

The background of the entire page is a vibrant green color, densely populated with numerous water droplets of varying sizes. The droplets are most prominent in the upper half and become smaller and more numerous towards the bottom, creating a sense of depth and texture. The lighting on the droplets gives them a three-dimensional appearance, with highlights and shadows.

PACCAR

2009 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 the world under the DAF nameplate. PACCAR distributes aftermarket truck parts to its dealers through a worldwide network of Parts Distribution Centers. Finance and leasing subsidiaries facilitate the sale of PACCAR products in many countries worldwide. Significant company assets are employed in financial services activities. PACCAR manufactures and markets industrial winches under the Braden, Gearmatic and Carco nameplates. PACCAR maintains exceptionally high standards of quality for all of its products: they are well engineered, are highly customized for specific applications and sell in the premium segments of their markets, where they have a reputation for superior performance and pride of ownership.

CONTENTS

1	<i>Financial Highlights</i>	68	<i>Management's Report on Internal Control Over Financial Reporting</i>
2	<i>Message to Shareholders</i>	68	<i>Report of Independent Registered Public Accounting Firm on the Company's Consolidated Financial Statements</i>
6	<i>PACCAR Operations</i>	69	<i>Report of Independent Registered Public Accounting Firm on the Company's Internal Controls</i>
22	<i>Financial Charts</i>	70	<i>Selected Financial Data</i>
23	<i>Stockholder Return Performance Graph</i>	70	<i>Common Stock Market Prices and Dividends</i>
24	<i>Management's Discussion and Analysis</i>	71	<i>Quarterly Results</i>
39	<i>Consolidated Statements of Income</i>	72	<i>Market Risks and Derivative Instruments</i>
40	<i>Consolidated Balance Sheets</i>	73	<i>Officers and Directors</i>
42	<i>Consolidated Statements of Cash Flows</i>	74	<i>Divisions and Subsidiaries</i>
43	<i>Consolidated Statements of Stockholders' Equity</i>		
44	<i>Consolidated Statements of Comprehensive Income</i>		
44	<i>Notes to Consolidated Financial Statements</i>		

INDUSTRY AWARDS

PACCAR is a global technology company with a 104-year tradition of excellence. The company has achieved a remarkable 71 consecutive years of net income and has paid a dividend every year since 1941. The company has a strong balance sheet and excellent S&P credit rating of AA-. PACCAR has delivered an annualized return to shareholders of 19.1% for the last decade.



J . D . P O W E R A W A R D S

Kenworth, Peterbilt and DAF are the established quality leaders in their markets. In 2009, Kenworth and Peterbilt earned the majority of industry J.D. Power customer satisfaction awards. PACCAR has earned 30 total J.D. Power awards. In addition, PACCAR was honored to receive the J.D. Power Founder's

Award for 25 years of corporate quality excellence in its major markets.



E N V I R O N M E N T A L L E A D E R S H I P

PACCAR is an environmental leader. PACCAR offers a vast array of “green” powertrain options, including diesel-electric hybrid, LNG, CNG and other fuel-efficient vehicles. Many PACCAR facilities have achieved “Zero Waste to Landfill” and all PACCAR facilities have

achieved ISO 14001 environmental certification. Kenworth was the first commercial vehicle manufacturer to earn the prestigious Clean Air Excellence Award from the Environmental Protection Agency (EPA).



T E C H N O L O G Y A W A R D S

PACCAR Information Technology Division (ITD) continues to be recognized for its technological leadership. STAR (Standards for Technology in Automotive Retail) recognized PACCAR ITD with the 2009 First Place Implementation Award. *Information Week* recognized PACCAR ITD as a

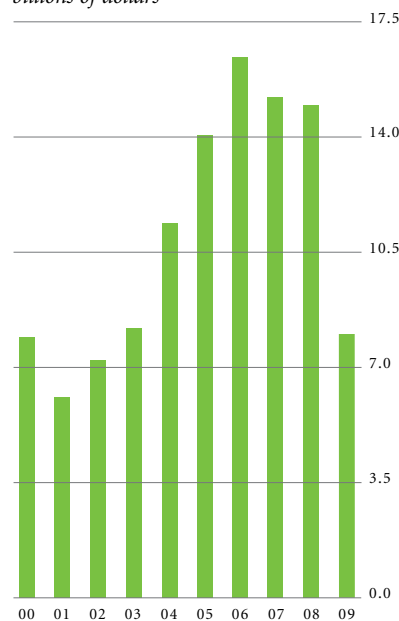
leading information technology innovator and the best automotive company in the industry.

FINANCIAL HIGHLIGHTS

	2009	2008
	<i>(millions except per share data)</i>	
Truck and Other Net Sales and Revenues	\$7,076.7	\$13,709.6
Financial Services Revenues	1,009.8	1,262.9
Total Revenues	8,086.5	14,972.5
Net Income	111.9	1,017.9
Total Assets:		
Truck and Other	6,137.7	6,219.4
Financial Services	8,431.3	10,030.4
Truck and Other Long-Term Debt	172.3	19.3
Financial Services Debt	5,900.5	7,465.5
Stockholders' Equity	5,103.7	4,846.7
Per Common Share:		
Net Income:		
Basic	\$ 0.31	\$ 2.79
Diluted	0.31	2.78
Cash Dividends Declared	0.54	0.82

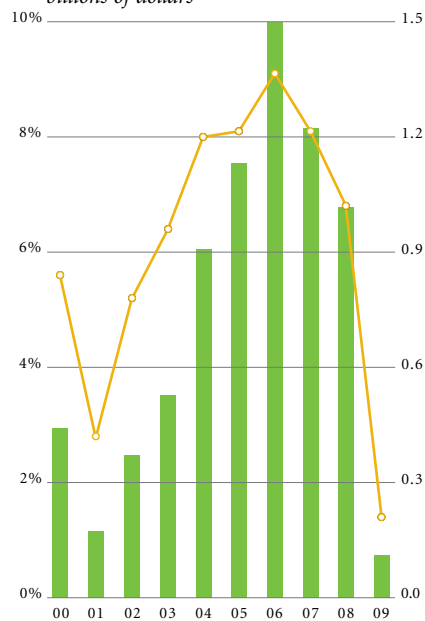
REVENUES

billions of dollars



NET INCOME

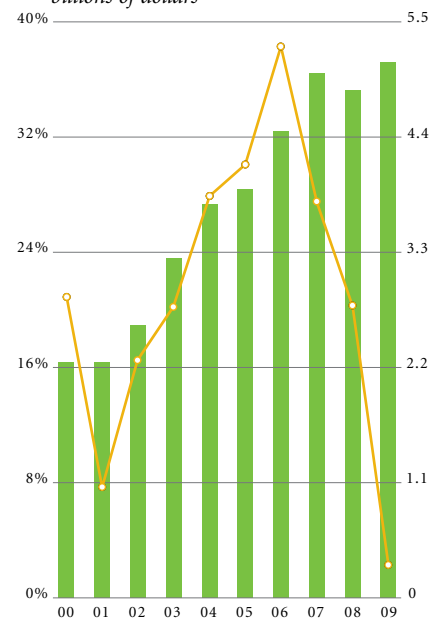
billions of dollars



—○— Return on Revenues (percent)

STOCKHOLDERS' EQUITY

billions of dollars



—○— Return on Equity (percent)

² PACCAR had a reasonably successful year in 2009, even as the worst recession in decades had a negative impact on the company's financial results. The company has earned an impressive 71 consecutive years of net income. This remarkable achievement was due to our 15,000 outstanding employees who delivered industry-leading product quality, innovation and outstanding operating efficiency. PACCAR benefited from its global diversification, superior financial strength and good results from aftermarket parts and financial services. PACCAR's \$327 million of capital investments and research and development in 2009 enhanced its manufacturing capability and new product introductions, such as PACCAR's MX engine for the North America market. PACCAR delivered 61,000 trucks to its customers and sold \$1.9 billion of aftermarket parts. PACCAR maintained its excellent S&P credit rating of AA- as a result of consistent profitability, a strong balance sheet and good cash flow. Looking ahead to 2010, underlying economic indicators, impacted by high unemployment, low auto production and weak home construction, will result in a challenging year for our industry. There may be some sales improvement due to aging of the truck fleet, modest economic growth and the positive impact of new engine emission regulations in the U.S. and Canada.

Net income of \$111.9 million on revenues of \$8.1 billion was a significant accomplishment in the very difficult economy. PACCAR declared regular dividends of \$.54 per share. Regular quarterly cash dividends have increased over 240% in the last 10 years. Shareholder equity increased to a record \$5.1 billion.

Industry Class 8 truck sales in North America, including Mexico, declined to 119,000 vehicles compared to 179,000 the prior year. This is the lowest truck market since 1991. Over 1,700 fleets went out of business due to lower freight volume and rates, reduced credit and the recession. The European heavy truck market in 2009 was 168,000 vehicles, compared to 330,000 in 2008, as

the recession caused the industry to abruptly decline in the fourth quarter of 2008. Many of our competitors are aggressively discounting their vehicles to survive in the challenging market.

