PACCAR had 32,873 treasury shares.

Stock Dividend: A 50% common stock dividend was paid in August, 2006, with fractional shares paid in cash. This resulted in the issuance of 83,104,090 additional shares and 543 fractional shares paid in cash.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006, 2005 and 2004 (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 \$13.1, \$15.7 and \$10.8 for 2006, 2005 and 2004. 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>	2006	2005	2004
Revenues:			
United States	\$ 8,496.5	\$ 7,161.8	\$ 5,414.2
Europe	4,589.8	4,096.2	3,725.9
Other	3,367.8	2,799.4	2,256.2
	\$16,454.1	\$14,057.4	\$11,396.3

Long-lived assets:			
Property, plant and equipment, net			
United States	\$ 527.4	\$ 443.0	\$ 424.7
The Netherlands	378.8	308.4	276.8
Other	441.0	391.6	336.3
	\$ 1,347.2	\$ 1,143.0	\$ 1,037.8

Goodwill and other intangibles, net			
The Netherlands	\$ 115.9	\$ 105.7	\$ 122.7
Other	1.3	1.3	1.3
	\$ 117.2	\$ 107.0	\$ 124.0

<i>Geographic Area Data</i>	2006	2005	2004
Equipment on operating leases, net			
United States	\$ 438.7	\$ 400.7	\$ 340.9
United Kingdom	295.5	206.6	278.8
Germany	172.8	111.3	115.4
France	144.0	130.7	157.0
Other	400.3	357.6	296.4
	\$ 1,451.3	\$ 1,206.9	\$ 1,188.5

Business Segment Data

Net sales and revenues:

Truck			
Total	\$15,754.7	\$13,559.4	\$11,081.8
Less intersegment	(387.4)	(363.3)	(319.5)
External customers	15,367.3	13,196.1	10,762.3
All Other	136.0	102.3	71.4
	15,503.3	13,298.4	10,833.7
Financial Services	950.8	759.0	562.6
	\$16,454.1	\$14,057.4	\$11,396.3

Income before income taxes:

Truck	\$ 1,848.8	\$ 1,520.2	\$ 1,145.0
All Other	(2.2)	(3.4)	(5.1)
	1,846.6	1,516.8	1,139.9
Financial Services	247.4	199.9	168.4
Investment income	81.3	56.9	59.9
	\$ 2,175.3	\$ 1,773.6	\$ 1,368.2

Depreciation and amortization:

Truck	\$ 218.8	\$ 190.3	\$ 182.1
Financial Services	203.3	166.6	124.0
All Other	12.5	13.2	8.9
	\$ 434.6	\$ 370.1	\$ 315.0

Expenditures for long-lived assets:

Truck	\$ 447.5	\$ 419.3	\$ 222.7
Financial Services	494.2	413.7	386.1
Other	12.6	15.5	24.7
	\$ 954.3	\$ 848.5	\$ 633.5

Segment assets:

Truck	\$ 3,480.1	\$ 2,955.8	\$ 2,889.3
Other	188.1	187.9	174.5
Cash and marketable securities	2,628.0	2,215.8	2,184.1
	6,296.2	5,359.5	5,247.9
Financial Services	9,811.2	8,355.9	6,980.1
	\$16,107.4	\$13,715.4	\$12,228.0

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

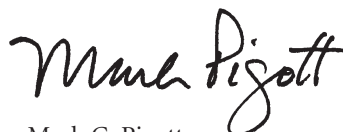
50

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, 2006, 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, 2006.

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, 2006 and 2005, 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, 2006. 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, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note A to the financial statements, in 2006 the Company changed its method of accounting for defined benefit pension and other postretirement plans in accordance with FASB statement No. 158.

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, 2006, 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 16, 2007 expressed an unqualified opinion thereon.

Seattle, Washington
February 16, 2007



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

Board of Directors and Stockholders
PACCAR Inc

51

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, 2006, 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, 2006, 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, 2006, 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, 2006 and 2005, 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, 2006 of PACCAR Inc and our report dated February 16, 2007 expressed an unqualified opinion thereon.

Seattle, Washington
February 16, 2007

Ernst & Young LLP

SELECTED FINANCIAL DATA

	2006	2005	2004	2003	2002
	<i>(millions except per share data)</i>				
Truck and Other Net Sales and Revenues	\$ 15,503.3	\$13,298.4	\$10,833.7	\$ 7,721.1	\$ 6,786.0
Financial Services Revenues	950.8	759.0	562.6	473.8	432.6
<i>Total Revenues</i>	\$ 16,454.1	\$14,057.4	\$11,396.3	\$ 8,194.9	\$ 7,218.6
<i>Net Income</i>	\$ 1,496.0	\$ 1,133.2	\$ 906.8	\$ 526.5	\$ 372.0
<i>Net Income Per Share:</i>					
Basic	5.98	4.40	3.46	2.01	1.43
Diluted	5.95	4.37	3.44	1.99	1.42
Cash Dividends Declared	2.77	1.91	1.83	.92	.67
<i>Total Assets:</i>					
Truck and Other	6,296.2	5,359.5	5,247.9	4,334.2	3,590.2
Financial Services	9,811.2	8,355.9	6,980.1	5,605.4	5,112.3
<i>Truck and Other Long-Term Debt</i>	20.2	20.2	27.8	33.7	33.9
<i>Financial Services Debt</i>	7,259.8	6,226.1	4,788.6	3,786.1	3,527.6
<i>Stockholders' Equity</i>	4,456.2	3,901.1	3,762.4	3,246.4	2,600.7

All per share amounts have been restated to give effect to a 50% stock dividend paid in August 2006.

