PACCAR

2007 ANNUAL REPORT

STATEMENT OF COMPANY BUSINESS

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 5-7 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, Australia 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.

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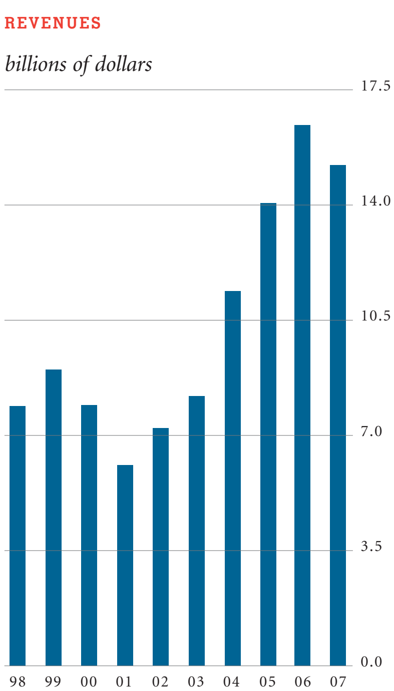
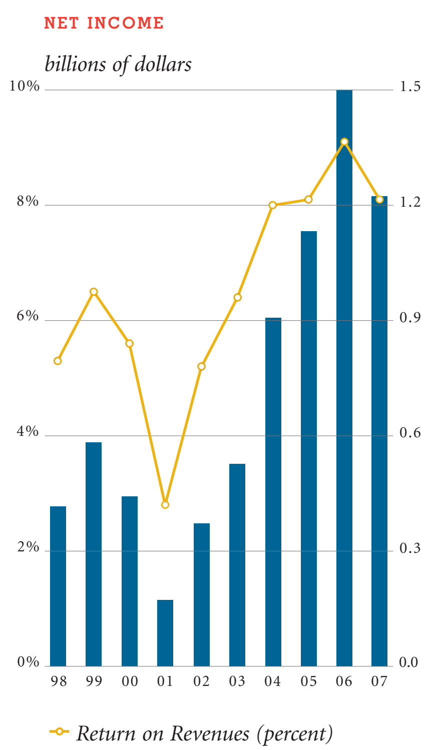
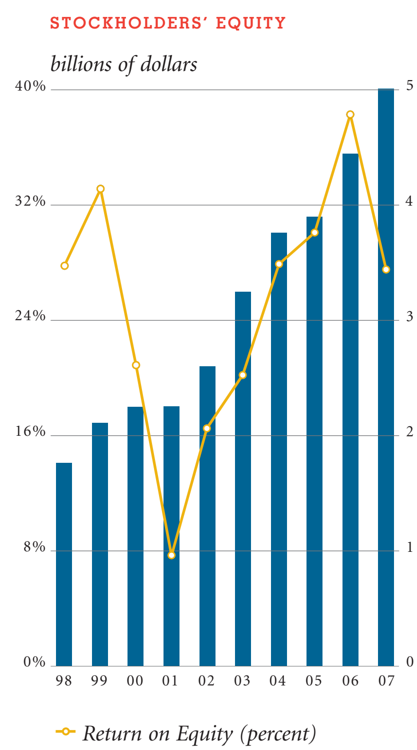
FINANCIAL HIGHLIGHTS

	2007	2006
	(millions except per share data)	
Truck and Other Net Sales and Revenues	**$14,030.4**	$15,503.3
Financial Services Revenues	**1,191.3**	950.8
Total Revenues	**15,221.7**	16,454.1
Net Income	**1,227.3**	1,496.0
Total Assets:		
Truck and Other	**6,517.9**	6,296.2
Financial Services	**10,710.3**	9,811.2
Truck and Other Long-Term Debt	**23.6**	20.2
Financial Services Debt	**7,852.2**	7,259.8
Stockholders' Equity	**5,013.1**	4,456.2
Per Common Share:		
Net Income:		
Basic	**$ 3.31**	$ 3.99
Diluted	**3.29**	3.97
Cash Dividends Declared	**1.65**	1.84







PACCAR had an excellent year in 2007 due to its global diversification, superior product quality, technology-led process efficiency and record results from aftermarket parts and financial services. Customers benefited from PACCAR's record $682 million of capital investments and research and development, which enhanced manufacturing capability, developed innovative aftermarket support programs and accelerated new product introduction. PACCAR delivered 133,900 trucks to its customers around the world and sold $2.3 billion of aftermarket parts. Record truck deliveries in Europe, Mexico and Australia were partially offset by a weak truck market in the U.S. and Canada. PACCAR Financial Services generated $3.9 billion of new loan and lease volume.

Net income of $1.23 billion on revenues of $15.2 billion was the second highest in the company's 102-year history. PACCAR issued a 50 percent stock dividend during the year and declared cash dividends of $1.65 per share, including a special dividend of $1.00. Regular quarterly cash dividends have increased over 470 percent in the last 10 years.

The U.S. and Canadian Class 8 truck market declined 45 percent in 2007 from the previous year due to transport companies "pulling forward" vehicle purchases in 2006 to avoid more costly 2007 EPA emission-compliant engines and a slower economy, resulting from the housing and automotive industry downturn. The Class 8 truck market in North America, including Mexico, was 207,300 vehicles, compared to 348,000 the prior year. The European heavy truck market in 2007 was a record 340,000 vehicles, compared to 309,000 in 2006, due to strong economic growth in the European Union, including the economies of Central Europe.

PACCAR continued to set the standard for financial performance for capital-goods companies worldwide. After-tax return on beginning shareholder equity (ROE) was 27.5 percent in 2007, compared to 38.3 percent in 2006. The company's 2007 after-tax return on revenues was 8.1 percent. Profits were driven by strong European truck sales, global parts sales and new finance contracts for 60,000 units. PACCAR's outstanding financial performance has enabled the company to distribute over $3.0 billion in dividends and triple shareholder equity to $5.0 billion during the last ten years. PACCAR's average annual total shareholder return was 22.7 percent over the last decade, versus 5.9 percent for the Standard & Poor's 500 Index.

INVESTING FOR THE FUTURE — PACCAR's excellent 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 distribution facilities. Many PACCAR facilities established new 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 business, as well as its dealers, customers and suppliers.

Capital investments were a record $427 million in 2007. An exciting multi-year initiative was launched with the commencement of construction for PACCAR's $400 million engine assembly plant in Mississippi, which builds upon its legacy as a premier engine manufacturer. Other major capital projects during the year included completion of a $70 million engine research and development center in Eindhoven, the Netherlands; opening of a parts distribution center (PDC) in Oklahoma City; beginning construction of a new parts distribution center in Budapest, Hungary; and completion of a 30 percent capacity expansion at Kenworth's Chillicothe, Ohio facility.

PACCAR is judiciously examining business opportunities in Asia, with its primary focus on 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 commerce, resulting in demand for reliable high-quality commercial vehicles. PACCAR opened a purchasing and component sales office in Shanghai in 2007, complementing its Beijing sales office, and plans to open a purchasing and sales office in India in 2008.

SIX SIGMA — Six Sigma is integrated into all business activities at PACCAR and has been adopted at 180 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. Since inception, Six Sigma has delivered over $1 billion in cumulative savings in all facets of the company. In addition, "High Impact Kaizen Events" (HIKE) leverage Six Sigma methods with production flow improvement concepts. The HIKE projects conducted in 2007 were instrumental in delivering improved performance across the company. More than 11,000 employees have been trained in Six Sigma and 7,000 projects have been implemented since its inception. Six Sigma, in conjunction with Supplier Quality and Development, has been vital to improving logistics performance and component quality by the company's suppliers.

INFORMATION TECHNOLOGY — PACCAR's Information Technology Division (ITD) and its 740 innovative 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 products and operations throughout the company, including the seamless integration of suppliers, dealers and customers. In 2007, ITD provided innovative advancements in GPS systems, new manufacturing software and infrastructure capacity upgrades and installed over 1,800 new personal computers. Over 16,000 dealers, customers, suppliers and employees have experienced the company's technology center, which highlights 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 2007 were 175,800 units, and the Mexican market totaled 31,500. The European Union (EU) heavy truck registrations were 340,000 units.

PACCAR's Class 8 retail sales in the U.S. and Canada achieved a record market share of 26.4 percent in 2007 compared to 25.3 percent the prior year. DAF achieved 13.9 percent share in the 15+ tonne truck market in Europe. Industry Class 6 and 7 truck registrations in the U.S. and Canada numbered 85,000 units, a 21 percent decrease from the previous year. In the EU, the 6- to 15-tonne market was 84,000 units, down 4 percent from 2006. PACCAR's North American and European market shares in the medium-duty truck segment were excellent, as the company delivered nearly 25,000 medium-duty trucks and tractors in 2007.

A tremendous team effort by the company's purchasing, materials and production personnel ensured improved product quality and manufacturing efficiency during challenging market conditions. The negative effect of high commodity prices was partially offset by

PACCAR's excellent long-term supplier partnerships, which enabled production and efficiency improvements.

PACCAR's product quality continued to be recognized as the industry leader in 2007. Kenworth and Peterbilt dominated customer satisfaction awards in the Class 6, 7 and 8 markets and the DAF XF105 was the 2007 International Truck of the Year.

Over 60 percent of PACCAR's revenue was generated outside the United States, and the company realized excellent synergies globally in product development, sales and finance activities, purchasing and manufacturing. DAF Trucks achieved record truck production, sales, and profits and excellent market share. DAF's strong backlog and growth in Western and Central Europe has been generated by its modern product range, extensive dealer network and superior aftermarket support.

Leyland Trucks is the United Kingdom's leading truck manufacturer. Leyland expanded its innovative body-building program that delivers custom-bodied vehicles to customers. It also began production of the complete range of DAF XF and CF vehicles.

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 is increasing the size of its aftermarket parts distribution center by over 60 percent to further enhance customer service and meet growing demand.

PACCAR Australia achieved record profits and sales in 2007, supported by the 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 22.7 percent heavy-duty market share in 2007. 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 buoyed by natural resource exploration globally.

AFTERMARKET CUSTOMER SERVICES — PACCAR Parts had an outstanding year in 2007 as it earned its 15th consecutive year of record profits. With sales of $2.3 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 large vehicle parc will create excellent demand for parts and service and moderate the cyclicality of truck sales.

PACCAR Parts is adding new distribution centers and expanding current facilities to enhance logistics performance to dealers and customers. 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 1,000 PACCAR dealers worldwide, including South America. 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 18 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 169,000 trucks and trailers, with total assets exceeding $10.7 billion and pretax profit at a record level of $284 million.

PACCAR Financial Corp.'s (PFC) conservative business approach, coupled with PACCAR's superb S&P credit rating of AA- and the strength of the dealer network, enabled PFC to earn excellent results in 2007 despite turbulent financial markets worldwide. PFC offers a comprehensive array of finance, lease and insurance products. PFC is the preferred funding source in North America for Peterbilt and Kenworth trucks, financing 23.3 percent of dealer sales in the U.S. and Canada in 2007.

PACCAR Financial Europe (PFE) completed its sixth year of operations and increased assets and profits as it served DAF dealers in 14 Western and Central European countries. PFE provides wholesale and retail financing for DAF dealers and customers and finances almost 21 percent of DAF's vehicle sales.

PACCAR Leasing (PacLease) earned its 14th consecutive year of record operating profits and delivered 4,600 new PACCAR vehicles in 2007. The PacLease fleet grew to over 32,000 vehicles as 20 percent of the U.S. and

Canadian Class 6-8 market chose full-service leasing to satisfy their equipment needs. PacLease substantially strengthened its market presence in 2007, increasing the global network to 328 outlets, and represents one of the largest full-service truck rental and leasing operations in North America.

PacLease acquired TCH Leasing, a leading independent truck leasing company in Germany. This strategic investment provides the foundation to grow PacLease throughout the European Union.

ENVIRONMENTAL LEADERSHIP — PACCAR is a global environmental leader. A significant accomplishment was earning ISO 14001 environmental certification at all PACCAR manufacturing facilities in Europe and North America. PACCAR plans to introduce medium-duty hybrid-electric vehicles in mid-year 2008, which can achieve up to a 30 percent fuel economy improvement. Kenworth and Peterbilt launched proprietary technology that can increase fuel economy 8 percent by eliminating the need for customers' engines idling at night. Kenworth and Peterbilt earned the prestigious EPA SmartWay™ designation for designing environmentally friendly products. PACCAR employees are environmentally conscious and utilize van pools, car pools and bus passes for 30 percent of their business commuting.

A LOOK AHEAD — PACCAR's 21,800 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.

In the next five years, PACCAR plans to significantly increase its capital investments and related research and development in order to design and launch a new range of vehicles, increase global production capacity and develop a new family of industry-leading PACCAR engines. The higher research and development expenses may dampen earnings in the short term, but are expected to generate superior results in the long term.