PACCAR's financial performance in 2009 was constrained due to lower sales and margins even though the company proactively implemented comprehensive

cost reductions. After-tax return on beginning shareholder equity (ROE) was 2.3% in 2009, compared to 20.3% in 2008. The company's 2009 after-tax return on revenues was 1.4%. PACCAR's long-term financial performance, even in a turbulent, cyclical market, has enabled the company to distribute over \$3.6 billion in dividends during the last 10 years and increase shareholder equity to \$5.1 billion. PACCAR's average annual total shareholder return was 19.1% over the last decade, versus a negative 1.0% for the Standard & Poor's 500 Index. The fragility of global financial institutions provided a timely reminder of the merits and strength of PACCAR's conservative business approach, quality products and customer service focus.

INVESTING FOR THE FUTURE — PACCAR's excellent long-term profits, strong balance sheet, and intense focus on quality, technology and productivity enhancements have allowed the company to invest \$3.8 billion since 2000 in capital projects, new products and processes. Productivity and efficiency improvement of 5-7% annually and capacity improvements of over 100% in the last five years have enhanced the capability of the company's manufacturing and parts facilities. PACCAR is recognized as one of the leading applied technology companies in the industry, 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 \$128 million in 2009. One exciting multi-year initiative was completion of construction of PACCAR's engine plant in Mississippi. The installation of the machining and assembly lines is underway. Other major capital projects during the year included investments to meet the exacting 2010 EPA engine emission regulations, expansion of PACCAR Australia's manufacturing and parts distribution capacity, and installation of Technology Centers in our assembly facilities.

PACCAR continues to examine business opportunities in Asia, with its primary focus on China and India. PACCAR is increasing its component purchases and powertrain sales in China as a result of its Shanghai and Beijing offices. The PACCAR MX engine has been honored as best-in-class at the Shanghai Bus Show three years in a row.

SIX SIGMA — Six Sigma is integrated into all business activities at PACCAR and has been adopted at 190 of the company's suppliers and many of the company's dealers and customers. Its statistical methodology is critical in the development of new product designs, customer services and manufacturing processes. Since inception, Six Sigma has delivered over \$1.4 billion in cumulative savings in all facets of the company. Over 10,000 employees have been trained in Six Sigma and 12,000 projects have been implemented since its inception. Six Sigma, in conjunction with Supplier Quality, has been vital to improving logistics performance and component quality from company suppliers.

INFORMATION TECHNOLOGY — PACCAR's Information Technology Division (ITD) and its 639 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 enhance the quality and efficiency of all products and operations throughout the company. In 2009, ITD provided innovative advancements in new engine manufacturing software and infrastructure capacity upgrades. Over 20,000 dealers, customers, suppliers and employees have experienced the company's Technology Centers highlighting surface computing, tablet PCs, an electronic leasing and finance office, and an electronic service analyst.

TRUCKS — U.S. and Canadian Class 8 industry retail sales in 2009 were 108,000 units, and the Mexican market totaled 11,000. The European Union (EU) industry heavy truck sales were 168,000 units.

PACCAR's Class 8 retail sales in the U.S. and Canada achieved a market share of 25.1% in 2009 compared to 26.0% the prior year. DAF achieved a record 14.8% share in the 15+ tonne truck market in Europe. Industry Class 6 and 7 truck retail sales in the U.S. and Canada were 40,000 units, a 36% decrease from the previous year. In the EU, the 6- to 15-tonne market was 51,000 units, down 36% from 2008. PACCAR's North American and European market shares in the medium duty truck segment were very good, as the company delivered 12,900 medium duty trucks and tractors in 2009.

A tremendous team effort by the company's purchasing, materials, engineering and production employees contributed to improved product quality and

manufacturing efficiency during the recession. The teams performed admirably and exceeded customer expectations by delivering the highest-quality products and services in our history. The Peterbilt Nashville plant was permanently closed to align production capacity with market demand.

PACCAR's product quality continued to be recognized as the industry leader in 2009. Kenworth dominated customer satisfaction awards in the Class 8 markets. Peterbilt earned the medium duty customer satisfaction award and the DAF CF was the 2009 "Fleet Truck of the Year" in the U.K. for the ninth time.

Over 50% 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 achieved good results in reducing dealer new truck inventory and was a leader in the development of the PACCAR MX engine for North America.

Leyland Trucks is the United Kingdom's leading truck manufacturer. Leyland grew its innovative body-building program by expanding its specifications to include curtain-sided trailers and an additional range of tailgate options.

PACCAR Mexico (KENMEX) had a challenging year as the Mexican economy slowed and truck fleets were reduced. Its manufacturing facility continues to deliver improved efficiency and product quality.

PACCAR Australia achieved good results in 2009, as the country avoided the worst of the global recession. The introduction of new Kenworth models and expansion of the DAF product range in Australia combined for a 20.9% heavy duty market share in 2009.

PACCAR International (PACCINT) exports trucks and parts to over 100 countries and had a good year due to sales buoyed by global natural resource exploration. PACCINT expanded its product range in South America by launching the full range of DAF vehicles for on-highway customers.

AFTERMARKET CUSTOMER SERVICES — PACCAR Parts had a good year in 2009, even though dealers and customers reduced inventory and delayed vehicle maintenance. With sales of \$1.9 billion, PACCAR Parts is the primary source for aftermarket parts for PACCAR products, and supplies parts for other truck brands to

PACCAR's dealers around the world. In the industry, there are over six million heavy duty trucks operating in North America and Europe, and the average age of North American vehicles is estimated to be over six years. The large vehicle parc creates the opportunity for excellent demand for parts and service and moderates the cyclical nature of truck sales.

PACCAR Parts expanded 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. PACCAR Parts enhanced its Connect program, a software solution for customer fleet-maintenance management and expanded national parts pricing and invoicing.

FINANCIAL SERVICES — PACCAR Financial Services' (PFS) conservative business approach, coupled with PACCAR's superb S&P credit rating of AA- and the strength of the dealer network, enabled PFS to earn good results in 2009 despite turbulent worldwide financial markets. The PACCAR Financial Services group of companies has operations covering three continents and 20 countries. The global breadth of PFS and its rigorous credit application process supported a portfolio of 143,000 trucks and trailers, with total assets of \$8.4 billion that earned a pretax profit of \$85 million. PACCAR Financial Corp. (PFC) is the preferred funding source in North America for Peterbilt and Kenworth trucks, financing 23% of dealer Class 8 sales in the U.S. and Canada in 2009.

The unsettled financial markets and resulting "credit crunch" presented a daily challenge that increased funding costs for our customers and prompted a contraction in our finance companies' assets. Special praise is merited for PACCAR's treasury and finance teams who diligently, creatively and positively managed the company through a very challenging market in 2009. PACCAR issued \$1.3 billion in medium-term notes at attractive rates during the year.

PACCAR Financial Europe (PFE) completed its eighth year of operation, focusing on the financing of new and used DAF trucks. PFE provides wholesale and retail financing for DAF dealers and customers in 16 European countries and financed 16% of DAF's vehicle sales in 2009.

PACCAR Leasing (PacLease) had a good year and placed 3,800 new PACCAR vehicles in service in 2009.

The North American lease market was lower, and PacLease Europe suffered due to the recession in the German truck market. The PacLease fleet is over 30,000 vehicles. Twenty percent of the North American Class 6-8 customers select full-service leasing to satisfy their equipment needs. PacLease continued to increase its market presence in 2009, growing its global network to over 400 locations, and represents one of the largest full-service truck rental and leasing operations in North America.

ENVIRONMENTAL LEADERSHIP — PACCAR is a global environmental leader. A significant accomplishment during the year was earning ISO 14001 environmental certification at all PACCAR manufacturing facilities in Europe and North America. PACCAR introduced medium duty diesel-electric hybrid vehicles, which can achieve up to a 30% fuel economy improvement. Many of the company’s manufacturing facilities achieved “Zero Waste to Landfill” status during the year. PACCAR employees are environmentally conscious and utilize van pools, car pools and bus passes for 30% of their business commuting.

A LOOK AHEAD — PACCAR’s 15,000 employees enabled the company to distinguish itself as a global leader in the technology, capital goods, financial services and aftermarket parts businesses. Superior product quality, technological innovation and balanced global diversification are three key operating characteristics that define PACCAR’s business philosophy.

The ongoing recession will continue to have a negative impact on the North American and European truck markets in 2010. Current estimates for Class 8 trucks in North America indicate that yearly industry sales could be similar to 2001, and range from 125,000-150,000 units. This is one of the lowest sales levels in the last 10 years. Sales for Class 6-7 trucks are expected to be between 35,000-45,000 vehicles. The European heavy duty truck market, which had a weak year in 2009, could decline again as European government stimulus programs wane. It is estimated that the 15+ tonne market for 2010 will be in the range of 150,000-180,000 trucks, while demand for medium trucks should range from 45,000-55,000 units.