COMMON STOCK MARKET PRICES AND DIVIDENDS

Common stock of the Company is traded on the NASDAQ Global Select Market under the symbol PCAR. The table below reflects the range of trading prices as reported by NASDAQ and cash dividends declared. All amounts have been restated to give effect to a 50% stock dividend paid in August 2006. There were 2,138 record holders of the common stock at December 31, 2006.

QUARTER	2006			2005		
	CASH DIVIDENDS DECLARED	HIGH	LOW	CASH DIVIDENDS DECLARED	HIGH	LOW
First	\$.17	\$50.05	\$45.19	\$.13	\$54.25	\$45.67
Second	.20	55.26	46.36	.14	49.36	42.56
Third	.20	58.90	50.90	.14	51.07	44.14
Fourth	.20	69.25	56.68	.17	49.06	42.20
Year-End Extra	2.00			1.33		

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>			
2006				
Truck and Other Net Sales and Revenues	\$3,639.2	\$3,936.6	\$3,959.2	\$3,968.3
Truck and Other Gross Profit (Before SG&A and Interest)	540.3	582.7	594.3	586.3
Financial Services Revenues	212.5	231.4	246.2	260.7
Financial Services Gross Profit (Before SG&A)	84.6	92.5	97.3	102.7
Net Income	342.0	369.9	403.6	380.5
Net Income Per Share (1):				
Basic	\$ 1.36	\$ 1.48	\$ 1.62	\$ 1.53
Diluted	1.35	1.47	1.61	1.52
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 (2)	274.0	241.5	304.8	312.9
Net Income Per Share (1):				
Basic	\$ 1.05	\$.93	\$ 1.19	\$ 1.23
Diluted	1.04	.92	1.18	1.22

Net income per share amounts have been restated to give effect to a 50% stock dividend paid in August 2006.

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

MARKET RISKS AND DERIVATIVE INSTRUMENTS

(currencies in millions)

54

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)	2006	2005
CONSOLIDATED:		
<i>Assets</i>		
<i>Cash equivalents and marketable securities</i>	\$(12.2)	\$ (6.1)
TRUCK AND OTHER:		
<i>Liabilities</i>		
<i>Borrowings and related swaps:</i>		
Long-term debt	.6	.6
Interest rate swaps related to commercial paper classified as long-term debt		(.1)
FINANCIAL SERVICES:		
<i>Assets</i>		
Loans and wholesale financing, net of unearned interest, less allowance for losses	(59.6)	(46.7)
<i>Liabilities</i>		
Term debt	.5	.9
Interest rate swaps related to financial services debt	72.7	54.6
Total	\$ 2.0	\$ 3.2

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. The potential loss in fair value for such financial instruments from a 10% unfavorable change in quoted foreign currency exchange rates would be a loss of \$24.2 related to contracts outstanding at December 31, 2006, compared to a loss of \$31.3 at December 31, 2005. These amounts would be largely offset by changes in the values of the underlying hedged exposures.

OFFICERS AND DIRECTORS

55

OFFICERS

Mark C. Pigott
Chairman and
Chief Executive Officer

Michael A. Tembreull
Vice Chairman

Thomas E. Plimpton
President

James G. Cardillo
Executive Vice President

Kenneth R. Gangl
Senior Vice President

Daniel D. Sobic
Senior Vice President

Ronald E. Armstrong
Vice President

Robert J. Christensen
Vice President

Aad Goudriaan
Vice President

William D. Jackson
Vice President

Michael T. Barkley
Vice President and Controller

Timothy M. Henebry
Vice President

Janice B. Skredsvig
Vice President and
Chief Information Officer

George E. West, Jr.
Vice President

David C. Anderson
Vice President and
General Counsel

Richard E. Bangert, II
Vice President

Richard T. Gorman
Vice President

Thomas A. Lundahl
Vice President

Helene N. Mawyer
Vice President

Robin E. Easton
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)

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. (1,4)

Charles R. Williamson
Retired Chairman and
Chief Executive Officer
Unocal Corporation (2)

COMMITTEES OF THE BOARD

- (1) AUDIT COMMITTEE
- (2) COMPENSATION COMMITTEE
- (3) EXECUTIVE COMMITTEE
- (4) NOMINATING AND GOVERNANCE 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.
 Calzada Gustavo Vildósola
 Castro 2000
 Mexicali, Baja California
 Mexico

Factory:
 Mexicali, Baja California

PACCAR Australia Pty. Ltd. Kenworth Trucks
Division Headquarters:
 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.
 Algona, 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.
 Calzada Gustavo Vildósola
 Castro 2000
 Mexicali, Baja California
 Mexico

PacLease Mexicana S.A. de C.V.
 Calzada Gustavo Vildósola
 Castro 2000
 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, Shanghai, People's
 Republic of China
 Jakarta, Indonesia
 Manama, Bahrain
 Miami, Florida

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 2006 Annual
Report and the 2007 Proxy
Statement are available
on PACCAR's Web site at
[www.paccar.com/investors/
investor_resources.asp](http://www.paccar.com/investors/investor_resources.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.

Braden, Carco,
ComfortClass, DAF, Foden,
Gearmatic, Kenmex,
Kenworth, Kenworth Clean
Power, Leyland, PACCAR,
PacLease, PacTrac, Peterbilt,
TRP, Ultracab, and Unibilt
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subsidiaries.

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/investors/
investor_resources.asp](http://www.paccar.com/investors/investor_resources.asp),
under SEC Filings.

Annual Stockholders'
Meeting
April 24, 2007, 10:30 a.m.
Meydenbauer Center
11100 N.E. Sixth Street
Bellevue, Washington
98004

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Employer*



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on recycled paper.

PACCAR Inc