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, modern manufacturing and parts distribution facilities, leading-edge and innovative information technology, conservative and comprehensive financial services, responsive suppliers, enthusiastic employees and the best distribution network in the industry.

PACCAR and its employees are firmly committed to strong, quality growth and are proud of producing 69 consecutive years of net profit. The embedded principles of integrity, quality and consistency of purpose continue to define the course in PACCAR's 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 — 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 financial service marketplace.

MARK C. PIGOTT
Chairman and Chief Executive Officer
February 21, 2008

PACCAR Executive Committee
Seated Left to Right: Mike Tembreull, Mark Pigott, Tom Plimpton
Standing Left to Right: Janice Skredsvig, Dan Sobic, Jim Cardillo, Ron Armstrong, Dave Anderson, Michael Barkley


XF105
TRUCK OF THE YEAR 2007
XF
DAF

DAF vaulted to new sales, profit and production records in 2007. Truck sales exceeded 60,000 units as DAF strengthened its position as one of Europe's leading commercial vehicle manufacturers, enhancing its reputation for superior quality, innovative products and excellent customer support.

DAF continues to lead the industry in vehicle quality and resale value. DAF's top-of-the-range XF105 garnered the "Truck of the Year" distinction in Poland for the second consecutive year. In Ireland, the XF105 was honored by *Fleet Transport* magazine as Irish Tractor of the Year and Irish Truck of the Year 2007. DAF earned "Best Coach Engine Producer of the Year 2007" honors at Bus World Asia in Shanghai as a result of the reliability and durability of the PACCAR 9.2-liter and the PACCAR 12.9-liter engines, combined with their low fuel consumption.

DAF quality leadership was reinforced as it became the first truck manufacturer in the world to comply with ISO/TS 16949, the stringent global standard for quality-management systems in the automotive industry. DAF introduced Euro 5 engines, which meet 2009 emission regulations, in its entire product range. DAF also launched a series of Enhanced Environmentally Friendly Vehicles (EEV), with emission levels 50 percent lower than Euro 5 requirements. During 2007, DAF introduced an AS-Tronic automated gearbox specifically designed for off-road use as an option on its popular CF construction vehicles, improving driver comfort, ease of use and off-road handling characteristics.

DAF unveiled an advanced diesel-electric hybrid LF for use in distribution and urban pickup and delivery operations. The vehicle is equipped with a 4.5-liter PACCAR diesel engine linked to a computerized Eaton six-speed gearbox. A sophisticated electric motor provides power and functions as a generator for recharging the batteries. DAF's hybrid technology significantly reduces fuel consumption and emissions.

DAF opened its new 76,000-square-foot state-of-the-art engine test facility in Eindhoven. The 20 new test cells in the world-class research and development center will be instrumental in the design of new PACCAR engines for global use. In addition, the environmentally friendly test cells will generate up to 20 percent of the energy required at DAF's Eindhoven facility.

DAF expanded its extensive distribution network of over 1,000 dealer and service points, adding a record 83 locations in 2007. DAF is one of the fastest-growing brands in many countries in Central Europe.

DAF's widely acclaimed flagship, the XF 105, has become the new benchmark for European customers in reliability, operating efficiency, residual value and long-haul luxury. These superior product qualities have driven record gains in sales.


Peterbilt
Hybrid Power

Peterbilt set market share records in 2007, capturing more than 13 percent of Class 8 truck sales in the U.S. and Canada. Peterbilt was the first manufacturer to be 2007 engine emissions compliant with a new range of vehicles.

In 2007, Peterbilt introduced a record number of innovative new products including 12 new truck models, redesigned sleeper interiors, hybrid vehicles and green initiatives — setting best-in-class standards for quality, fuel efficiency, performance and overall low cost of ownership.

For the second year in a row, Peterbilt was the highest-ranked manufacturer in the J.D. Power and Associates 2007 Customer Satisfaction Study in the conventional medium-duty truck segment.* Peterbilt expanded its industry-leading medium-duty lineup with the Model 325, its first vehicle dedicated to the rapidly growing Class 5 segment. This new vehicle is attractive for customers seeking an easy-to-operate, reliable and affordable truck for pickup and delivery applications. Like all Peterbilt medium-duty vehicles, the Model 325 comes equipped exclusively with the fuel-efficient PACCAR PX engine.

Peterbilt's two flagship aerodynamic trucks, the Models 387 and 386, were certified as fuel efficient and environment friendly by the Environmental Protection Agency's SmartWay™ program. Production also began on two new premium aerodynamic models. The Model 384 offers a mid-length aerodynamic truck with increased visibility and maximum payload for vocational and urban operations, and the Model 387 Day Cab enhances maneuverability and weight distribution for tanker and regional carriers.

Peterbilt leads the industry in the development and production of hybrid technology with vehicles designed for pickup and delivery, vocational and urban applications. These initiatives enhance the environment and contribute to the customers' bottom line by providing up to 30 percent fuel savings and reduced maintenance costs.

Peterbilt launched ComfortClass™ in 2007, a no-idle solution that reduces fuel usage by 8 percent and enhances driver comfort. Available as a factory-installed option in select models, the revolutionary new system provides heating, cooling and 110-volt "hotel load" electrical power without running the engine.

Peterbilt continues to make significant investments in its manufacturing facilities to boost efficiency and quality. The Denton, Texas, plant added a world-class chassis paint robotic system, an industry first in North America, and a new 8,300-square-foot state-of-the-art training center containing the latest technologies to effectively train dealers, technicians and employees.

The Peterbilt dealer network reached a record high 243 locations throughout the U.S. and Canada, adding 12 new dealership locations in 2007.

Peterbilt is at the forefront of advanced hybrid vehicle development, offering green solutions for both the medium- and heavy-duty markets. This Model 335 hybrid utility truck is powered by the PACCAR PX-6 engine.

* *"Highest in Customer Satisfaction among Conventional Medium-Duty Trucks, Two Years in a Row." J.D. Power and Associates 2007 Medium-Duty Truck Customer Satisfaction Study℠. www.jdpower.com*


KENWORTH
FIRE
RESCUE

Kenworth swept all three major product segment awards in the 2007 J.D. Power and Associates Heavy Duty Truck Customer Satisfaction Study — ranking highest in the Over the Road, Pickup and Delivery and Vocational categories.* Kenworth's commitment to high quality and product development delivered record market share in 2007.

Strong sales of Kenworth's new aerodynamic flagship T660 model contributed to a record Class 8 market share in 2007. Kenworth further enhanced the T660 with the addition of the popular Extended Day Cab option, which adds six inches of length and five inches of height to a standard Kenworth day cab. The T660's contemporary styling and enhanced fuel economy are important features to truck operators.

Kenworth also unveiled an entirely new medium-duty lineup in 2007. The T170 Class 5, T270 Class 6 and T370 Class 7 conventionals present a broad offering that can handle a diverse range of applications. All feature a world-class lighting system with 30 percent greater down-the-road visibility, sleek aerodynamic exterior styling, best-in-class automotive interiors and fuel-efficient PACCAR PX engines.

The new K260 extends Kenworth's Class 6 cabover medium-duty product line. Based on the DAF LF45 model, which has received European Truck of the Year honors, the COE can easily accommodate three people. The K260 accommodates 26,000-pound payloads and delivers excellent visibility and outstanding maneuverability with a 55-degree turn angle.

Kenworth demonstrated its leadership in technology and innovation with the introduction of a medium-duty hybrid-electric truck. Based on the new model T270, the vehicle can improve fuel economy by up to 30 percent in pickup and delivery applications.

Important new vehicle options include the Kenworth Driver Information Center, which allows drivers to closely monitor fuel economy, optimum engine speed, idling and engine diagnostics information. This valuable option encourages efficient driving practices that reduce operating costs. The Kenworth Clean Power system added two enhancements — energy efficient light emitting diode (LED) lighting to increase energy savings by 40 percent and a thermal insulation package to enhance sleeper comfort.

Kenworth completed a 105,000-square-foot expansion and renovation of its plant in Chillicothe, Ohio, during 2007. The expanded use of robotics, logistics and radio frequency identification (RFID) has streamlined operations and improved productivity and efficiency by 20 percent.

The Kenworth dealer network operates 293 locations in the U.S. and Canada.

The Kenworth insignia is one of the most widely recognized icons in the trucking industry.
The T800's comprehensive specification is ideal for complex applications such as emergency rescue vehicles.

* *"Highest in Customer Satisfaction among Vocational Segment Class 8 Trucks," "Highest in Customer Satisfaction among Pickup & Delivery Segment Class 8 Trucks, Three Years in a Row" and "Highest in Customer Satisfaction among Over the Road Segment Class 8 Trucks, Three Years in a Row." J.D. Power and Associates 2007 Heavy-Duty Truck Customer Satisfaction Study℠. www.jdpower.com*

PACCAR Australia established new records in production, sales and profits. 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 heavy commercial vehicles on the continent, PACCAR Australia dominated the heavy-duty truck market by capturing over 45 percent of the high-horsepower market in 2007.

PACCAR Australia introduced 12 new vehicles for Kenworth and DAF, which comply with 2008 environmental standards and feature numerous ergonomic and styling enhancements. New 8 x 4 and 10 x 4 variants were added to the popular, highly maneuverable Kenworth T350 conventional. These construction vehicles take advantage of new regulations allowing greater payload on multiple-axle trucks.

DAF Australia increased sales 37 percent in the medium-horsepower market. Two new DAF CF85 vehicles were introduced to meet the specific needs of fleet operators – from prime mover and intrastate distribution to specialized applications requiring high-payload productivity.

PACCAR Australia was named Employer of the Year at the Victorian Government's 2007 Training Awards and the leading Manufacturing Industry Employer in the Australian Government's National Training Awards.

PACCAR Australia's T608 provides long-haul operators with class-leading aerodynamics and enhanced fuel efficiency. For rigorous road-train applications with 100,000-pound payloads, Kenworth customers can select the highest horsepower engines available, which meet stringent new exhaust and noise-emission standards.

PACCAR Mexico (KENMEX) set new records for sales, profits and production levels in 2007 — capturing 53 percent of heavy-duty tractor sales. A 22 percent increase in the Class 8 market created unprecedented demand for Kenworth models.

KENMEX reaffirmed its position as the leading manufacturer of innovative, efficient and reliable long-haul tractors with the launch in 2007 of its revolutionary new aerodynamic model, the Kenworth T660. Named Truck of the Year at the Mexico truck exposition, Expotransporte 2007, it became the best selling tractor in its first year in the market because of its unique styling, improved fuel economy and the new Xenon headlamps, which increase down-the-road illumination by 75 percent.

KENMEX also introduced Kenworth's new medium-duty models, including the T270 Class 6 and T370 Class 7 conventionals. These models feature the same advanced forward-lighting system as the T660 and improved durability due to superior impact-resistant materials.

The Kenworth T270 Class 6 hybrid-electric medium-duty conventional was also unveiled at the Expotransporte show in 2007. Targeting fuel savings of up to 30 percent, the T270 hybrid employs a combination of diesel and electrical power, switching automatically between the two modes for efficient operation.

From its ultra-modern factory in Mexicali, KENMEX produces a broad range of custom-engineered vehicles. The KW45 and KW55 medium-duty cabovers serve Mexico's extensive urban delivery markets — offering excellent maneuverability, visibility and ergonomic design.

Leyland Trucks, the United Kingdom's leading truck manufacturer, delivered a record 17,500 vehicles to customers in Europe and North America. Leyland reinforced its manufacturing success with full production of on-line van body building.

Leyland operates one of the most efficient truck factories in the world. The 710,000-square-foot plant incorporates an innovative robotic chassis paint facility and a state-of-the-art Advanced Planning and Scheduling system to produce DAF's entire LF, CF and XF product line. This complex mix of vehicles — with its widely different market requirements — serves customers in Europe, Australia, Africa and North America.

In 2007, Leyland achieved certification to the global automotive quality standard TS16949 following review by Lloyd's register, a leading certification agency. Leyland was instrumental in engineering the DAF LF to meet the specific regulatory requirements for distribution in the U.S. The factory also built PACCAR hybrid demonstration vehicles based on the DAF LF for market testing in urban delivery and vocational applications.

Unveiled at the end of 2006, Leyland inaugurated full production of its body-building program during 2007. Designed in-house specifically for the DAF LF, these premium quality bodies are constructed and installed in the factory — streamlining customer delivery schedules for complete vehicles.

Leyland achieved record production levels in 2007, while maintaining industry-leading quality standards. The award-winning DAF LF sets new standards for excellence in a wide variety of urban transport applications.

PACCAR International, a leader in delivering Kenworth, Peterbilt and DAF trucks to customers worldwide, posted record sales and profits during 2007. A buoyant global economy increased demand for premium quality PACCAR vehicles.