PACCAR had a reasonably successful year in 2009, with several operating divisions achieving good results, though some divisions recorded losses. The outlook for

2010 appears mixed as the economy generates limited growth in North America, and perhaps no growth in Europe. There will continue to be challenges until major economic indicators significantly improve, which will prompt increased freight tonnage and renewed truck demand. The company has taken proactive steps to adjust production rates as well as structurally reduce costs throughout the organization. PACCAR is well positioned and committed to maintaining the profitable results its shareholders expect, by delivering industry-leading products and services globally.

PACCAR and its employees are proud of the remarkable achievement of 71 consecutive years of net profit. PACCAR plans for the long term, and our shareholders have benefited from that approach. The embedded principles of integrity, quality and consistency of purpose continue to define the course in PACCAR’s operations. The proven business strategy — deliver technologically advanced premium products and an extensive array of tailored aftermarket customer services — enables PACCAR to pragmatically approach growth opportunities with a long-term focus. 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 20, 2010



PACCAR Executive Committee
Seated Left to Right: Tom Plimpton, Mark Pigott, Jim Cardillo, Dan Sobic; Standing Left to Right: Ron Armstrong, Michael Barkley, Aad Goudriaan, Bob Christensen, Dave Anderson, Kyle Quinn



DAF

CF

DAF Trucks N.V. strengthened its position as one of Europe's leading commercial vehicle manufacturers in 2009, increasing its market share in the over-15-tonne segment to a record 14.8% and reinforcing its industry quality leadership.

In the highly competitive European truck market DAF garnered several awards in 2009 that reinforce its industry-leading reputation for product quality, innovation and customer satisfaction. DAF's flagship XF105 was voted "Best Truck Ever" by the leading British trade magazine *Truck and Driver*. The CF85 was awarded "Fleet Truck of the Year" for the second consecutive year at the Motor Transport Awards in London — the ninth time that the DAF CF has won this accolade.

DAF also earned "Best Engine Producer of the Year 2009" honors at Bus World Asia in Shanghai as a result of the reliability, durability and performance of the PACCAR 9.2- and 12.9-liter engines. This is the third consecutive year PACCAR engines have received this honor.

The light-duty LF series with its modern and spacious cab, low unladen weight and tight turning radius is the perfect choice for intra-city distribution applications. Driver comfort is enhanced through the ease of cab entry and exit and the road-handling performance of a passenger car. The 2009 LF Series features a new interior that ensures a premium level of driver comfort while powertrain enhancements improve operating efficiencies.



DAF Telematics — the state-of-the-art data communication system that enables operators to further optimize fuel management and business processes — became available in ten more European countries, allowing long-distance haulers to improve performance along their entire route.

The "DAF Experience 2009" enabled thousands of visitors to tour DAF's modern production facilities and new engine test center. Visitors experienced the PACCAR Technology Center, which is an interactive showplace highlighting modern production technologies and DAF's range of premium trucks and services, including PACCAR Financial and PACCAR Parts.

The PACCAR Production System (PPS) integration enhanced DAF's manufacturing efficiency and product quality. The 50-PPM (Parts Per Million) Initiative introduced in all PACCAR manufacturing plants set a new standard for supplier operational excellence. DAF was the first manufacturer to offer Enhanced Environmentally friendly Vehicles (EEV) in its entire product range. In 2009, DAF became the first company that Lloyd's Register verified and officially qualified as "Zero Waste to Landfill." The DAF engine design team was instrumental in the 2010 launch of the PACCAR MX engine in North America.

DAF's CF series has won "Fleet Truck of the Year" honors an unprecedented nine times. The CF has proven its value in a myriad of applications, offering customers superior product quality, ergonomics, comfort and operating efficiency.



Peterbilt earned the highest ranking in the J.D. Power and Associates 2009 Medium Duty Truck Customer Satisfaction StudySM in the Conventional Medium Duty Truck segment* due to its superior product quality and outstanding customer support.

Peterbilt celebrated its 70th anniversary in 2009, building on the heritage of “Class Pays” by introducing new products focused on low cost of ownership, increased performance and environmental responsibility.

Peterbilt Models 386 and 384 were updated to include contemporary new interiors and industry-leading aerodynamics for more efficient operation and exceptional customer value. The Model 384 joined the Model 386 and 387 as EPA SmartWaySM certified vehicles, offering 10-20% fuel savings and 8% lower greenhouse gas emissions.

Peterbilt’s conventional Models 389 and 388 were offered with a Fuel Efficiency Package that reduces vehicle drag by up to 24%, delivering a customer benefit of \$5,600 in average annual fuel savings.

Peterbilt set a retail market share record by capturing 7.3% of the medium duty market in the U.S. and Canada. Peterbilt introduced new medium duty Models 337 and 348 to serve an expanded range of customers in the Class 6-7 market. The medium duty product range introduced a new interior and dash design that incorporates convenient, easy-to-read LED-backlit gauges; ergonomically designed operating controls; and a

Peterbilt GPS Navigation System that incorporates a five-inch touch screen and an MP3 audio player. All Peterbilt medium duty vehicles are equipped exclusively with the fuel-efficient PACCAR PX engine.

Peterbilt expanded its range of alternative fuel vehicles in 2009. The new Class 7 Model 337 diesel-electric hybrid tractor provides customers in the beverage, produce and short haul distribution markets with up to 30% improved fuel economy. Peterbilt’s low-cab-forward Model 320 Hydraulic Hybrid, designed for vocational urban applications such as refuse collection, utilizes Hydraulic Launch Assist (HLA) technology to achieve up to 20% fuel savings and reduced annual maintenance costs. Peterbilt launched new Models 384 and 365, which are powered by compressed or liquefied natural gas. Peterbilt’s natural gas powered vehicles reduce emissions by 12% and have established the standard for industry quality, durability, productivity and environmental responsibility.

Peterbilt opened its state-of-the-art PACCAR Technology Center in its Denton, Texas, manufacturing facility this year. Over 5,000 visitors toured the Technology Center to view Peterbilt vehicles, customer services and innovative technologies. The exhibit includes PACCAR Winch, PACCAR International, ITD, PacLease, PACCAR Parts, Dynacraft and PACCAR Financial.

The Peterbilt dealer network expanded to a record 249 locations throughout the U.S. and Canada.



The Model 386 successfully merges iconic Peterbilt styling with outstanding aerodynamic performance. It has been recognized as fuel efficient and environmentally friendly by the EPA's SmartWay program. The introduction of the PACCAR MX engine in Peterbilt vehicles in summer 2010 will enhance Peterbilt's industry-leading performance.

* Peterbilt received the highest numerical score among conventional medium duty trucks in the proprietary J.D. Power and Associates 2009 Medium Duty Truck Customer Satisfaction StudySM. Study based on 1,613 total responses measuring 9 manufacturers. Survey was of principal maintainers and owner operators and measures opinions of primary maintainers of two-year-old (by model year) medium duty (Class 5, 6 and 7) trucks. Proprietary study results are based on experiences and perceptions of consumers surveyed in June-July 2009. www.jdpower.com



Kenworth achieved the highest ranking in the J.D. Power and Associates 2009 Heavy Duty Truck Customer Satisfaction StudySM among Class 8 truck owners in the Over the Road and Pickup and Delivery segments and in Dealer Service.*

Kenworth, “The World’s Best[®],” has earned the J.D. Power customer satisfaction Over the Road award for five consecutive years and captured an industry-leading 16 customer satisfaction awards since 2003.

Kenworth Chillicothe celebrated its 35th anniversary in 2009. One of the most technologically advanced truck plants in the industry, the Chillicothe facility has produced more than 330,000 Kenworth trucks since it opened in 1974. Kenworth Chillicothe enhanced its robotic paint line in 2009. Kenworth Renton installed a modified production line to build off-highway vehicles to improve efficiency and quality.

Kenworth became the first truck manufacturer to be honored with the prestigious Clean Air Excellence award presented by the U.S. Environmental Protection Agency (EPA). Kenworth was recognized for its diesel-electric hybrids that offer up to 30% better fuel economy; its T800 trucks powered by liquefied natural gas (LNG) that help reduce greenhouse gas emissions by 20%; and its Clean Power option that improves fleet fuel efficiency by 8%.

Kenworth expanded its product range with the launch of two exceptionally versatile models in new market segments. The T440, powered by the PACCAR PX-8 engine, offers excellent productivity and fuel efficiency to regional delivery and vocational customers. The T470 delivers Kenworth durability and performance to snowplow, winch and other municipal work truck applications. In addition, Kenworth introduced new features to enhance driver comfort and productivity. A 38-inch AeroCab[®] sleeper was added for the off-highway Kenworth C500, and an in-cab workstation, already popular in medium duty products, is now available for Class 8 models.