Worldwide demand for PACCAR's custom-built transportation solutions remained strong in 2007. 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 robust.

PACCAR International strengthened PACCAR's presence in Asia by homologating DAF premium-quality products in China. In addition, PACCAR appointed new dealers in Russia, Ecuador, Thailand and Hong Kong.

In the Middle East, China and Russia, off-highway product sales increased over 85 percent in 2007 due to excellent customer demand for the new Kenworth K500. Designed for oilwell servicing markets, the Kenworth K500 features a modern COE cab on a severe-service, off-highway chassis and provides optimal driver comfort with rough-terrain mobility. Customers in over 100 countries benefit from the durability and reliability of PACCAR trucks and on-time delivery of parts and services.

PACCAR International

The rugged Kenworth C500 6 x 6 is designed for oil and natural gas exploration in the frigid arctic conditions in Siberia and the harsh desert heat of the Middle East.

PACCAR Parts celebrated 15 consecutive years of record sales and profits in 2007 — a remarkable achievement that reflects a strong dealer network, innovative use of technology and industry-leading aftermarket customer service.

PACCAR Parts continued its growth in 2007 by shipping 15.4 million order lines throughout the world for all makes of trucks to over 1,800 Kenworth, Peterbilt and DAF dealer locations. Strong demand for PACCAR-branded products contributed to excellent sales growth.

To support this strong growth, PACCAR Parts is expanding its network to 13 parts distribution centers (PDCs) worldwide. During 2007, a 260,000-square-foot PDC opened in Oklahoma City and construction commenced on a new 269,000-square-foot PDC in Budapest, Hungary, which will support DAF's ongoing expansion into Central and Eastern Europe. These state-of-the-art facilities utilize the latest in technology and systems, including wireless voice recognition, providing a completely hands-free environment to improve operator performance when selecting orders from inventory.

PACCAR Parts employs state-of-the-art technologies, including wireless voice recognition, integrated logistic systems and tablet PC implementation, to lead the industry in aftermarket customer support.

PACCAR Winch Division is the premier full-line producer of industrial winches globally. A robust energy sector and increased penetration of world markets created new records in sales, profits and market share during 2007.

Winch sales grew by 30 percent, driven by the increased use of Braden winches in the oilfield, utility and crane markets; Gearmatic hoists in the pipeline and drilling markets and CARCO tractor winches in the forestry and construction markets. Recognized worldwide for superior quality, performance and dependability, demand for PACCAR Winches increased in new and established markets, with sales to global emerging markets growing 55 percent.

PACCAR Winch strengthened its presence in Europe with the new GH30B winch introduction. This unique winch reduces cycle time by 20 to 30 percent, improves safety and increases overall productivity by 10 percent, important in drilling and pipe-layer applications. The new GH135 was released in 2007 for the European crane market.

The Winch Division also unveiled two new hydraulically driven winches for smaller crawler tractors with "operator friendly" precise load control to enhance safety in rigorous operating conditions.

PACCAR Winch's broad product lines, including the Braden, Gearmatic and Carco nameplates, are recognized throughout the world for engineering excellence and dependability in the toughest operating environments.

PACCAR Financial Services (PFS) companies, which support the sale of PACCAR trucks worldwide, achieved record pretax income of $284 million. PFS portfolios are comprised of more than 169,000 trucks and trailers, with total assets surpassing $10.7 billion.

PACCAR Financial Corp. (PFC) improved its position as the preferred source of financing for Kenworth and Peterbilt trucks in the U.S. and Canada, achieving over 23 percent market share. Superior customer service, streamlined credit processing and a breadth of innovative finance and insurance products heightened demand for PFC services.

In 2007, PFC launched several targeted finance solutions for high-value vocational and medium-duty products. PFC improved its share of PACCAR vocational trucks financed by 49 percent and its share of medium-duty trucks by 24 percent.

PFC's credit application response time was reduced by 40 percent, driven by enhancements to PFC's Web-based Online Transportation Information System (OTIS) and expansion of OTIS to Canadian dealers.

PACCAR Financial Europe (PFE) achieved a record $2.9 billion in assets in 2007 and expanded its financial services offerings to DAF dealers and customers in 14 Western and Central European countries.

PACCAR FINANCIAL

PACCAR Financial facilitates the sale of PACCAR products throughout the world by utilizing leading-edge information technologies to streamline credit processing, decision-making and communication for Kenworth, Peterbilt and DAF dealers and their customers.

PACCAR Leasing achieved its 14th consecutive year of record profits in 2007 and expanded into Europe with the acquisition of Germany's leading truck leasing company. The PacLease fleet increased to over 32,000 vehicles.

PacLease, one of the fastest-growing, most innovative truck leasing networks in the industry, added a record 47 franchise locations to its network in 2007. PacLease also introduced new Class 5 and 6 trucks from Kenworth and Peterbilt to support medium-duty customers.

In 2007, PACCAR Leasing acquired Truck Center Hauser GmbH (TCH) in Germany. PacLease Europe supports over 3,000 customers with 3,800 trucks and trailers from 10 operating locations throughout Germany.

Fuel tax reporting has challenged fleet managers who have traditionally relied on drivers to submit paper-based trip records to ensure compliance. PacLease's integrated fuel tax reporting with its popular PacTrac® onboard telematics system creates a more efficient, paperless solution that captures 100 percent of the truck usage data.

PACCAR Leasing provides a competitive advantage by offering only premium-quality PACCAR trucks with exceptional residual value and superior fuel efficiency — supported by 328 franchise and company locations.

PACCAR Leasing, which expanded its operation to Europe in 2007, provides customers with value-added transportation services and premium-quality Kenworth, Peterbilt and DAF vehicles. The DAF CF model is a leader in the tractor application for PacLease customers in Europe.

PACCAR Technical Centers utilize world-class testing facilities and advanced simulation technologies to 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. PACCAR Technical Centers are pioneering the development of hybrid-powered medium-duty commercial vehicles. Designed to deliver up to 30 percent improvement in fuel economy, the new vehicles will feature sophisticated diesel-electric hybrid technology. Key components include a lithium-ion battery pack, a sophisticated electric motor generator and a PACCAR 6.7-liter diesel engine.

The U.S. Technical Center completed construction of a $22 million expansion to its engine test lab, adding four advanced test cells with global engine-testing capabilities. The test cells will be utilized to develop new technologies for engine cooling, electrical systems and exhaust after-treatment. A new computer data center increased computer simulation capacity by 50 percent for improved structural and aerodynamic vehicle performance.

PACCAR Technical Centers are pacing the industry in the development of hybrid-powered trucks. The Kenworth T270 medium-duty hybrid-electric truck has demonstrated fuel economy improvement of up to 30 percent in pickup and delivery applications.

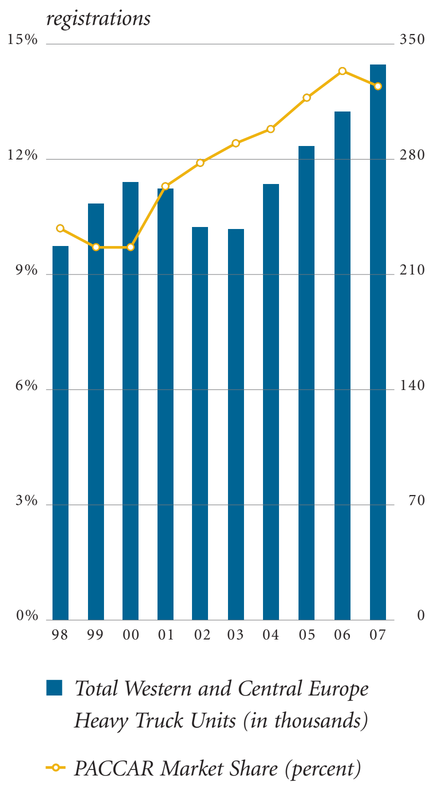
PACCAR's Information Technology Division (ITD) is an industry leader in the innovative application of software and hardware technology. ITD provides a competitive advantage in R&D, sales, manufacturing, financial services and aftermarket support.

PACCAR ITD earned recognition as a Top 100 Innovator on the prestigious InformationWeek 500 list for the fourth time in five years. ITD supports PACCAR's technology leadership by evaluating and testing the latest hardware and software and partnering with world-class suppliers to adopt emerging solutions that accelerate innovation in the company. ITD is researching new mobility tools and advanced voice-enabled software that allow PACCAR employees, dealers, suppliers and customers to connect and interact in creative new ways to increase productivity and enhance customer service.

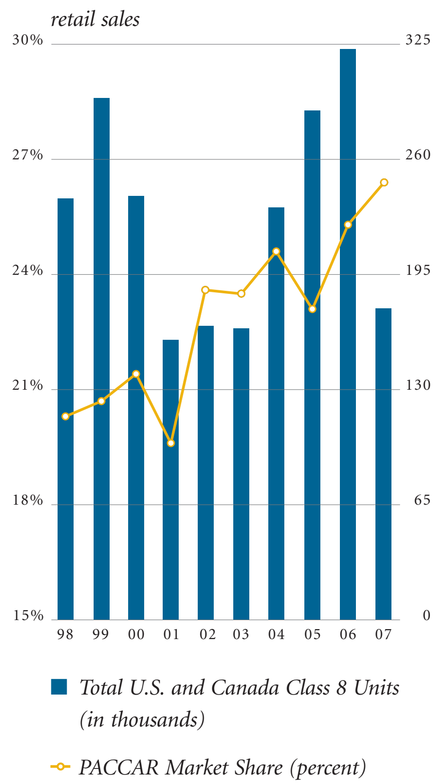
PACCAR was selected as a "Supply Chain Top 25" leader by AMR Research because of the integration of its global supply chain. ITD installed an integrated system to support PACCAR's Dynacraft supply chain management services, developed a global advanced-planning system that shortens truck production scheduling from hours to minutes, and implemented state-of-the-art chassis robotic paint software to realize manufacturing efficiency and product quality benefits.

PACCAR ITD provides manufacturing, sales and service systems for the PACCAR engine facility in Columbus, Mississippi. The new engine plant will be the most advanced facility in PACCAR with integrated business, engineering and manufacturing software that provides real-time product cost and quality metrics.