Kenworth achieved record medium duty retail market share in 2009 of 8.0% due to the superior quality, ease of handling and reliability of the Class 6 KW T270 and Class 7 KW T370 models.

Kenworth manufacturing facilities in Chillicothe, Ohio, and Renton, Washington, unveiled new PACCAR Technology Centers, which provide visitors with hands-on displays featuring Kenworth trucks, support services and technology. These interactive exhibits present PACCAR engines, technology demonstrations and information on PACCAR Financial, PacLease, PACCAR Parts, PACCAR Winch and Dynacraft.

Kenworth dealers increased the number of service locations to 302 in the U.S. and Canada.



The T660 AeroCab AERODYNE is Kenworth’s most aerodynamic model, unsurpassed for fuel-squeezing economy and long-haul luxury. The introduction of the PACCAR MX engine in Kenworth vehicles in summer 2010 will enhance Kenworth’s industry-leading performance.

* Kenworth received the highest numerical score among pickup & delivery and over-the-road Class 8 trucks and heavy duty truck dealer service among heavy duty truck manufacturers in the proprietary J.D. Power and Associates 2009 Heavy Duty Truck Customer Satisfaction StudySM. Study based on 2,492 total responses measuring 4 (over-the-road), 5 (pickup & delivery) and 8 (dealer service) manufacturers and measures opinions of principal maintainers. Proprietary study results are based on experiences and perceptions of consumers surveyed in February-March 2009. www.jdpower.com

PACCAR Australia dominated the heavy duty truck market in 2009 as Kenworth remained the most revered nameplate on the continent — a reflection of the brand’s unmatched reputation for custom-built quality and superior reliability.

Kenworth is the leading producer of commercial vehicles in Australia. Kenworth captured 46% of the high-horsepower segment in 2009. PACCAR Australia expanded its Class 8 product range with the introduction of the Kenworth T402. The T402 delivers industry-leading productivity, comfort and fuel efficiency for distribution in single-trailer, vocational B-double and rigid applications.

PACCAR Australia reinforced PACCAR’s global environmental leadership by delivering the country’s first liquefied natural gas (LNG) cab over model. The Kenworth LNG K108 hauls 150,000 pounds and reduces greenhouse emissions by over 20%.

PACCAR Australia extended its Bayswater manufacturing site by 69,500 square feet with the purchase of an adjoining property. The acquisition provides additional office, parts warehouse and factory capacity. The increased capacity enables PACCAR Australia to support the record number of Kenworth vehicles on the road in Australia and meet truck demand from the growing natural resource industry.



Kenworth vehicles define heavy duty trucking in Australia, delivering custom-built quality and superior reliability. PACCAR Australia’s T608 offers class-leading aerodynamics and enhanced fuel efficiency while hauling 100,000-pound road-train loads.

PACCAR Mexico (KENMEX) celebrated 50 years of leadership in the Mexican transportation industry in 2009, capturing 36% of the Class 8 market and achieving a record Class 7 medium duty market share of 30%.

KENMEX has manufactured over 169,000 vehicles since 1959 in its 590,000-square-foot production facility in Mexicali, Baja California. In Mexico, 85% of all goods are transported by road, and for half a century Kenworth has earned its legendary reputation for product quality, reliability, innovation and customer support.

This year, KENMEX expanded its product range by introducing the new Kenworth T460 designed specifically for Mexico's vocational applications and became the first manufacturer to offer diesel-electric hybrid commercial vehicles in Mexico. The Kenworth medium duty hybrid models T270 and T370 achieve fuel efficiency gains of up to 30% in metropolitan markets.

KENMEX has 121 dealer locations that offer the most extensive parts and service network in the country. Kenworth earned every customer service excellence award for commercial vehicles presented by the National Association of Automotive Distributors (NAAD) in 2009.



The new Kenworth T460 has been developed with a robust powertrain and contemporary styling for the vocational markets in Mexico, Central and South America.

Leyland, the United Kingdom's leading truck manufacturer, celebrated its eleventh anniversary as a PACCAR company. Leyland delivered 8,100 vehicles to customers in Europe, Australia, Africa and North America.

Leyland's highly efficient 710,000-square-foot manufacturing facility incorporates an innovative robotic chassis paint facility, an in-house body design and a state-of-the-art production system that builds the entire DAF product range — LF, CF and XF — for right- and left-hand drive markets.

Leyland introduced the Euro 5 DAF truck range during 2009, incorporating lower emissions with improved fuel economy, enhanced braking systems and advanced software diagnostics. The plant expanded its body building program to offer more customer-specific options, resulting in higher market share and improved profitability.

Unveiled in 2009, Leyland's Product and Technology Center showcases PACCAR products, technologies and services in an interactive environment designed to increase customer awareness of the company's quality leadership.

Leyland was honored during the year by earning the *Manufacturing Excellence (MX) Award* presented by the Institute of Mechanical Engineers. Leyland also earned the prestigious *Queen's Award for Enterprise: International Trade 2009*.



Leyland enhanced delivery schedules for customers of DAF vehicles by offering factory-installed high-quality van bodies. Leyland expanded the innovative program to incorporate more specialized, application-specific options that will launch the vans into more market segments.

PACCAR International distributes DAF, Peterbilt and Kenworth trucks and parts to customers in over 100 countries. PACCAR vehicles are recognized globally for their premium quality, world-class performance and outstanding customer support.

PACCINT sales in Latin America were strong due to demand for municipal, construction, dump and refuse trucks. Higher commodity prices contributed to sales of the Kenworth 963 and K500 models used in oilfield exploration, mining and servicing sectors. Both models feature new modern cabs on severe service chassis, which provide excellent driver comfort and superb mobility over rough terrain.

In Asia, PACCAR MX engines have established an excellent reputation among luxury coach producers — an important and substantial market. PACCAR was awarded the “Best Engine Producer of the Year” at the Bus World Asia exhibition for the third consecutive year, in recognition of the PACCAR MX engine’s industry-leading reliability, durability and fuel efficiency.

PACCINT expanded its global distribution network in 2009 with 15 new service locations in Russia, the Middle East and Southeast Asia.



PACCAR International utilizes its extensive knowledge of overseas markets and PACCAR’s unrivaled engineering and manufacturing resources to deliver superior quality transportation solutions globally. The award-winning DAF XF is popular in many markets worldwide.

PACCAR Parts achieved record market share in 2009, delivering 1.2 million parts shipments worldwide to over 1,900 Kenworth, Peterbilt and DAF dealer locations.

PACCAR Parts successfully launched the TRP brand in North America. TRP consolidates seven brands under a single aftermarket brand focused on servicing the needs of commercial vehicles. Customers are rewarded with high quality, cost-effective choices for everyday repair and maintenance parts.

There are 300,000 registered PACCAR customers enjoying the advantages of monthly parts and service programs by using loyalty cards in North America, Europe and Australia. The Peterbilt Preferred, Kenworth Privileges and DAF “MAX” loyalty cards celebrated their one millionth customer redemption in 2009. Loyalty card retail sales tripled in 2009 versus 2008.

PACCAR Parts launched an enhanced fleet service program in 2009 that provides guaranteed national pricing, customized reporting and centralized billing for fleet customers through Kenworth PremierCare and Peterbilt TruckCare services.

The PACCAR Call Center (PCC) in North America celebrated ten years of roadside service — enabling professional drivers to return to operation quickly and reliably. PCC offers 24/7 roadside support throughout North America and Europe, managing 1.6 million calls annually.



PACCAR Parts' global operations employ state-of-the-art technologies — wireless voice recognition, integrated logistic systems and tablet PCs — and cutting-edge dealer inventory management tools to support aftermarket customers.

PACCAR Winch, the premier full-line producer of industrial winches globally, increased sales into new overseas markets and enhanced its innovative customer support.

PACCAR Braden recovery winches, hoists and drives, Gearmatic planetary winches, and Carco tractor winches are recognized for superior engineering and dependable performance in rugged applications and harsh environments — from freezing North Sea oil platforms to the logging forests of Southeast Asia.

PACCAR Winch introduced the Magnum line, a robust and efficient winch for oilfield applications. A new 35,000 pound winch, the HP35, offers oilfield customers a 30% savings in preventative maintenance costs with an innovative design that allows improved access for periodic component reviews.

PACCAR Winch also launched the new GH30 winch for demanding logging applications. This proprietary 30,000-pound winch delivers superior performance in both line pull and speed — improving log retrieval time by 50%.

The PACCAR Winch manufacturing facilities in Broken Arrow and Okmulgee, Oklahoma, achieved an impressive environmental goal of “Zero Waste to Landfill.” The company saved 20% of total plant energy consumption by strategic environmental initiatives.



PACCAR Winch Division's Braden, Carco and Gearmatic nameplates — recognized for superior design and reliability even under the toughest operating conditions — pace the market in a broad range of key industries throughout the world.

PACCAR Financial Services (PFS) companies, which support the sale of PACCAR trucks worldwide, achieved good results in 2009, reporting pre-tax profits of \$85 million. The PFS portfolio is comprised of 143,000 trucks and trailers, with total assets of \$8.4 billion.