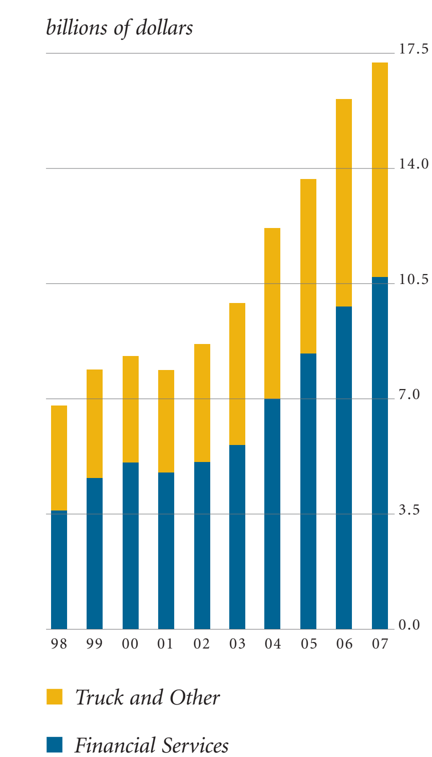
WESTERN AND CENTRAL EUROPE >15T MARKET SHARE



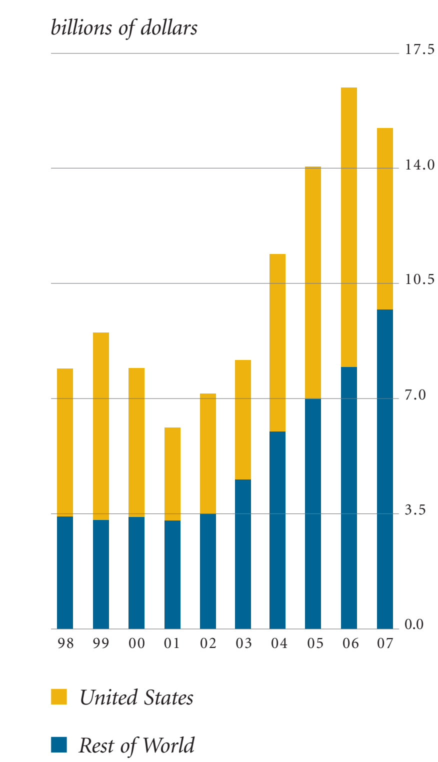
U.S. AND CANADA CLASS 8 TRUCK MARKET SHARE



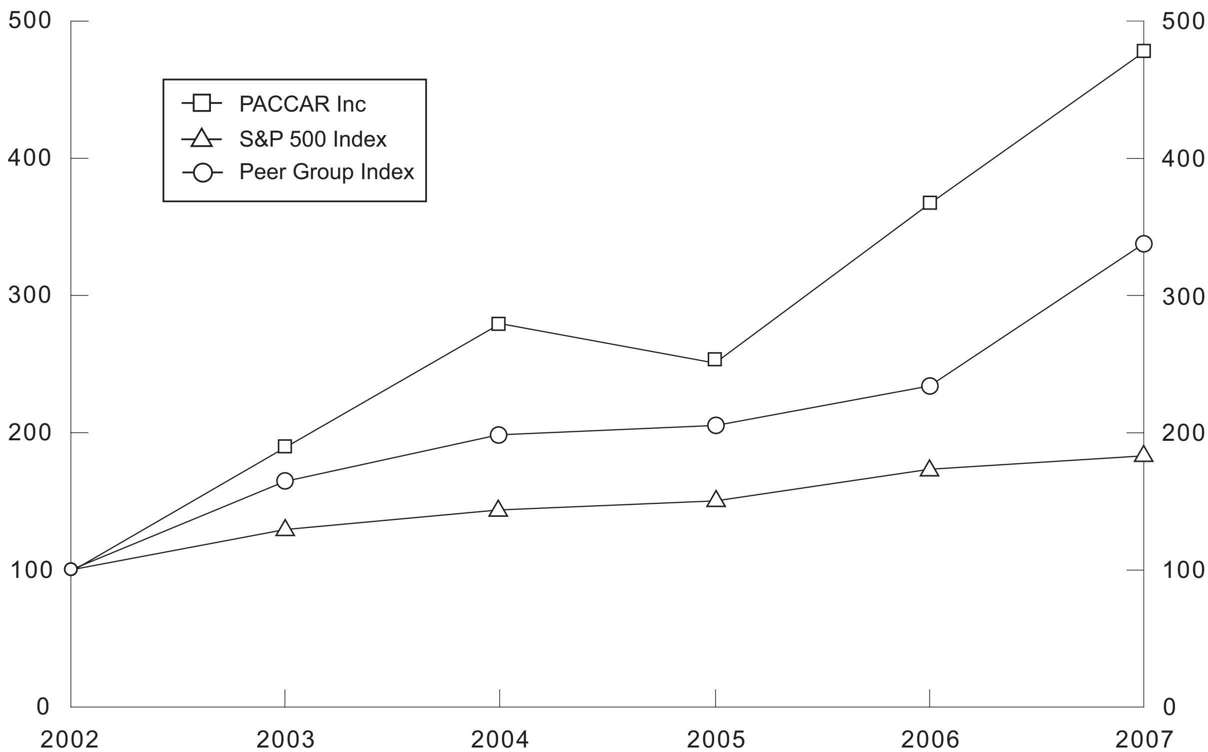
TOTAL ASSETS



GEOGRAPHIC REVENUE



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 years ending December 31, 2007. 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, 2002 in the Company's common stock and in the stated indices and assumes reinvestment of dividends.



	2002	2003	2004	2005	2006	2007
PACCAR Inc	100.00	189.53	278.85	249.80	367.26	476.71
S&P 500 Index	100.00	128.68	142.69	149.70	173.34	182.86
Peer Group Index	100.00	164.50	197.60	204.96	233.59	337.06

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

RESULTS OF OPERATIONS:

	2007	2006	2005
Net sales and revenues:			
Truck and Other	**$14,030.4**	$15,503.3	$13,298.4
Financial Services	**1,191.3**	950.8	759.0
	$15,221.7	$16,454.1	$14,057.4
Income before taxes:			
Truck and Other	**$ 1,384.8**	$ 1,846.6	$ 1,516.8
Financial Services	**284.1**	247.4	199.9
Investment income	**95.4**	81.3	56.9
Income taxes	**(537.0)**	(679.3)	(640.4)
Net Income	**$ 1,227.3**	$ 1,496.0	$ 1,133.2
Diluted Earnings Per Share	**$ 3.29**	$ 3.97	$ 2.92

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 were $15.22 billion in 2007 and $16.45 billion in 2006. Current year results reflect strong demand for the Company's high-quality trucks in all markets outside the U.S. and Canada, and continued global growth in aftermarket parts and financial services. Financial Services revenues increased to $1.19 billion in 2007 from $.95 billion in 2006.

PACCAR achieved net income of $1.23 billion ($3.29 per diluted share) in 2007, the second best result in the Company's 102 year history. Solid results were achieved in the Truck and Other businesses from strong growth in revenue, increased margins and ongoing cost control in the Company's foreign operations, offset by lower truck sales and margins in the U.S. and Canada. Financial Services income before taxes increased 15% to a record $284.1 million compared to $247.4 million in 2006 as a result of strong asset growth and stable finance margins.

Research and Development expenditures were $255.5 million in 2007, an increase of 57% from $163.1 million in 2006 due to increased vehicle and engine development programs.

Selling, general and administrative (SG&A) expense for Truck and Other increased to $491.4 million in 2007 compared to $457.3 million in 2006. This was due to expanded sales and higher production levels in the Company's foreign operations and the translation of stronger foreign currencies, somewhat offset by lower spending in the U.S. and Canada. As a percent of revenues, SG&A expense increased to 3.5% in 2007 from 3.0% in 2006. The Company continues to implement Six Sigma initiatives and process improvements in all facets of the business.

Investment income of $95.4 million in 2007 increased from $81.3 million in 2006 due to higher interest rates.

The 2007 effective income tax rate was 30.4% compared to 31.2% in 2006. The lower 2007 effective income tax rate reflects a higher proportion of foreign earnings.

The Company's return on revenues was 8.1% in 2007 compared to 9.1% in 2006.

Truck

PACCAR's truck segment, which includes the manufacture and distribution of trucks and related aftermarket parts, accounted for 91%, 93% and 94% of revenues in 2007, 2006 and 2005, respectively. In North America, trucks are sold under the Kenworth and Peterbilt nameplates and, in Europe, under the DAF nameplate.

	2007	2006	2005
Truck net sales and revenues	**$13,853.3**	$15,367.3	$13,196.1
Truck income before taxes	**$ 1,360.0**	$ 1,848.8	$ 1,520.2

The Company's new truck deliveries are summarized below:

	2007	2006	2005
United States	**44,700**	82,600	71,900
Canada	**8,300**	12,900	10,900
U.S. and Canada	**53,000**	95,500	82,800
Europe	**60,100**	55,900	52,200
Mexico, Australia and other	**20,800**	15,400	13,500
Total units	**133,900**	166,800	148,500

2007 Compared to 2006:
PACCAR's worldwide truck sales and revenues were $13.85 billion in 2007 compared to $15.37 billion in 2006 due to lower demand for the Company's trucks in the U.S. and Canada, somewhat offset by higher demand for trucks in all other markets and higher global demand for related aftermarket parts. The impact of a weaker U.S. dollar relative to the Company's other currencies (primarily the euro) increased revenues and pretax profit by approximately $590 million and $90 million, respectively.

Truck income before taxes was $1.36 billion compared to $1.85 billion in 2006. In the U.S. and Canada, Peterbilt and Kenworth delivered 53,000 heavy and medium-duty trucks during 2007, a decrease of 45% from 2006, due to the lower truck market. The Class 8 market decreased to 175,800 units in 2007 from a record 322,500 units in 2006, reflecting a 2006 pre-buy and a slowdown in the housing and automotive sectors. PACCAR's market share increased to 26.4% in 2007 from 25.3% in 2006. The medium-duty market decreased 21% to 85,000 units.

In Europe, DAF trucks delivered 60,100 units during 2007, an 8% increase over 2006. The 15 tonne and above truck market in Western and Central Europe improved to 340,000 units, a 10% increase from 2006 levels. DAF's 2007 market share of the 15 tonne and above market was 13.9% compared to 14.3% in 2006. DAF market share in the 6 to 15 tonne market was 8.3% in 2007 and 9.2% in 2006. Truck and parts sales in Europe represented 46% of PACCAR's total truck segment net sales and revenues in 2007 compared to 28% in 2006.

Truck unit deliveries in Mexico, Australia and other countries outside the Company's primary markets increased 35%. Deliveries to customers in South America, Africa and Asia are sold through PACCAR International, the Company's international sales division. Combined truck and parts sales in these markets accounted for 16% of truck segment sales and 19% of truck segment profit.

PACCAR's worldwide aftermarket parts revenues were $2.29 billion in 2007, an increase of 18% compared to $1.94 billion in 2006. Aftermarket parts sales increased in all major markets from a growing truck population, expansion of parts distribution centers and focused sales efforts.

Truck segment gross margin as a percentage of net sales and revenues was 14.7% in 2007 and 15.7% in 2006. Improved operating efficiencies and strong demand for the Company's products outside the U.S. and Canada were dampened by a weak truck market in the U.S. and Canada. Higher material costs from suppliers, including the impacts of higher crude oil, copper, steel and other commodities negatively impacted truck margins.

2006 Compared to 2005:
PACCAR's worldwide truck sales and revenues increased 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.

In the U.S. and Canada, Peterbilt and Kenworth delivered 95,500 medium and heavy trucks during 2006, an increase of 15% over 2005 due to overall market growth and increased market share. The Class 8 market increased 12% to 322,500 units in 2006 from 287,500 in 2005. 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 55,900 units during 2006, an increase of 7% over 2005. The 15 tonne and above truck market improved to 308,900 units, a 7% increase from 2005 levels. DAF increased its share of the 15 tonne and above market to 14.3% in 2006 from 13.6% in 2005. DAF market share in the 6 to 15 tonne market was 9.2% for 2006 and 2005.

Truck unit deliveries in Mexico, Australia and other countries outside the Company's primary markets increased 14%. 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 of $1.94 billion increased from 2005 due to a growing truck population and systems integration with dealers.

Truck segment gross margin as a percentage of net sales and revenues improved to 15.7% in 2006 from 15.4% in 2005 as a result of improved operating efficiencies and strong demand for the Company's products.

Truck Outlook

Continued economic softness in the U.S. and Canada is currently forecast to dampen demand for heavy-duty trucks for at least the first half of 2008. Industry retail sales are expected to remain level to slightly higher than 2007 at 175,000–215,000 trucks. Western and Central European heavy-duty registrations for 2008 are projected to remain strong at 330,000–350,000 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 rate of 14%.

	2007	2006	2005
Financial Services:			
Average earning assets	**$10,158.0**	$8,746.0	$7,389.0
Revenues	**1,191.3**	950.8	759.0
Income before taxes	**284.1**	247.4	199.9

2007 Compared to 2006:

PACCAR Financial Services (PFS) revenues increased 25% to $1.19 billion due to higher earning assets worldwide and higher interest rates. New business volume was $3.94 billion in 2007 compared to $4.24 billion in 2006. PFS provided loan and lease financing for 29% of PACCAR new trucks delivered in 2007 compared to 25% in 2006.

Income before taxes increased 15% to a record $284.1 million from $247.4 million in 2006. This improvement was primarily due to higher finance gross profit, partly offset by an increase in selling, general and administrative expenses to support business growth and a higher provision for losses on receivables. The increase in finance gross profit was due to higher asset levels and higher interest rates, offset partly by a higher cost of debt.

Net portfolio charge-offs were $25.8 million compared to $13.9 million in 2006 due to higher charge-offs in the U.S. and Canada. At December 31, 2007, the earning asset portfolio quality was excellent with the percentage of accounts 30+ days past-due at 2.0%, up from 1.2% at the end of 2006, primarily due to increased past due accounts in the U.S. and Canada.

During the year, PFS expanded its financing operations into Poland and now operates in 18 countries worldwide.

2006 Compared to 2005:

PACCAR Financial Services 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% on higher truck sales levels and solid market share.

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 debt. The lower provision for losses resulted from lower net portfolio charge-offs.

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. Assets in the U.S. and Canada are not likely to increase until the new truck market recovers. Asset growth is likely in Europe due to an expected increase in DAF truck deliveries due to a strong market.

The segment is exposed to reduced liquidity in the public debt markets. PFS does not anticipate the impact of reduced liquidity to materially impact its ability to generate new business volume.

The segment continues to be impacted by the risk that serious economic weakness in North America and higher fuel costs may continue to exert negative pressure on the profit margins of truck operators and result in higher past-due accounts and increased repossessions.

Other Business

Included in Truck and Other is the Company's winch manufacturing business. Sales from this business represent approximately 1% of net sales for 2007, 2006 and 2005.

LIQUIDITY AND CAPITAL RESOURCES:

	2007	2006	2005
Cash and cash equivalents	**$1,858.1**	$1,852.5	$1,698.9
Marketable debt securities	**778.5**	821.7	591.4
	$2,636.6	$2,674.2	$2,290.3

The Company's total cash and marketable debt securities decreased $37.6 million in 2007. Cash provided by operations of $2,055.4 million was used primarily to pay dividends of $736.7 million, make capital additions totaling $425.7 million and repurchase PACCAR stock for $360.5 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 $3.08 billion. The unused portion of these credit lines was $3.04 billion at December 31, 2007. Included in these arrangements is a $2.7 billion bank facility, of which $1.7 billion matures in 2008 and $1.0 billion matures in 2012 and is primarily maintained to provide backup liquidity for commercial paper borrowings of the financial services companies.

During the second half of 2007, PACCAR's strong cash position and credit ratings enabled PFS to meet its funding requirements despite a decline in liquidity in the public debt markets. The Company believes its strong liquidity position and AA- investment grade credit rating will continue to provide financial stability and access to public debt markets at competitive interest rates.

In October 2007, PACCAR's Board of Directors approved the repurchase of $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 was $23.6 million at December 31, 2007.

Expenditures for property, plant and equipment in 2007 totaled a record $425.7 million compared to $312.0 million in 2006. Major capital projects included the substantial completion of construction of a new parts distribution center in Hungary, completion of a parts distribution facility in Oklahoma and the completion of a new engine test facility at DAF in the Netherlands. In addition, the Company made significant investments related to new product development and plant capacity. Over the last ten years, the Company's combined investments in worldwide capital projects and research and development totaled $3.33 billion.

Spending for capital investments and research and development in 2008 is expected to increase from 2007 levels. In 2008, major projects will include the start of construction on an engine production and technology facility in Mississippi and continued focus on engine development, new product introductions and manufacturing efficiency improvements.

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 2006. The registration expires in 2009 and does not limit the principal amount of debt securities that may be issued during the period.

In June 2007, PACCAR's European finance subsidiary, PACCAR Financial Europe, renewed and increased the registration of a €1.2 billion medium-term note program with the London Stock Exchange. On December 31, 2007, €448 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, access to public and private debt markets and lines of credit.

Commitments

The following summarizes the Company's contractual cash commitments at December 31, 2007:

	Maturity		
	Within One Year	More than One Year	Total
Borrowings	$4,836.8	$3,039.0	$7,875.8
Operating leases	28.0	42.1	70.1
Purchase obligations	261.0	50.5	311.5
Other obligations	5.5	29.3	34.8
Total	$5,131.3	$3,160.9	$8,292.2

The Company had $8.29 billion of cash commitments, substantially all of which mature within three years. Of the total cash commitments for borrowings, $7.86 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. Purchase obligations are the Company's contractual commitment to acquire future production inventory. Other obligations include deferred cash compensation.

The Company's other commitments include the following at December 31, 2007:

	Commitment Expiration		
	Within One Year	More than One Year	Total
Letters of credit	$ 17.4	$ 18.0	$ 35.4
Loan and lease commitments	145.1		145.1
Equipment acquisition commitments	43.4	8.1	51.5
Residual value guarantees	115.6	212.8	328.4
Total	$321.5	$238.9	$560.4

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 2007, 2006 and 2005 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 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 could 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 based on management assumptions about the future 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 liquidity in the capital markets; 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	**2007**	2006	2005
	(millions except per share data)		
TRUCK AND OTHER:			
Net sales and revenues	**$14,030.4**	$15,503.3	$13,298.4
Cost of sales and revenues	**11,917.3**	13,036.6	11,222.7
Research and development	**255.5**	163.1	117.8
Selling, general and administrative	**491.4**	457.3	429.9
Interest and other (income) expense, net	**(18.6)**	(.3)	11.2
	12,645.6	13,656.7	11,781.6
Truck and Other Income Before Income Taxes	**1,384.8**	1,846.6	1,516.8
FINANCIAL SERVICES:			
Revenues	**1,191.3**	950.8	759.0
Interest and other	**755.3**	573.7	433.8
Selling, general and administrative	**110.9**	95.9	84.9
Provision for losses on receivables	**41.0**	33.8	40.4
	907.2	703.4	559.1
Financial Services Income Before Income Taxes	**284.1**	247.4	199.9
Investment income	**95.4**	81.3	56.9
Total Income Before Income Taxes	**1,764.3**	2,175.3	1,773.6
Income taxes	**537.0**	679.3	640.4
Net Income	**$ 1,227.3**	$ 1,496.0	$ 1,133.2
Net Income Per Share			
Basic	**$ 3.31**	$ 3.99	$ 2.93
Diluted	**$ 3.29**	$ 3.97	$ 2.92
Weighted average number of common shares outstanding			
Basic	**371.1**	375.1	386.4
Diluted	**373.3**	377.2	388.7

See notes to consolidated financial statements.

ASSETS

December 31	**2007**	2006
	(millions of dollars)	
TRUCK AND OTHER:		
Current Assets		
Cash and cash equivalents	**$ 1,736.5**	$ 1,806.3
Trade and other receivables, net	**570.0**	665.0
Marketable debt securities	**778.5**	821.7
Inventories	**628.3**	693.7
Deferred taxes and other current assets	**205.6**	212.8
Total Truck and Other Current Assets	**3,918.9**	4,199.5
Equipment on operating leases, net	**489.2**	418.2
Property, plant and equipment, net	**1,642.6**	1,347.2
Other noncurrent assets	**467.2**	331.3
Total Truck and Other Assets	**6,517.9**	6,296.2
FINANCIAL SERVICES:		
Cash and cash equivalents	**121.6**	46.2
Finance and other receivables, net	**9,025.4**	8,542.7
Equipment on operating leases, net	**1,318.7**	1,033.1
Other assets	**244.6**	189.2
Total Financial Services Assets	**10,710.3**	9,811.2
	$17,228.2	$16,107.4

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31	**2007**	2006
	(millions of dollars)	
TRUCK AND OTHER:		
Current Liabilities		
Accounts payable and accrued expenses	**$ 2,136.3**	$ 2,240.5
Dividend payable	**367.1**	497.0
Total Truck and Other Current Liabilities	**2,503.4**	2,737.5
Long-term debt	**23.6**	20.2
Residual value guarantees and deferred revenues	**539.4**	477.5
Deferred taxes and other liabilities	**458.4**	383.7
Total Truck and Other Liabilities	**3,524.8**	3,618.9
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	**258.5**	243.2
Commercial paper and bank loans	**4,106.8**	4,222.6
Term debt	**3,745.4**	3,037.2
Deferred taxes and other liabilities	**579.6**	529.3
Total Financial Services Liabilities	**8,690.3**	8,032.3
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 368.4 million and 248.5 million shares	**368.4**	248.5
Additional paid-in capital	**37.7**	27.5
Treasury stock – at cost	**(61.7)**	(2.1)
Retained earnings	**4,260.6**	4,026.1
Accumulated other comprehensive income	**408.1**	156.2
Total Stockholders' Equity	**5,013.1**	4,456.2
	$17,228.2	$16,107.4

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31	**2007**	2006	2005
		(millions of dollars)	
OPERATING ACTIVITIES:			
Net income	**$ 1,227.3**	$ 1,496.0	$ 1,133.2
Items included in net income not affecting cash:			
Depreciation and amortization:			
Property, plant and equipment	**196.4**	163.4	133.3
Equipment on operating leases and other	**330.0**	271.2	236.8
Provision for losses on financial services receivables	**41.0**	33.8	40.4
Gain on sale of property	**(21.7)**		
Other, net	**20.7**	61.2	(19.8)
Change in operating assets and liabilities:			
Decrease (increase) in assets other than cash and equivalents:			
Receivables:			
Trade and other	**143.6**	(80.5)	(80.1)
Wholesale receivables on new trucks	**81.3**	(64.6)	(398.9)
Sales-type finance leases and dealer direct loans on new trucks	**40.3**	(232.4)	(194.3)
Inventories	**114.4**	(168.5)	(30.1)
Other, net	**16.8**	(2.2)	(37.5)
(Decrease) increase in liabilities:			
Accounts payable and accrued expenses	**(277.6)**	423.3	147.1
Residual value guarantees and deferred revenues	**85.1**	72.9	45.5
Other, net	**57.8**	(120.9)	11.2
Net Cash Provided by Operating Activities	**2,055.4**	1,852.7	986.8
INVESTING ACTIVITIES:			
Retail loans and direct financing leases originated	**(3,116.6)**	(3,318.5)	(2,946.4)
Collections on retail loans and direct financing leases	**2,837.3**	2,543.8	2,202.5
Net decrease (increase) in wholesale receivables on used equipment	**13.7**	(27.5)	(15.5)
Marketable securities purchases	**(1,282.9)**	(1,458.2)	(1,172.4)
Marketable securities sales and maturities	**1,345.5**	1,225.4	1,135.1
Acquisition of property, plant and equipment	**(425.7)**	(312.0)	(300.4)
Acquisition of equipment for operating leases	**(841.7)**	(642.3)	(548.1)
Proceeds from asset disposals	**240.1**	162.2	96.1
Other, net	**(66.5)**	1.0	46.5
Net Cash Used in Investing Activities	**(1,296.8)**	(1,826.1)	(1,502.6)
FINANCING ACTIVITIES:			
Cash dividends paid	**(736.7)**	(530.4)	(496.9)
Purchase of treasury stock	**(360.5)**	(312.0)	(367.2)
Stock compensation transactions	**30.8**	37.7	11.9
Net (decrease) increase in commercial paper and bank loans	**(366.1)**	576.0	1,148.4
Proceeds from long-term debt	**879.5**	2,222.6	1,016.9
Payments on long-term debt	**(285.5)**	(1,951.4)	(592.1)
Net Cash (Used in) Provided by Financing Activities	**(838.5)**	42.5	721.0
Effect of exchange rate changes on cash	**85.5**	84.5	(121.0)
Net Increase in Cash and Cash Equivalents	**5.6**	153.6	84.2
Cash and Cash Equivalents at beginning of year	**1,852.5**	1,698.9	1,614.7
Cash and Cash Equivalents at end of year	**$ 1,858.1**	$ 1,852.5	$ 1,698.9

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

December 31	**2007**	2006	2005
	(millions except per share data)		
COMMON STOCK, $1 PAR VALUE:			
Balance at beginning of year	**$ 248.5**	$ 169.4	$ 173.9
Treasury stock retirement	**(3.8)**	(5.0)	(5.0)
50% stock dividend	**122.8**	83.1	
Stock compensation	**.9**	1.0	.5
Balance at end of year	**368.4**	248.5	169.4
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	**27.5**	140.6	450.5
Treasury stock retirement	**(33.8)**	(160.8)	(338.4)
Stock compensation and tax benefit	**44.0**	47.7	28.5
Balance at end of year	**37.7**	27.5	140.6
TREASURY STOCK, AT COST:			
Balance at beginning of year	**(2.1)**	(35.1)	
Purchases: (shares) 2007-5.1; 2006-4.5; 2005-5.5	**(359.6)**	(301.5)	(378.5)
Retirements	**300.0**	334.5	343.4
Balance at end of year	**(61.7)**	(2.1)	(35.1)
RETAINED EARNINGS:			
Balance at beginning of year	**4,026.1**	3,471.5	2,826.9
Net income	**1,227.3**	1,496.0	1,133.2
Cash dividends declared on common stock, per share: 2007-$1.65; 2006-$1.84; 2005-$1.28	**(607.6)**	(689.6)	(488.6)
Treasury stock retirement	**(262.4)**	(168.7)	
50% stock dividend	**(122.8)**	(83.1)	
Balance at end of year	**4,260.6**	4,026.1	3,471.5
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Balance at beginning of year	**156.2**	154.7	311.1
FAS 158 accounting change, net of $87.5 tax effect		(160.2)	
Other comprehensive income (loss)	**251.9**	161.7	(156.4)
Balance at end of year	**408.1**	156.2	154.7
Total Stockholders' Equity	**$ 5,013.1**	$ 4,456.2	$ 3,901.1

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31	**2007**	2006	2005
		(millions of dollars)	
Net income	**$1,227.3**	$1,496.0	$1,133.2
Other comprehensive income (loss):			
Unrealized (losses) gains on derivative contracts			
(Losses) gains arising during the period	**(32.5)**	13.1	28.5
Tax effect	**15.9**	(4.7)	(10.5)
Reclassification adjustment	**(14.8)**	(17.4)	9.6
Tax effect	**5.6**	5.9	(2.8)
	(25.8)	(3.1)	24.8
Unrealized gains (losses) on investments			
Net holding gain (loss)	**5.2**	(.6)	(1.6)
Tax effect	**(2.1)**	.3	.6
Reclassification adjustment	**.2**		(.5)
Tax effect	**(.1)**		.2
	3.2	(.3)	(1.3)
Pension and postretirement			
Minimum pension liability adjustment		26.0	(20.2)
Tax effect		(9.8)	7.9
Amounts arising during the period	**87.0**		
Tax effect	**(32.2)**		
Reclassification adjustment	**12.7**		
Tax effect	**(4.6)**		
	62.9	16.2	(12.3)
Foreign currency translation gains (losses)	**211.6**	148.9	(167.6)
Net other comprehensive income (loss)	**251.9**	161.7	(156.4)
Comprehensive Income	**$1,479.2**	$1,657.7	$ 976.8

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007, 2006 and 2005 (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.