PACCAR's excellent balance sheet, complemented by its reaffirmed AA- credit rating, enabled PACCAR to issue \$1.3 billion in two-, three- and five-year notes in the public debt markets during 2009. Ongoing access to the capital markets at excellent rates enables PFS to profitably support the sale of PACCAR vehicles in 20 countries on three continents. PFS strengthened its market leadership in 2009, achieving retail market share of 26%, while the global recession caused many lenders to exit the transportation finance business.

PACCAR Financial Europe (PFE) has \$2.4 billion in assets and is the leading financial services provider to DAF dealers and customers in 16 Western and Central European countries. PFE and DAF developed innovative sales programs to reduce dealer new truck inventories by 50% and strengthen dealers' balance sheets in 2009.

PFS utilized its dedicated used truck sales facilities in Europe and North America — including its recently opened used truck center in South Carolina — to remarket a record 12,000 pre-owned PACCAR trucks.



PACCAR Leasing achieved a record 404 full-service lease locations and increased market share in 2009 — delivering more than 3,800 new Kenworth, Peterbilt and DAF trucks to its network. The PacLease fleet totals over 30,000 vehicles.

PacLease offers only premium-quality PACCAR vehicles, which are valued for their reliability, superior fuel efficiency and residual values that are 15-25% higher than competitive models. PacLease was the first full-service leasing company to offer diesel-electric hybrid vehicles to its customers.

PacLease Sales Suite 2.0 was launched in 2009. This sophisticated electronic software streamlines the generation of customer purchase and leasing documents. It is 10 times faster than the previous tool and enables real-time communication between the dealership, customer and PacLease sales team to enhance sales and support.

PacLease established itself as a leading truck rental and leasing company in Germany through an acquisition in 2007. PacLease Europe has a fleet of over 3,600 units, and its expanding presence in the full-service lease segment helped DAF achieve a record share of the German truck market in 2009.



One of the most innovative truck leasing networks in the industry, PacLease added a record number of outlets in 2009 and increased its share of the medium duty market. PacLease expanded its fleet of premium-quality Class 6-7 trucks with vehicles such as this popular Peterbilt Model 335.

PACCAR's Technical Centers utilize world-class testing facilities and advanced simulation technologies to accelerate product development and ensure that PACCAR continues to deliver the highest-quality products in the industry.

PACCAR's world-class Technical Centers in Europe and North America are equipped with state-of-the-art product test and validation capabilities and staffed with technical experts in powertrain and vehicle development. Sophisticated computer simulations and advanced analysis of engine and vehicle control systems are used to optimize vehicle efficiency while meeting strict emission regulations. Vehicle laboratories utilize sophisticated hydraulic digital technology, coupled with PACCAR proprietary road simulators to replicate truck durability testing equivalent to one million miles, in months rather than years.

In 2009, the North American Technical Center completed validation of the PACCAR MX engine's compliance with 2010 EPA emissions regulations. The engine test cells complement chassis development by evaluating engine cooling, electrical systems and exhaust after-treatment. This interactive approach reduces development time and ensures optimal performance of Kenworth, Peterbilt and DAF vehicles.



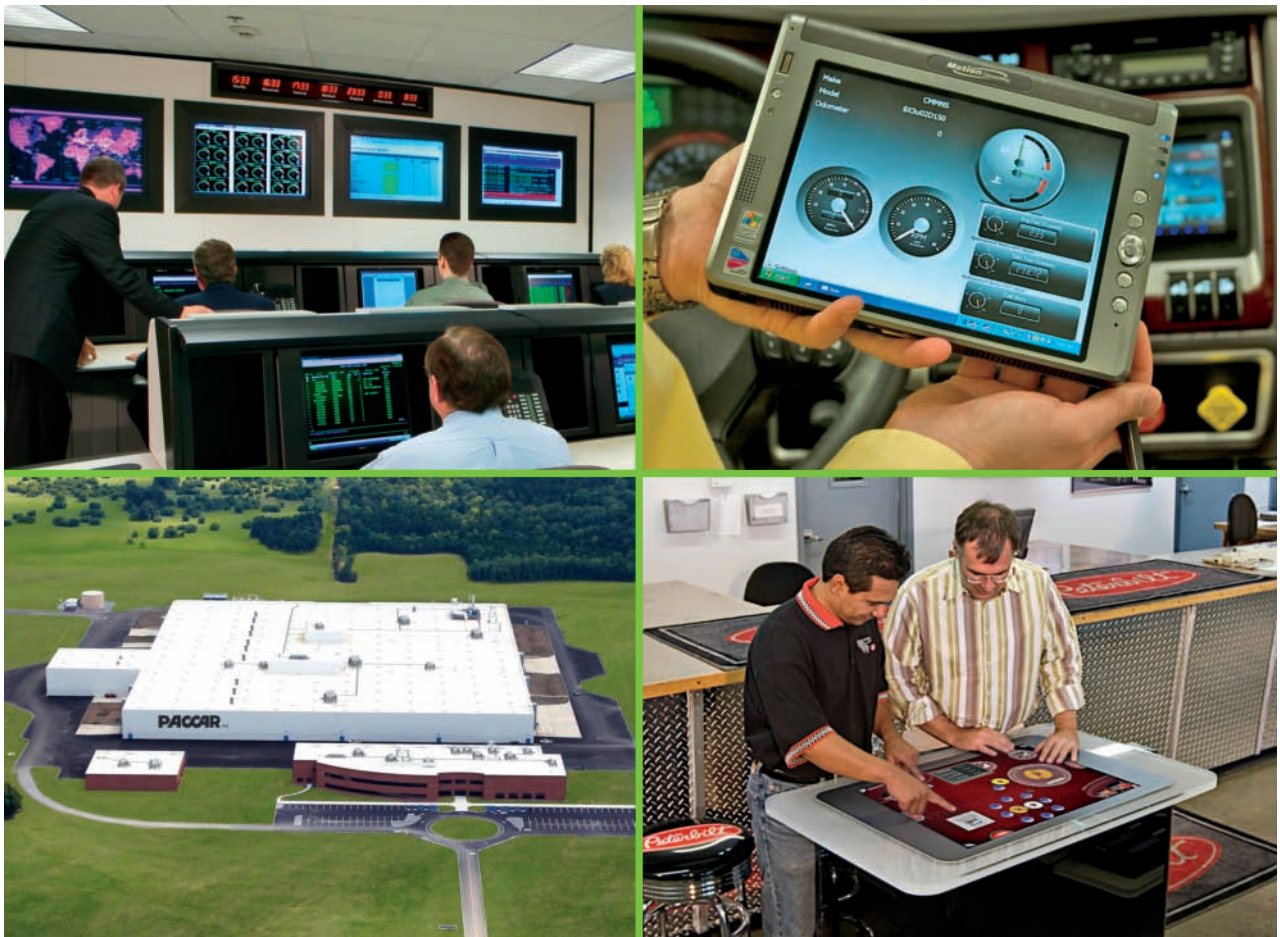
PACCAR's Technical Centers in Europe and North America accelerate product development cycles through the application of highly advanced engineering analysis, simulation and rapid prototyping technologies.

PACCAR’s Information Technology Division (ITD) is an industry leader in the innovative application of software and hardware technologies. ITD enhances the quality of all PACCAR operations and electronically integrates dealers, suppliers and customers.

For the sixth consecutive year, ITD was recognized by the prestigious *Information Week* magazine as a leading innovator of cost-effective information technologies. PACCAR was recognized for integrating order processing and dealer business systems to double the speed of electronic transactions for sales and production.

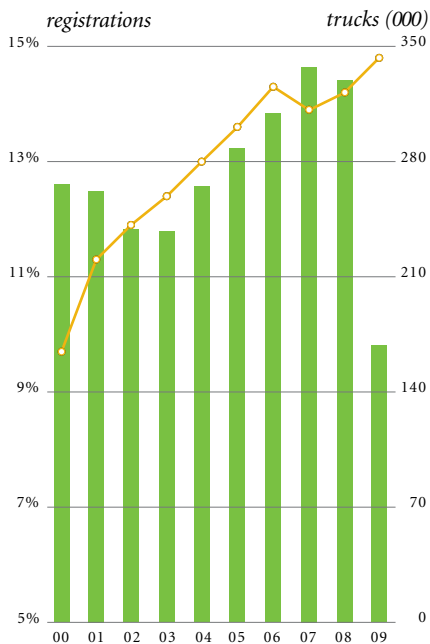
ITD’s 639 employees collaborate with PACCAR divisions to use technology to enhance manufacturing, financial services and engineering design. This year ITD partnered with the PACCAR Engine Company to design and implement the operating framework for the logistics and manufacturing automation utilized in PACCAR’s Columbus, Mississippi, engine facility.