Trade and Other Receivables: The Company's trade and other receivables are included at cost on the balance sheet, net of allowances.

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, 2007.

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.

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.

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.

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.

New Accounting Pronouncements: The Company adopted FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Retirement Plans* (FAS 158) effective December 31, 2006. FAS 158 requires an employer to recognize the funded status of each of its defined benefit post-retirement plans as an asset or liability and to recognize changes in funded status as a component of accumulated other comprehensive income. Upon adoption, total assets were reduced by $114.7, total liabilities were increased by $45.5 and stockholders' equity was reduced by $160.5, net of tax.

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) effective January 1, 2007 with no significant effect on the Company's consolidated financial statements. See Note M for further information concerning income taxes.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value and expands disclosures about fair value measurements and is effective January 1, 2008. Adoption of FAS 157 is not expected to have a material effect on the Company's consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). This Statement, which is effective January 1, 2008 for PACCAR, permits entities to measure most financial instruments at fair value if desired and requires that unrealized gains and losses on items for which the option has been elected to be reported in earnings. The Company does not expect adoption of FAS 159 to have a material effect on its consolidated financial statements.

Reclassifications: Certain prior-year amounts have been reclassified to conform to the 2007 presentation.

December 31, 2007, 2006 and 2005 (currencies in millions)

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 gains or losses, net of tax, included as a component of accumulated other comprehensive income. Gross realized and unrealized gains and losses were not significant for any of the three years ended December 31, 2007.

The cost of marketable debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Amortization, accretion, 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:

2007	AMORTIZED COST	FAIR VALUE
U.S. tax-exempt securities	**$554.0**	**$558.4**
Non U.S. corporate securities	**113.7**	**113.0**
Non U.S. government securities	**92.7**	**92.5**
Other debt securities	**15.0**	**14.6**
	$775.4	**$778.5**

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

Contractual maturities at December 31, 2007, were as follows:

Maturities:	AMORTIZED COST	FAIR VALUE
Within one year	**$ 90.2**	**$ 90.2**
One to five years	**609.5**	**612.5**
Five to ten years	**1.1**	**1.1**
10 or more years	**74.6**	**74.7**
	$775.4	**$778.5**

Marketable debt securities included $75.8 and $128.4 of variable rate demand obligations (VRDOs) at December 31, 2007 and 2006, respectively. VRDOs are debt instruments with long-term scheduled maturities which have interest rates that reset periodically.

C. INVENTORIES

Inventories include the following:

At December 31,	**2007**	2006
Finished products	**$422.7**	$365.4
Work in process and raw materials	**355.0**	472.1
	777.7	837.5
Less LIFO reserve	**(149.4)**	(143.8)
	$628.3	$693.7

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 40% and 53% of consolidated inventories before deducting the LIFO reserve at December 31, 2007 and 2006.

December 31, 2007, 2006 and 2005 (currencies in millions)

D. FINANCE AND OTHER RECEIVABLES

Finance and other receivables consist primarily of receivables from loans and financing leases resulting from truck sales, loan and leasing activity. Finance and other receivables include the following:

At December 31,	**2007**	2006
Loans	**$4,325.9**	$4,226.7
Retail direct financing leases	**2,816.7**	2,322.1
Sales-type finance leases	**908.1**	909.2
Dealer wholesale financing	**1,554.6**	1,562.6
Interest and other receivables	**108.9**	112.1
Unearned interest:		
Finance leases	**(495.4)**	(421.0)
	9,218.8	8,711.7
Less allowance for losses	**(193.4)**	(169.0)
	$9,025.4	$8,542.7

Terms for substantially all finance and other receivables range up to 60 months. Annual payments due on loans beginning January 1, 2008, are $1,663.8, $1,171.0, $876.5, $530.9, $236.4 and $25.5 thereafter. Annual minimum lease payments due on finance leases beginning January 1, 2008, are $1,051.9, $930.9, $722.4, $472.6, $224.1 and $106.3 thereafter. Repayment experience indicates that some receivables will be paid prior to contract maturity, while others may be extended or revised.

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. Included in Loans are dealer direct loans on the sale of new trucks of $198.2 and $220.4 as of December 31, 2007 and 2006. Estimated residual values included with finance leases amounted to $216.6 in 2007 and $173.7 in 2006.

E. ALLOWANCE FOR LOSSES

Receivables are charged to the allowance for losses when, in the judgment of management, they are deemed uncollectible (generally upon repossession of the collateral). 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.

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

	TRUCK AND OTHER	FINANCIAL SERVICES
Balance, December 31, 2004	$ 12.7	$127.4
Provision for losses	.3	40.4
Net losses	(.5)	(19.3)
Currency translation	(1.6)	(3.3)
Balance, December 31, 2005	10.9	145.2
Provision for losses	.3	33.8
Net losses	(6.0)	(13.9)
Currency translation	.5	3.9
Balance, December 31, 2006	5.7	169.0
Provision for losses	**.2**	**41.0**
Net losses	**(.5)**	**(25.8)**
Acquisitions	**.2**	**1.8**
Currency translation	**1.9**	**7.4**
Balance, December 31, 2007	**$ 7.5**	**$193.4**

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,	**2007**	2006
Land	**$ 179.3**	$ 142.5
Buildings	**847.6**	731.3
Machinery and equipment	**2,206.9**	1,838.0
	3,233.8	2,711.8
Less allowance for depreciation	**(1,591.2)**	(1,364.6)
	$1,642.6	$1,347.2

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

December 31, 2007, 2006 and 2005 (currencies in millions)

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,	2007	2006
Equipment on lease	**$678.8**	$589.7
Less allowance for depreciation	**(189.6)**	(171.5)
	$489.2	$418.2

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,	2007	2006
Deferred lease revenues	**$211.0**	$192.4
Residual value guarantee	**328.4**	285.1
	$539.4	$477.5

The deferred lease revenue is amortized on a straight-line basis over the RVG contract period. At December 31, 2007, the annual amortization of deferred revenue beginning January 1, 2008, is $91.6, $59.8, $39.8, $14.0, $4.7 and $1.1 thereafter. Annual maturities of the residual value guarantees beginning January 1, 2008, are $115.6, $71.0, $91.9, $33.0, $13.7 and $3.2 thereafter.

Financial Services:
Equipment on operating leases is as follows:

At December 31,	2007	2006
Transportation equipment	**$1,777.1**	$1,397.1
Less allowance for depreciation	**(458.4)**	(364.0)
	$1,318.7	$1,033.1

Annual minimum lease payments due on operating leases beginning January 1, 2008, are $331.3, $233.1, $153.7, $78.2, $29.3 and $8.0 thereafter.

H. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses include the following:

At December 31,	2007	2006
Truck and Other:		
Accounts payable	**$ 959.7**	$1,211.6
Salaries and wages	**162.9**	155.7
Product support reserves	**315.5**	305.1
Other	**698.2**	568.1
	$ 2,136.3	$2,240.5

I. PRODUCT SUPPORT LIABILITIES

Product support liabilities include reserves related to product warranties and 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 them as appropriate to reflect actual experience.

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

At December 31,	2007	2006	2005
Beginning balance	**$458.3**	$391.5	$376.3
Cost accruals and revenue deferrals	**339.2**	302.4	289.2
Payments and revenue recognized	**(345.1)**	(271.0)	(240.5)
Currency translation	**30.9**	35.4	(33.5)
	$483.3	$458.3	$391.5

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

At December 31,	2007	2006
Truck and Other:		
Accounts payable and accrued expenses	**$ 315.5**	$ 305.1
Deferred taxes and other liabilities	**82.7**	64.8
Financial Services:		
Deferred taxes and other liabilities	**85.1**	88.4
	$ 483.3	$ 458.3

December 31, 2007, 2006 and 2005 (currencies in millions)

J. BORROWINGS AND CREDIT ARRANGEMENTS

Truck and other long-term debt consists of non-interest bearing notes, which amounted to $23.6 in 2007 and $20.2 in 2006. These notes mature in 2011.

Financial Services borrowings include the following at December 31:

	EFFECTIVE RATE	2007	2006
Commercial paper	5.2%	**$4,096.4**	$4,200.6
Bank loans	8.5%	**10.4**	22.0
		$4,106.8	$4,222.6
Term debt:			
Fixed rate	9.2%	**$ 20.8**	$ 48.3
Floating rate	4.8%	**3,724.6**	2,988.9
		$3,745.4	$3,037.2

The effective rate is the weighted average rate as of December 31, 2007, and includes the effects of interest-rate contracts. Annual maturities of term debt beginning January 1, 2008, are $729.9, $2,212.6, $794.9 and $8.0.

Interest paid on borrowings was $339.0, $281.6 and $204.0 in 2007, 2006 and 2005. The weighted average interest rate on consolidated commercial paper and bank loans was 5.2%, 4.8% and 4.0% at December 31, 2007, 2006 and 2005.

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 2006. The registration expires in 2009 and does not limit the principal amount of debt securities that may be issued during the period.

In June 2007, PFE renewed and increased the registration of a €1,200 medium-term note program with the London Stock Exchange. On December 31, 2007, €448 of debt remained available for issuance under this program.

The Company has line of credit arrangements of $3,076. Included in these arrangements is a $2,700 bank facility, of which $1,700 matures in 2008 and $1,000 in 2012. PACCAR intends to replace these credit facilities as they expire with facilities of similar amounts. The unused portion of these credit lines was $3,042 at December 31, 2007, 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.

K. LEASES

The Company leases certain facilities, computer equipment and aircraft under operating leases. Leases expire at various dates through the year 2017.

Annual minimum rent payments under non-cancelable operating leases having initial or remaining terms in excess of one year at January 1, 2008, are $27.9, $17.7, $12.1, $7.3, $2.7 and $2.3 thereafter.

Total rental expenses under all leases amounted to $41.1, $41.4 and $42.3 for 2007, 2006 and 2005.

December 31, 2007, 2006 and 2005 (currencies in millions)

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 $13.8 to its pension plans in 2007 and $149.7 in 2006. The Company expects to contribute in the range of $15.0 to $30.0 to its pension plans in 2008, of which $15.3 is estimated to satisfy minimum funding requirements. Annual benefits expected to be paid beginning January 1, 2008, are $45.0, $47.4, $51.4, $57.0, $63.2, and for the five years thereafter, a total of $386.4.

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:

		Actual	
	Target	**2007**	2006
Plan Assets Allocation as of December 31:			
Equity securities	55-70%	**65.6%**	67.3%
Debt securities	30-45%	**34.4**	32.7
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,	**2007**	2006
Weighted Average Assumptions:		
Discount rate	**6.2%**	5.7%
Rate of increase in future compensation levels	**4.3%**	4.2%
Assumed long-term rate of return on plan assets	**7.4%**	7.4%

	2007	2006
Change in Projected Benefit Obligation:		
Benefit obligation at January 1	**$ 1,193.4**	$ 1,044.6
Service cost	**49.7**	50.5
Interest cost	**68.7**	60.8
Benefits paid	**(41.4)**	(37.5)
Actuarial (gain) loss	**(86.6)**	30.5
Curtailment	**(5.5)**	.1
Plan amendments		9.6
Currency translation	**18.1**	30.4
Participant contributions	**4.6**	4.4
Projected benefit obligation at December 31	**$ 1,201.0**	$ 1,193.4
Change in Plan Assets:		
Fair value of plan assets at January 1	**$ 1,242.1**	$ 973.7
Employer contributions	**13.8**	149.7
Actual return on plan assets	**74.3**	120.3
Benefits paid	**(41.4)**	(37.5)
Currency translation	**19.1**	31.5
Participant contributions	**4.6**	4.4
Fair value of plan assets at December 31	**1,312.5**	1,242.1
Funded Status at December 31	**$ 111.5**	$ 48.7
Amounts Recorded in Balance Sheet:		
Other noncurrent assets	**$ 158.1**	$ 94.5
Other noncurrent liabilities	**(46.6)**	(45.8)
Accumulated other comprehensive loss:		
Actuarial loss	**78.0**	129.4
Prior service cost	**12.6**	15.9
Net initial transition amount	**1.4**	1.5
Total	**$ 92.0**	$ 146.8

Of the December 31, 2007 amounts in accumulated other comprehensive income, $2.7 of unrecognized actuarial loss and $2.4 of unrecognized prior service cost are expected to be amortized into net pension expense in 2008.

The projected benefit obligation includes $41.5 and $41.2 at December 31, 2007 and 2006 related to an unfunded supplemental plan. The accumulated benefit obligations for this plan were $31.7 and $30.5 at December 31, 2007 and 2006.

The accumulated benefit obligation for all pension plans of the Company, except for certain multi-employer and foreign-insured plans, was $1,055.5 at December 31, 2007, and $1,035.4 at December 31, 2006.

December 31, 2007, 2006 and 2005 (currencies in millions)

Year Ended December 31,	**2007**	2006	2005
Components of Pension Expense:			
Service cost	**$ 49.7**	$ 50.5	$ 40.8
Interest on projected benefit obligation	**68.7**	60.8	52.8
Expected return on assets	**(89.7)**	(76.7)	(64.1)
Amortization of prior service costs	**2.9**	3.6	3.6
Recognized actuarial loss	**8.4**	12.7	9.2
Curtailment	**2.7**	.1	
Other			.1
Net pension expense	**$ 42.7**	$ 51.0	$ 42.4

Pension expense for multi-employer and foreign-insured plans was $37.9, $32.0 and $29.0 in 2007, 2006 and 2005.

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 $22.6, $22.1 and $20.6 in 2007, 2006 and 2005.

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 relates to unfunded postretirement medical and life insurance plans:

Year Ended December 31,	**2007**	2006	2005
Components of Retiree Expense:			
Service cost	**$ 4.8**	$ 5.4	$ 3.6
Interest cost	**5.2**	4.8	4.2
Recognized actuarial loss	**.9**	1.4	1.5
Recognized prior service cost	**.1**	.1	.2
Recognized net initial obligation	**.4**	.5	.4
Net retiree expense	**$ 11.4**	$ 12.2	$ 9.9

The discount rate used for calculating the accumulated plan benefits was 6.5% for 2007 and 5.9% for 2006. In 2007 the assumed long-term medical inflation rate was 10% declining to 6% over four years. In 2006 the rate assumption was 11% declining to 6% over five years. Annual benefits expected to be paid beginning January 1, 2008, are $3.9, $4.9, $6.0, $7.3, $8.0 and for the five years thereafter, a total of $49.8.

Assumed health care cost trends have an effect on the amounts reported for the postretirement health care plans. A 1% 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	$ 9.3	$ (8.0)

	2007	2006
Change in Projected Benefit Obligation:		
Benefit obligation at January 1	**$ 92.4**	$ 76.7
Service cost	**4.8**	5.4
Interest cost	**5.2**	4.8
Benefits paid	**(3.0)**	(2.2)
Curtailment	**(5.3)**	
Actuarial (gain) loss	**(6.1)**	7.7
Projected benefit obligation at December 31	**$ 88.0**	$ 92.4
Unfunded Status at December 31	**$ (88.0)**	$ (92.4)
Amounts Recorded in Balance Sheet:		
Other noncurrent liabilities	**$ (88.0)**	$ (92.4)
Accumulated other comprehensive loss:		
Actuarial loss	**8.6**	16.2
Prior service cost	**.2**	.3
Net initial transition amount	**1.0**	1.5

Of the December 31, 2007 amounts in accumulated other comprehensive income, $.3 of unrecognized actuarial loss, $.4 of unrecognized net initial transition amount and $.1 of unrecognized prior service cost are expected to be amortized into net retiree expense in 2008.

December 31, 2007, 2006 and 2005 (currencies in millions)

M. INCOME TAXES

Year Ended December 31,	**2007**	2006	2005
Income Before Income Taxes:			
Domestic	**$ 419.1**	$1,149.3	$ 960.3
Foreign	**1,345.2**	1,026.0	813.3
	$1,764.3	$2,175.3	$1,773.6

Provision for Income Taxes:			
Current provision:			
Federal	**$ 120.5**	$ 280.4	$ 394.7
State	**11.1**	39.6	41.9
Foreign	**367.1**	292.4	257.7
	498.7	612.4	694.3
Deferred provision (benefit):			
Federal	**41.9**	49.6	(35.7)
State	**3.6**	4.7	.4
Foreign	**(7.2)**	12.6	(18.6)
	38.3	66.9	(53.9)
	$ 537.0	$ 679.3	$ 640.4

Reconciliation of Statutory U.S. Federal Tax to Actual Provision:			
Statutory rate	**35%**	35%	35%
Statutory tax	**$ 617.5**	$ 761.4	$ 620.8
Effect of:			
State income taxes	**9.6**	27.3	27.5
Repatriated earnings		(10.0)	64.0
Foreign income taxes	**(72.4)**	(48.8)	(45.3)
Other, net	**(17.7)**	(50.6)	(26.6)
	$ 537.0	$ 679.3	$ 640.4

In 2005, a provision of $64.0 for the repatriation of prior foreign earnings was recorded as current income tax expense in accordance with accounting guidance related to provisions of the American Jobs Creation Act. In 2006, a benefit of $10.0 was recorded for the final calculation of taxes related to the 2005 repatriation.

U.S. 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, 2007, the amount of undistributed earnings which are considered to be indefinitely reinvested is $2,552.0.

At December 31, 2006, the Company had $36.4 in U.S. foreign tax credit carryforwards. These credits were utilized in 2007.

At December 31, 2007, the Company's net tax operating loss carryforwards were $204.3. 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:	**2007**	2006
Components of Deferred Tax Assets (Liabilities):		
Assets:		
Provisions for accrued expenses	**$ 217.6**	$ 245.9
Net operating loss carryforwards	**54.9**	67.2
Allowance for losses on receivables	**62.1**	55.8
U.S. foreign tax credit carryforward		36.4
Foreign product development costs	**35.3**	40.5
Postretirement benefit plans	**50.8**	90.1
Other	**33.1**	57.8
	453.8	593.7
Valuation allowance	**(18.8)**	(45.1)
	435.0	548.6
Liabilities:		
Financial Services leasing depreciation	**(410.3)**	(390.3)
Depreciation and amortization	**(106.2)**	(89.4)
Postretirement benefit plans	**(61.8)**	(68.6)
Other	**(42.7)**	(122.0)
	(621.0)	(670.3)
Net deferred tax liability	**$(186.0)**	$(121.7)

At December 31:	**2007**	2006
Classification of Deferred Tax Assets (Liabilities):		
Truck and Other:		
Deferred taxes and other current assets	**$ 107.2**	$ 133.5
Other noncurrent assets	**108.4**	96.4
Deferred taxes and other liabilities	**(47.3)**	(15.6)
Financial Services:		
Other assets	**34.3**	29.3
Deferred taxes and other liabilities	**(388.6)**	(365.3)
Net deferred tax liability	**$(186.0)**	$(121.7)

Cash paid for income taxes was $412.9, $611.5, and $722.0 in 2007, 2006 and 2005.

December 31, 2007, 2006 and 2005 (currencies in millions)

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) effective January 1, 2007. At adoption, the Company had $54.3 of unrecognized tax benefits and $25.0 of related assets.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2007	$54.3
Additions based on tax positions and settlements related to the current year	11.4
Reductions for tax positions of prior years	(2.9)
Lapse of statute of limitations	(4.9)
Balance at December 31, 2007	$ 57.9

Additionally, the Company had $30.6 of related assets at December 31, 2007. All of the unrecognized tax benefits and related assets would impact the effective tax rate if recognized. The Company does not currently anticipate any significant changes to its unrecognized tax benefits during the next 12 months.

Interest and penalties are classified as income taxes in the accompanying statements of income and were not significant during any of the three years ended December 31, 2007. Amounts accrued for the payment of penalties and interest at December 31, 2007, and 2006 were also not significant.

The United States Internal Revenue Service has completed examinations of the Company's tax returns for all years through 2003. Examinations of the Company's tax returns for other major jurisdictions have been completed for years ranging from 2001 through 2007.

N. 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:

At December 31:	**2007**	2006	2005
Unrealized (loss) gain on investments	**$ 3.2**	$ (2.2)	$ (1.6)
Tax effect	**(1.3)**	.9	.6
	1.9	(1.3)	(1.0)
Unrealized gain (loss) on derivative contracts	**(18.8)**	28.5	32.7
Tax effect	**10.6**	(10.9)	(12.0)
	(8.2)	17.6	20.7
Pension and postretirement:			
Minimum pension liability adjustment			(33.2)
Tax effect			12.4
Unrecognized:			
Actuarial loss	**(131.6)**	(225.2)	
Prior service cost	**(20.0)**	(25.3)	
Net initial obligation	**(3.5)**	(4.4)	
Tax effect	**53.3**	90.1	
	(101.8)	(164.8)	(20.8)
Currency translation adjustment	**516.2**	304.7	155.8
Accumulated other comprehensive income	**$ 408.1**	$ 156.2	$ 154.7

Other Capital Stock Changes: PACCAR had 1,278,900 and 32,873 treasury shares at December 31, 2007 and 2006, respectively.

Stock Dividend: A 50% common stock dividend was paid in October 2007. This resulted in the issuance of 122,775,211 additional shares and 613 fractional shares paid in cash. In 2006, a 50% common stock dividend was paid, which resulted in the issuance of 83,104,090 additional shares and 543 fractional shares paid in cash.

O. 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, 2007.

Interest-Rate Contracts: The Company enters into various interest-rate contracts, including interest-rate 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, 2007, the notional amount of the Company's interest-rate contracts totaled $5,355.6, 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 $18.9 and a liability of $53.6 at December 31, 2007. Fair values at December 31, 2006 amounted to an asset of $36.0 and a liability of $17.3.

Notional maturities for all interest-rate contracts for the six years beginning January 1, 2008, are $1,545.6, $1,737.8, $1,355.4, $612.4, $100.9 and $3.5. 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. PACCAR had net foreign currency exchange contracts outstanding amounting to $494.9 and $279.3 U.S. dollars at December 31, 2007 and 2006, respectively. The net fair value of these contracts was an asset of $19.2 and a liability of $.3 at December 31, 2007. Fair values at December 31, 2006 amounted to an asset of $2.0 and a liability of $.5. Foreign currency exchange contracts mature within one year.

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 in Financial Services "Accounts payable, accrued expenses and other."

Substantially all of the Company's interest-rate contracts and foreign currency exchange contracts have been designated as cash flow hedges. The Company uses regression and the change in variable cash flow methods to assess and measure effectiveness of interest-rate contracts. For foreign currency exchange contracts, the Company performs quarterly assessments to ensure that critical 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, 2007.

Amounts in accumulated other comprehensive income are reclassified into net income in the same period in which the hedged transaction affects earnings. Of the accumulated net loss included in other comprehensive income as of December 31, 2007, $12.3, net of taxes, is expected to be reclassified to interest expense or cost of sales in 2008. 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. 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 risk management strategy.

December 31, 2007, 2006 and 2005 (currencies in millions except per share amounts)

P. STOCK COMPENSATION PLANS

PACCAR has certain plans under which officers and key employees may be granted options to purchase shares of the Company's authorized but unissued common stock. Non-employee directors and certain officers 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 46.7 million, and as of December 31, 2007, the maximum number of shares available for future grants was 19.5 million. Options 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 summarized below:

	NUMBER OF SHARES	AVERAGE EXERCISE PRICE*
Outstanding at 12/31/04	7,517,900	$ 12.97
Granted	933,000	32.11
Exercised	(1,090,100)	10.48
Cancelled	(229,400)	19.58
Outstanding at 12/31/05	7,131,400	15.64
Granted	964,700	32.23
Exercised	(1,883,400)	11.15
Cancelled	(50,700)	29.13
Outstanding at 12/31/06	6,162,000	19.50
Granted	**824,200**	**44.56**
Exercised	**(1,168,200)**	**14.79**
Cancelled	**(109,000)**	**34.80**
Outstanding at 12/31/07	**5,709,000**	**$ 23.79**

For options exercised, the aggregate difference between the strike price and market price on the date of exercise was $40.4 in 2007, $43.2 in 2006 and $23.8 in 2005.

The following tables summarize information about options outstanding at December 31, 2007:

RANGE OF EXERCISE PRICES	NUMBER OF SHARES	REMAINING CONTRACTUAL LIFE IN YEARS	AVERAGE EXERCISE PRICE*
Exercisable:			
$ 8.25-10.62	1,468,900	2.0	$ 9.76
12.54-13.96	1,110,400	4.6	13.31
25.31	571,000	6.0	25.31
	3,150,300	3.6	13.83
Not Exercisable:			
32.11-32.23	1,757,600	7.5	32.17
44.56	801,100	9.0	44.56
	2,558,700	8.0	36.05
	5,709,000	5.6	$23.79

*Weighted Average

Realized tax benefits for 2007 of $13.6 and 2006 of $15.3 related to the excess of deductible amounts over compensation costs recognized have been classified as a financing cash flow. Stock based compensation expense was $12.3, $10.0 and $7.5 in 2007, 2006 and 2005 respectively. As of December 31, 2007, there was $7.5 of unamortized compensation cost related to unvested stock options, which is expected to be recognized over a remaining weighted-average vesting period of 1.5 years. Unamortized compensation cost at December 31, 2007 related to unvested restricted stock awards was $2.8, which is expected to be recognized over a remaining weighted-average vesting period of 1.1 years.