ITD, Kenworth and Peterbilt developed and introduced the Electronic Service Analyst (ESA 3.0) for vehicle performance evaluation and remote service analysis. New features include Bluetooth wireless communication, vehicle parametric programming and diagnostic monitoring.



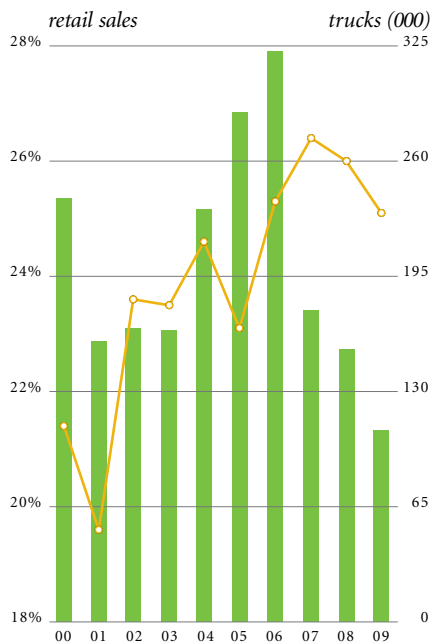
One of the most innovative information technology organizations in the world, PACCAR ITD partners with leading-edge hardware and software companies to enhance PACCAR’s competitiveness, manufacturing efficiency, product quality, customer service and profitability.

WESTERN AND CENTRAL EUROPE
>15T MARKET SHARE



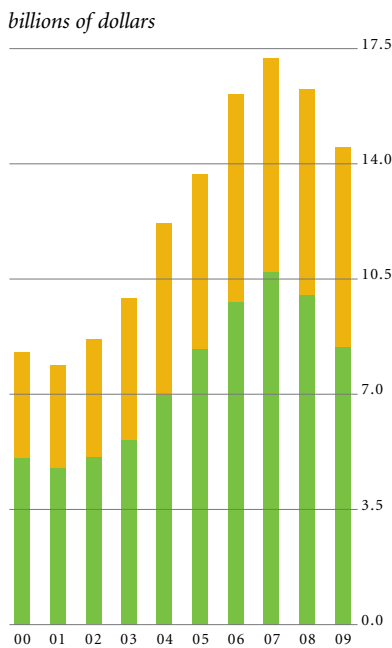
■ Total Western and Central Europe >15T Units
 ○ PACCAR Market Share (percent)

U.S. AND CANADA CLASS 8 TRUCK MARKET SHARE



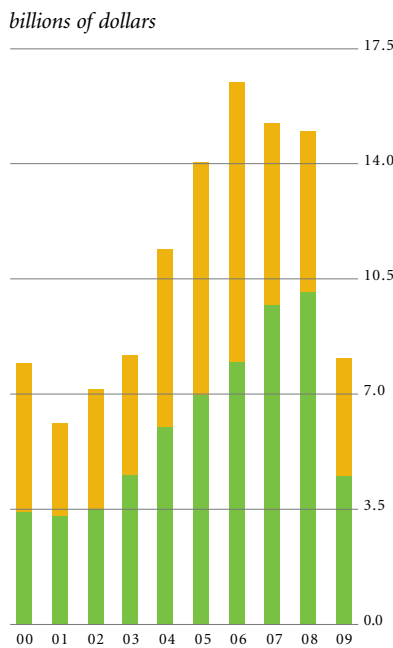
■ Total U.S. and Canada Class 8 Units
 ○ PACCAR Market Share (percent)

TOTAL ASSETS



■ Truck and Other
 ■ Financial Services

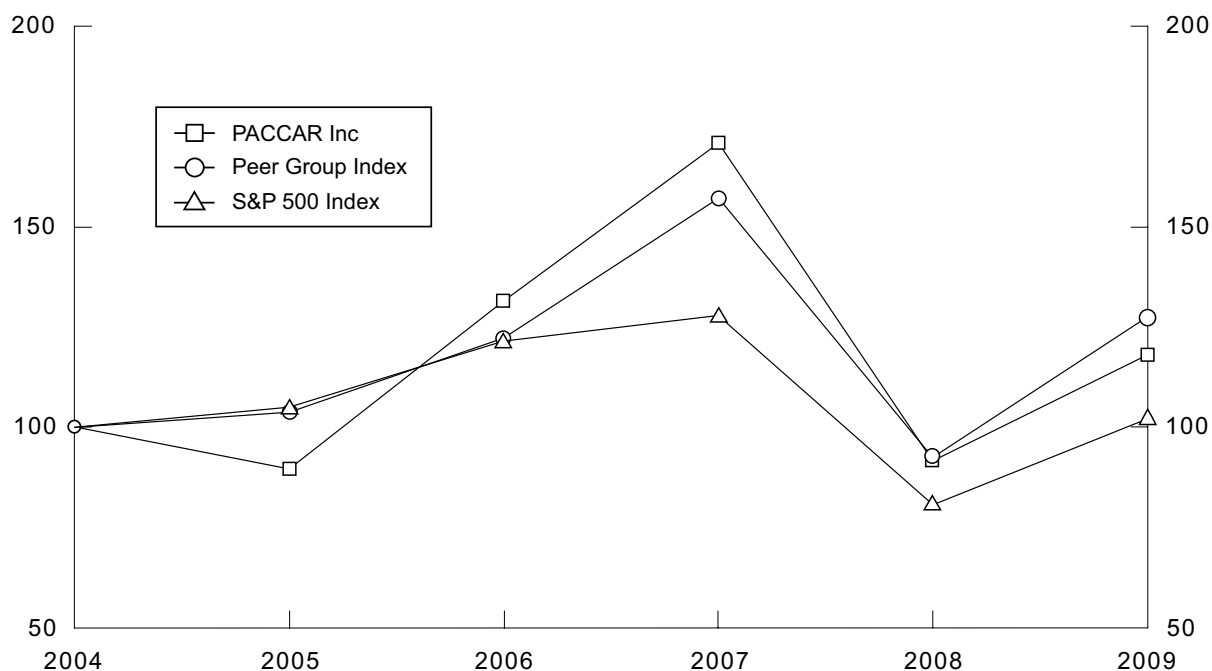
GEOGRAPHIC REVENUE



■ United States
 ■ Rest of World

STOCKHOLDER RETURN PERFORMANCE GRAPH

The following line graph compares the yearly percentage change in the cumulative total stockholder return on the Company's common stock, to the cumulative total return of the Standard & Poor's Composite 500 Stock Index and the return of the industry peer group of companies identified in the graph (the Peer Group Index) for the last five fiscal years ending December 31, 2009. 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 indices provides a better comparison than other indices available. The Peer Group Index consists of Caterpillar Inc., Cummins Inc., Danaher Corporation, Deere & Company, Dover Corporation, Eaton Corporation, Harley-Davidson, Inc., Honeywell International Inc., Illinois Tool Works Inc., Ingersoll-Rand Company Ltd. and United Technologies Corporation. The comparison assumes that \$100 was invested on December 31, 2004 in the Company's common stock and in the stated indices and assumes reinvestment of dividends.



	2004	2005	2006	2007	2008	2009
PACCAR Inc	100	89.58	131.71	170.96	91.71	118.42
S&P 500 Index	100	104.91	121.48	128.16	80.74	102.11
Peer Group Index	100	103.87	122.43	156.99	92.51	127.43

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

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

24

RESULTS OF OPERATIONS:

	2009	2008	2007
Net sales and revenues:			
Truck and Other	\$ 7,076.7	\$ 13,709.6	\$ 14,030.4
Financial Services	1,009.8	1,262.9	1,191.3
	\$ 8,086.5	\$ 14,972.5	\$ 15,221.7
Income before taxes:			
Truck and Other	\$ 68.1	\$ 1,162.5	\$ 1,384.8
Financial Services	84.6	216.9	284.1
Investment income	22.3	84.6	95.4
Income taxes	(63.1)	(446.1)	(537.0)
Net Income	\$ 111.9	\$ 1,017.9	\$ 1,227.3
Diluted Earnings Per Share	\$.31	\$ 2.78	\$ 3.29

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.

2009 Compared to 2008:

Consolidated net sales and revenues were \$8.09 billion in 2009, compared to \$14.97 billion in 2008, reflecting the recessionary conditions that dampened demand for the Company's products throughout the world.

PACCAR achieved net income for the 71st consecutive year in 2009 under very difficult business conditions. Net income was \$111.9 million (\$.31 per diluted share) in 2009 compared to \$1.02 billion (\$2.78 per diluted share) in 2008. Net income included \$41.5 million (\$.11 per diluted share) of curtailment gains related to postretirement health care plans (\$66.0 million, pretax) and \$11.4 million (\$.03 per diluted share) of income tax expense from the retroactive effects of a new income tax law in Mexico.

Net sales and revenues in the Truck and Other businesses of \$7.08 billion in 2009 were 48% lower than the \$13.71 billion in 2008. The decrease in sales and revenues for 2009 resulted from lower truck unit and parts sales in all markets due to lower overall market demand.