The estimated fair value of stock options granted during 2007, 2006 and 2005 was $10.10, $7.96 and $9.45 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:

	2007	2006	2005
Risk-free interest rate	**4.80%**	4.44%	3.73%
Expected volatility	**30%**	34%	39%
Expected dividend yield	**4.0%**	4.0%	3.2%
Expected term	**5 years**	5 years	5 years

The fair value of restricted stock awards was determined based on the stock price at the award date. Compensation expense related to these awards is recognized over the requisite service period.

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

At December 31:	**2007**	2006	2005
Additional shares	**2,206,800**	2,064,300	2,482,900

There were no antidilutive options in 2007, 948,000 in 2006 and 907,100 in 2005.

December 31, 2007, 2006 and 2005 (currencies in millions)

Q. 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 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.

Debt: The carrying amounts of fixed-rate long-term debt, financial services term debt, commercial paper, short-term bank borrowings and floating-rate, long-term debt approximate fair value.

Trade Receivables and Payables: Carrying amounts approximate fair value.

Financial services fixed-rate loans that are not carried at approximate fair value are as follows at December 31:

	CARRYING AMOUNT	FAIR VALUE
2007	**$3,602.6**	**$3,562.7**
2006	3,420.8	3,335.2

R. COMMITMENTS AND CONTINGENCIES

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 2007, 2006 and 2005 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, 2007, PACCAR had standby letters of credit of $35.4, which guarantee various insurance and financing activities. The Company is committed, under specific circumstances, to purchase equipment at a cost of $43.4 in 2008 and $8.1 in 2009. At December 31, 2007, PACCAR’s financial services companies, in the normal course of business, had outstanding commitments to fund new loan and lease transactions amounting to $145.1. The commitments generally expire in 90 days. The Company had other commitments, primarily to purchase production inventory, amounting to $266.5 in 2008 and $79.8 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, 2007, 2006 and 2005 (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 independent 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 $24.9, $13.1, and $15.7 for 2007, 2006 and 2005. 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.

Geographic Area Data	**2007**	2006	2005
Revenues:			
United States	**$ 5,517.5**	$ 8,496.5	$ 7,161.8
Europe	**6,159.6**	4,589.8	4,096.2
Other	**3,544.6**	3,367.8	2,799.4
	$15,221.7	$ 16,454.1	$14,057.4
Property, plant and equipment, net:			
United States	**$ 621.1**	$ 527.4	$ 443.0
The Netherlands	**480.7**	378.8	308.4
Other	**540.8**	441.0	391.6
	$ 1,642.6	$ 1,347.2	$ 1,143.0

Geographic Area Data	**2007**	2006	2005
Equipment on operating leases, net			
United States	**$ 464.4**	$ 438.7	$ 400.7
United Kingdom	**342.8**	295.5	206.6
Germany	**243.3**	172.8	111.3
France	**162.7**	144.0	130.7
Mexico	**186.6**	120.3	92.8
Other	**408.1**	280.0	264.8
	$ 1,807.9	$ 1,451.3	$ 1,206.9

Business Segment Data			
Net sales and revenues:			
Truck			
Total	**$14,294.7**	$15,754.7	$13,559.4
Less intersegment	**(441.4)**	(387.4)	(363.3)
External customers	**13,853.3**	15,367.3	13,196.1
All Other	**177.1**	136.0	102.3
	14,030.4	15,503.3	13,298.4
Financial Services	**1,191.3**	950.8	759.0
	$15,221.7	$16,454.1	$14,057.4
Income before income taxes:			
Truck	**$ 1,360.0**	$ 1,848.8	$ 1,520.2
All Other	**24.8**	(2.2)	(3.4)
	1,384.8	1,846.6	1,516.8
Financial Services	**284.1**	247.4	199.9
Investment income	**95.4**	81.3	56.9
	$ 1,764.3	$ 2,175.3	$ 1,773.6
Depreciation and amortization:			
Truck	**$ 261.4**	$ 218.8	$ 190.3
Financial Services	**252.7**	203.3	166.6
All Other	**12.3**	12.5	13.2
	$ 526.4	$ 434.6	$ 370.1
Expenditures for long-lived assets:			
Truck	**$ 562.3**	$ 447.5	$ 419.3
Financial Services	**671.7**	494.2	413.7
Other	**33.4**	12.6	15.5
	$ 1,267.4	$ 954.3	$ 848.5
Segment assets:			
Truck	**$ 3,764.7**	$ 3,480.1	$ 2,955.8
Other	**238.2**	188.1	187.9
Cash and marketable securities	**2,515.0**	2,628.0	2,215.8
	6,517.9	6,296.2	5,359.5
Financial Services	**10,710.3**	9,811.2	8,355.9
	$17,228.2	$16,107.4	$13,715.4

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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, 2007, 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, 2007.

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 Pigott

Mark C. Pigott
Chairman and Chief Executive Officer

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

The Board of Directors and Stockholders of PACCAR Inc

We have audited the accompanying consolidated balance sheets of PACCAR Inc as of December 31, 2007 and 2006, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. 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, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note A to the consolidated financial statements, the Company changed its method of accounting for defined benefit pension and other postretirement plans in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PACCAR Inc's internal control over financial reporting as of December 31, 2007, 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 14, 2008 expressed an unqualified opinion thereon.

Ernst + Young LLP

Seattle, Washington
February 14, 2008

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

The Board of Directors and Stockholders of PACCAR Inc

We have audited PACCAR Inc's internal control over financial reporting as of December 31, 2007, 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 included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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, PACCAR Inc maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, 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 as of December 31, 2007 and 2006 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, 2007 of PACCAR Inc and our report dated February 14, 2008 expressed an unqualified opinion thereon.

Seattle, Washington
February 14, 2008

Ernst + Young LLP

SELECTED FINANCIAL DATA

	2007	2006	2005	2004	2003
			(millions except per share data)		
Truck and Other Net Sales					
and Revenues	**$14,030.4**	$15,503.3	$13,298.4	$10,833.7	$7,721.1
Financial Services Revenues	**1,191.3**	950.8	759.0	562.6	473.8
Total Revenues	**$15,221.7**	$16,454.1	$14,057.4	$11,396.3	$8,194.9
Net Income	**$ 1,227.3**	$ 1,496.0	$ 1,133.2	$ 906.8	$ 526.5
Net Income Per Share:					
Basic	**3.31**	3.99	2.93	2.31	1.34
Diluted	**3.29**	3.97	2.92	2.29	1.33
Cash Dividends Declared Per Share	**1.65**	1.84	1.28	1.22	.61
Total Assets:					
Truck and Other	**6,517.9**	6,296.2	5,359.5	5,247.9	4,334.2
Financial Services	**10,710.3**	9,811.2	8,355.9	6,980.1	5,605.4
Truck and Other Long-Term Debt	**23.6**	20.2	20.2	27.8	33.7
Financial Services Debt	**7,852.2**	7,259.8	6,226.1	4,788.6	3,786.1
Stockholders' Equity	**5,013.1**	4,456.2	3,901.1	3,762.4	3,246.4

All per share amounts have been restated to give effect to a 50% stock dividend paid in October 2007.

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 The NASDAQ Stock Market LLC, and cash dividends declared. All amounts have been restated to give effect to a 50% stock dividend issued in October 2007. There were 2,128 record holders of the common stock at December 31, 2007.

	2007			2006		
	CASH DIVIDENDS	STOCK PRICE		CASH DIVIDENDS	STOCK PRICE	
QUARTER	DECLARED	HIGH	LOW	DECLARED	HIGH	LOW
First	**$ .13**	**$52.15**	**$42.15**	$ .11	$33.37	$30.13
Second	**.17**	**61.53**	**48.49**	.13	36.84	30.91
Third	**.17**	**65.75**	**48.02**	.13	39.27	33.93
Fourth	**.18**	**58.95**	**46.15**	.13	46.17	37.79
Year-End Extra	**1.00**			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
	(millions except per share data)			
2007				
Truck and Other:				
Net Sales and Revenues	**$3,720.5**	**$3,429.4**	**$3,448.5**	**$3,432.0**
Cost of Sales and Revenues	**3,135.3**	**2,912.5**	**2,930.6**	**2,938.9**
Research and Development	**37.4**	**58.2**	**67.8**	**92.1**
Financial Services:				
Revenues	**264.0**	**286.8**	**313.2**	**327.3**
Interest and Other Expenses	**166.2**	**180.5**	**201.4**	**207.2**
Net Income	**365.6**	**298.3**	**302.3**	**261.1**
Net Income Per Share (1):				
Basic	**$ .98**	**$ .80**	**$ .82**	**$ .71**
Diluted	**.97**	**.79**	**.81**	**.71**
2006				
Truck and Other:				
Net Sales and Revenues	$3,639.2	$3,936.6	$3,959.2	$3,968.3
Cost of Sales and Revenues	3,063.8	3,312.8	3,322.4	3,337.6
Research and Development	35.1	41.1	42.5	44.4
Financial Services:				
Revenues	212.5	231.4	246.2	260.7
Interest and Other Expenses	127.9	138.9	148.9	158.0
Net Income	342.0	369.9	403.6	380.5
Net Income Per Share (1):				
Basic	$ .90	$ .99	$ 1.08	$ 1.02
Diluted	.90	.98	1.07	1.01

Net income per share amounts have been restated to give effect to a 50% stock dividend paid in October 2007.

(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.

(currencies in millions)

Interest Rate Risks – *See Note O 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)	**2007**	2006
CONSOLIDATED:		
Assets		
Cash equivalents and marketable securities	**$ (9.2)**	$(12.2)
TRUCK AND OTHER:		
Liabilities		
Fixed-rate long-term debt	**.6**	.6
FINANCIAL SERVICES:		
Assets		
Fixed-rate loans	**(59.7)**	(59.6)
Liabilities		
Fixed-rate term debt	**.4**	.5
Interest rate swaps related to financial services debt	**82.0**	72.7
Total	**$14.1**	$ 2.0

Currency Risks – The Company enters into foreign currency exchange 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 O for additional information concerning these hedges)*. Based on the Company's sensitivity analysis, 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 $53.3 related to contracts outstanding at December 31, 2007, compared to a loss of $24.2 at December 31, 2006. These amounts would be largely offset by changes in the values of the underlying hedged exposures.

OFFICERS AND DIRECTORS

OFFICERS

Mark C. Pigott
Chairman and
Chief Executive Officer

Michael A. Tembreull
Vice Chairman

Thomas E. Plimpton
President

James G. Cardillo
Executive Vice President

Ronald E. Armstrong
Senior Vice President

Daniel D. Sobic
Senior Vice President

David C. Anderson
Vice President and
General Counsel

Richard E. Bangert, II
Vice President

Michael T. Barkley
Vice President and Controller

Robert J. Christensen
Vice President

Kenneth R. Gangl
Vice President and Treasurer

Richard T. Gorman
Vice President

Aad L. Goudriaan
Vice President

Timothy M. Henebry
Vice President

William D. Jackson
Vice President

Jack K. LeVier
Vice President

Thomas A. Lundahl
Vice President

Helene N. Mawyer
Vice President

Janice B. Skredsvig
Vice President and
Chief Information Officer

George E. West, Jr.
Vice President

Janice M. D'Amato
Secretary

DIRECTORS

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

Alison J. Carnwath
Non-Executive Chairman
MF Global Ltd. (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 Méxicana, 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 Engine Company
1000 PACCAR Drive
Columbus, Mississippi 39701

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 Méxicana 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

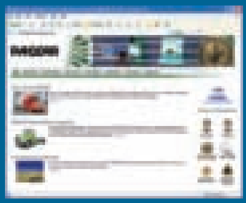
Corporate Offices
PACCAR Building
777 106th Avenue N.E.
Bellevue, Washington
98004

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

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 Availability of Annual Report and Proxy Statement
PACCAR's 2007 Annual Report and the 2008 Proxy Statement are available on PACCAR's Web site at www.paccar.com/2008annualmeeting/

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, Gearmatic, Kenmex, Kenworth, Kenworth Clean Power, Leyland, PACCAR, PACCAR PX, PacLease, PacTrac, Peterbilt, PX-6, PX-8 and TRP are trademarks owned by PACCAR Inc and its 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, under SEC Filings.

Annual Stockholders' Meeting
April 22, 2008, 10:30 a.m.
Meydenbauer Center
11100 N.E. Sixth Street
Bellevue, Washington
98004

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PACCAR Inc

PACCAR Inc