Cost of sales and revenues in the Truck and Other businesses were \$6.48 billion in 2009 compared to \$11.74 billion in 2008. Cost of sales and revenues declined primarily due to the decrease in worldwide truck deliveries. Cost of sales included employee severance costs of \$19.2 million in 2009 compared to severance costs of \$13.1 million in 2008.

Research and development expenditures declined to \$199.2 million in 2009 from \$341.8 million in 2008 primarily due to lower spending on engine development and reduced spending for new vehicle development.

Selling, general and administrative (SG&A) expense for Truck and Other declined to \$348.4 million in 2009 compared to \$470.2 million in 2008. The lower spending was a result of focused efforts to reduce costs in response to the global economic recession and consisted primarily of reduced staffing, sales and marketing, and travel costs. Foreign currency translation effects reduced SG&A by \$10.8 million. Severance costs included in SG&A were \$6.4 million in 2009 compared to \$3.4 million in 2008. As a percentage of sales, SG&A increased to 4.9% in 2009 from 3.4% in 2008 due to lower sales volumes.

Interest and other expense, net in 2009 of \$43.6 million includes \$22.2 million of expense for changes in fair values of economic hedges and \$14.2 million of expense for foreign currency translation adjustments primarily in Mexico and Canada.

Financial Services revenues decreased to \$1.01 billion in 2009 from \$1.26 billion in 2008. The decreased revenues in 2009 resulted from lower earning asset balances in all markets and lower yields in North America and Europe. Financial Services income before income taxes was \$84.6 million in 2009 compared to \$216.9 million in 2008. The decrease of \$132.3 million was primarily due to lower finance margin from the reduced finance receivables and net operating lease income partially offset by a decline in SG&A expense.

Investment income declined to \$22.3 million in 2009 compared to \$84.6 million in 2008 primarily due to lower market interest rates.

The 2009 effective income tax rate was 36.1% compared to 30.5% in 2008. The higher rate in 2009 was primarily due to the tax law change in Mexico. Excluding the retroactive effect of the Mexican tax law change the effective tax rate was 29.5%.

The Company's return on revenues was 1.4% in 2009 and 6.8% in 2008.

2008 Compared to 2007:

Consolidated net sales and revenues were \$14.97 billion in 2008 compared to \$15.22 billion in 2007, reflecting strong but slowing demand for the Company's high quality trucks in Europe. The U.S. and Canada truck markets were lower but there was continued solid aftermarket parts and financial services revenues.

PACCAR achieved net income of \$1.02 billion (\$2.78 per diluted share) in 2008 compared to \$1.23 billion (\$3.29 per diluted share) in 2007, the fourth best result in the Company's 103 year history. Net sales and revenues in the Truck and Other businesses of \$13.71 billion were slightly lower than the \$14.03 billion in 2007 as an increase in European truck sales was more than offset by decreased truck sales in North America and Australia.

Cost of sales and revenues in the Truck and Other businesses were \$11.74 billion in 2008, down 1.5% compared to \$11.92 billion in 2007. Cost of sales and revenues declined primarily due to 6% lower truck deliveries partially offset by the weaker U.S. dollar vs. the euro and higher material costs related to higher crude oil, copper, steel and other commodities.

Research and development expenditures were \$341.8 million in 2008, an increase of 34% from \$255.5 million in 2007 due to spending in preparation for EPA engine emission requirements in the U.S. in 2010, expenses related to the introduction of the Company's proprietary 12.9 liter engine in North America and increased spending on vehicle updates in the U.S. and Europe.

SG&A expense for Truck and Other declined to \$470.2 million in 2008 compared to \$491.4 million in 2007. This was due to \$35.5 million of reductions in worldwide spending partially offset by \$14.3 million of foreign currency translation effects, primarily the euro. The spending reductions resulted from staffing reductions, lower sales and marketing costs and lower general and administrative spending in the fourth quarter in response to the global recession. SG&A expense as a percent of revenues decreased to 3.4% in 2008 from 3.5% in 2007.

Financial Services revenues increased to \$1.26 billion in 2008 from \$1.19 billion in 2007 as increased revenues in Europe and Mexico more than offset a decrease in the U.S. Financial Services income before taxes was \$216.9 million compared to \$284.1 million in 2007 as the additional finance margin from asset growth in Europe and Mexico was reduced by higher provisions for credit losses in the U.S. and Europe.

Investment income declined to \$84.6 million in 2008 compared to \$95.4 million in 2007 due to lower invested balances and interest rates.

The 2008 effective income tax rate of 30.5% was comparable to the 30.4% in 2007.

The Company's return on revenues was 6.8% in 2008 and 8.1% in 2007.

Truck

PACCAR's truck segment, which includes the manufacture and distribution of trucks and related aftermarket parts, accounted for 86%, 90% and 91% of revenues in 2009, 2008 and 2007, respectively. In North America, trucks are sold under the Kenworth and Peterbilt nameplates and, in Europe, under the DAF nameplate.

2009 Compared to 2008:

	2009	2008	% change
Truck net sales and revenues:			
U.S. and Canada	\$ 3,566.0	\$ 4,823.7	(26)
Europe	2,520.2	6,624.8	(62)
Mexico, Australia and other	907.8	2,098.9	(57)
	\$ 6,994.0	\$13,547.4	(48)
Truck income before taxes	\$ 25.9	\$ 1,156.5	(98)

The Company's new truck deliveries are summarized below:

	2009	2008	% change
United States	28,300	38,200	(26)
Canada	4,400	6,700	(34)
U.S. and Canada	32,700	44,900	(27)
Europe	22,200	63,700	(65)
Mexico, Australia and other	6,100	17,300	(65)
Total units	61,000	125,900	(52)

PACCAR's worldwide truck sales and revenues were \$6.99 billion in 2009 compared to \$13.55 billion in 2008 due to lower market demand worldwide attributable to global recessionary conditions. 2009 truck net sales and revenues and income before income taxes were also affected by the translation of weaker foreign currencies, primarily the euro and British pound. The translation effect of all currencies decreased 2009 sales and revenues by \$260.9 million and income before income taxes by \$30.9 million compared to 2008.

In the U.S. and Canada, 2009 net sales and revenues decreased to \$3.57 billion compared to \$4.82 billion in 2008. Industry retail sales in the heavy duty market in U.S. and Canada declined 29% to 108,000 units in 2009 compared to 153,000 units in 2008 and were at their lowest levels since 1991. The Company's market share was 25.1% in 2009 and 26.0% in 2008. The medium duty market was 40,000 units in 2009 compared to 63,000 units in 2008. The Company achieved record medium duty market share of 15.3% in 2009 compared to 14.1% in 2008.

In Europe, 2009 net sales and revenues decreased to \$2.52 billion compared to \$6.62 billion in 2008. The 15 tonne and above truck market in Western and Central Europe was 168,000 units compared to 330,000 units in 2008. The Company's market share was a record 14.8% in 2009 compared to 14.2% in 2008. DAF market share in the 6 to 15 tonne market in 2009 was 9.3%, the same as in 2008. The 6 to 15 tonne market was 51,000 units in 2009, compared to 79,000 units in 2008.

Net sales and revenues in Mexico, Australia and other countries outside the Company's primary markets declined to \$.91 billion in 2009 from \$2.10 billion in 2008 due to lower new truck deliveries reflecting lower overall market demand.

Truck segment income before income taxes decreased to \$25.9 million in 2009 from \$1.16 billion in 2008 from lower truck unit and aftermarket parts sales and margins in all markets, partially offset by lower research and development spending as well as lower SG&A spending.

Net sales and revenues and gross margins for truck units and aftermarket parts are provided below. The aftermarket parts gross margin includes direct revenues and costs, but excludes certain truck segment costs.

	2009	2008	% change
Truck net sales and revenues:			
Trucks	\$ 5,103.3	\$11,281.3	(55)
Aftermarket parts	1,890.7	2,266.1	(17)
	\$ 6,994.0	\$13,547.4	(48)
Gross margin:			
Trucks	\$ (46.6)	\$ 1,141.7	(104)
Aftermarket parts	625.7	795.2	(21)
	\$ 579.1	\$ 1,936.9	(70)
Gross margin %:			
Trucks	(.9)%	10.1%	
Aftermarket parts	33.1 %	35.1%	
	8.3 %	14.3%	

Total truck segment gross margins for 2009 decreased to 8.3% from 14.3% in 2008. The lower gross margins were primarily the result of lower truck gross margins. Gross margins on trucks declined to negative .9% in 2009, reflecting lower industry demand and reduced absorption of fixed costs resulting from the decline in truck production. 2009 parts gross margins declined from the prior year primarily due to a sales mix shift to lower margin replacement parts.

2008 Compared to 2007:

	2008	2007	% change
Truck net sales and revenues:			
U.S. and Canada	\$ 4,823.7	\$ 5,648.8	(15)
Europe	6,624.8	5,859.6	13
Mexico, Australia and other	2,098.9	2,345.9	(11)
	\$13,547.4	\$13,854.3	(2)
Truck income before taxes	\$ 1,156.5	\$ 1,352.8	(15)

The Company's new truck deliveries are summarized below:

	2008	2007	% change
United States	38,200	44,700	(15)
Canada	6,700	8,300	(19)
U.S. and Canada	44,900	53,000	(15)
Europe	63,700	60,100	6
Mexico, Australia and other	17,300	20,800	(17)
Total units	125,900	133,900	(6)

PACCAR's worldwide truck sales and revenues were \$13.55 billion in 2008 compared to \$13.85 billion in 2007 due to higher demand for the Company's trucks in Europe more than offset by lower demand in the U.S. and Canada, and other international markets. 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 \$445.0 million and \$49.5 million, respectively.

In the U.S. and Canada, net sales and revenues decreased 15% to \$4.82 billion from \$5.65 billion in 2007 mainly as a result of fewer new truck deliveries. In the U.S. and Canada, Peterbilt and Kenworth delivered 44,900 heavy and medium duty trucks during 2008, a decrease of 8,100 units or 15% from 2007 primarily due to a lower truck market size. The Class 8 market decreased 13% to 153,000 units in 2008 from 176,000 units in 2007. PACCAR's market share was 26.0% in 2008 compared to 26.4% in 2007. The medium duty market decreased 28% to 63,000 units.

European net sales and revenues increased 13% to \$6.62 billion from \$5.86 billion in 2007 as DAF achieved higher market share in a similar sized truck market to 2007. DAF trucks delivered a record 63,700 units during 2008, a 6% increase over 2007. The 15 tonne and above truck market in Western and Central Europe was 330,000 units compared to 337,000 units in 2007. DAF's 2008 market share of the 15 tonne and above market increased to 14.2% compared to 13.9% in 2007. DAF market share in the 6 to 15 tonne market increased to 9.3% in 2008 from 8.3% in 2007. In Europe, demand was strong for the Company's high-quality trucks and parts during the first nine months of 2008, including growth in Central and Eastern Europe. Industry demand slowed throughout Europe in the fourth quarter.

Net sales and revenues in Mexico, Australia and other countries outside the Company's primary markets declined 11% to \$2.10 billion in 2008 due to lower new truck deliveries. Truck unit deliveries in Mexico, Australia and other countries outside the Company's primary markets decreased 17%.

Truck income before taxes was \$1.16 billion compared to \$1.35 billion in 2007. The lower income reflects the effects of lower truck production and gross margins from reduced demand and higher material costs, partially mitigated by improved operating efficiency.

Net sales and revenues and gross margins for truck units and aftermarket parts are provided below. The aftermarket parts gross margin includes direct revenues and costs, but excludes certain truck segment costs.

	2008	2007	% change
Truck net sales and revenues:			
Trucks	\$11,281.3	\$11,571.3	(3)
Aftermarket parts	2,266.1	2,283.0	(1)
	\$13,547.4	\$13,854.3	(2)
Gross margin:			
Trucks	\$ 1,141.7	\$ 1,242.9	(8)
Aftermarket parts	795.2	816.7	(3)
	\$ 1,936.9	\$ 2,059.6	(6)
Gross margin %:			
Trucks	10.1%	10.7%	
Aftermarket parts	35.1%	35.8%	
	14.3%	14.9%	

Truck segment gross margin as a percentage of net sales and revenues was 14.3% in 2008 and 14.9% in 2007. The decrease in margin from 2007 resulted from the effects of weaker truck demand in North America and higher material costs partially mitigated by strong demand for the Company's products in Europe in the first nine months.

Truck Outlook

Worldwide recessionary economic conditions are expected to continue to affect demand for heavy duty trucks in 2010. The heavy duty truck sales in the U.S. and Canada are expected to be in the range of 110,000–140,000 units, up slightly from 2009, reflecting general economic growth and an aging truck fleet. The current challenging economic conditions in Europe are expected to continue in 2010 with the market size of above 15-tonne vehicles expected to be in the range of 150,000–180,000 units. International markets are also expected to remain weak into 2010. Research and development spending in 2010 is expected to be between \$225-\$250 million, focusing on new product development and manufacturing efficiency improvements. The Company will begin assembling PACCAR MX engines at the Columbus, Mississippi engine production facility in mid 2010. See the Forward Looking Statement section of Management's Discussion and Analysis for factors that may affect this outlook.

Financial Services

The PACCAR Financial Services (PFS) segment, which includes wholly owned subsidiaries in the U.S., Canada, Mexico, Europe and Australia, derives its earnings primarily from financing or leasing PACCAR products.

2009 Compared to 2008:

	2009	2008	% change
New loan and lease volume:			
U.S. and Canada	\$1,175.0	\$ 1,674.0	(30)
Europe	433.5	947.6	(54)
Mexico and Australia	306.1	728.6	(58)
	\$1,914.6	\$ 3,350.2	(43)
Average earning assets:			
U.S. and Canada	\$4,795.5	\$ 5,692.4	(16)
Europe	2,535.9	3,065.6	(17)
Mexico and Australia	1,321.9	1,621.0	(18)
	\$8,653.3	\$10,379.0	(17)
Average earning assets by product:			
Loans and finance leases	\$5,141.0	\$ 6,295.3	(18)
Dealer wholesale financing	1,221.2	1,693.0	(28)
Equipment on lease and other	2,291.1	2,390.7	(4)
	\$8,653.3	\$10,379.0	(17)
Revenues:			
U.S. and Canada	\$ 501.8	\$ 602.9	(17)
Europe	318.5	429.3	(26)
Mexico and Australia	189.5	230.7	(18)
	\$1,009.8	\$ 1,262.9	(20)
Revenue by product:			
Loans and finance leases	\$ 449.3	\$ 567.3	(21)
Dealer wholesale financing	52.5	116.1	(55)
Equipment on lease and other	508.0	579.5	(12)
	\$1,009.8	\$ 1,262.9	(20)
Income before taxes	\$ 84.6	\$ 216.9	(61)

Revenues:

PFS revenues in 2009 declined 20% compared to 2008 due to lower average earning assets and lower yields primarily in the U.S., Canada, and in Europe. Average earning assets declined in 2009 due to lower new loan and lease volume in all markets and a reduction in dealer wholesale financing of new trucks. New loan and lease volume declined due to lower new PACCAR truck production. PFS market share in 2009 was 26%, down from 28% in 2008 reflecting lower market share in the first half of 2009.

<i>At December 31,</i>	2009	2008
Percentage of retail loan and lease accounts 30+ days past-due:		
U.S. and Canada	1.8%	2.6%
Europe	4.4%	2.8%
Mexico and Australia	9.5%	6.2%
Total	3.8%	3.3%

Worldwide PFS accounts 30+ days past-due at December 31, 2009 were 3.8% of portfolio balances compared to 3.3% at December 31, 2008, due to a decline in freight tonnage, freight rates and customer cash flows in Europe and Mexico.

Interest income and fees in 2009 declined from 2008 due to lower average earning assets and lower asset yields summarized as follows:

Interest and fees – 2008	\$683.4
Lower average asset balances	(131.3)
Decrease in yield	(50.3)
Interest and fees – 2009	\$501.8

The decline in average earning assets was due to lower retail loan and lease business, as well as lower dealer wholesale financing, as dealer inventory levels reduced in Europe. Yield declined due to lower market interest rates.

Operating lease, rental and other income in 2009 of \$508.0 million declined from the \$579.5 million in 2008 due to lower average assets, lower rental utilization and a decrease in yields. The decline in average operating lease assets was due to lower new business volume. The lower rental utilization reflected the weaker economic environment and the decline in yields was due to lower market rates.

Expenses:

Interest and other borrowing expenses decreased in 2009 from 2008 due to lower average debt balances and lower borrowing rates as summarized below:

Interest and other borrowing expenses – 2008	\$394.1
Lower average debt balances	(73.3)
Lower borrowing rates	(29.0)
Interest and other borrowing expenses – 2009	\$291.8

Average debt balances decreased due to the lower level of funding needed to fund the smaller financial services portfolio. Lower borrowing rates resulted due to lower commercial paper rates.

2009 depreciation and other expenses increased to \$442.5 million from \$437.8 million in 2008. This resulted from higher depreciation partially offset by lower costs from a smaller portfolio. 2009 depreciation increased to \$331.2 million compared to \$304.1 million in the prior year. The higher depreciation was from both an increase in impairments on existing operating lease assets of \$19.6 million, as well as higher losses on returned operating lease assets of \$20.1 million reflecting the impact of lower used truck prices.

SG&A expense of \$86.5 million in 2009 declined by \$24.7 million from \$111.2 million in 2008. Lower spending was a result of focused efforts to reduce costs in response to global economic conditions and consisted primarily of lower staffing levels and travel costs.

The provision for losses on receivables is summarized below:

	2009			2008		
	Net Charge-offs	Decrease in allowance	Provision for losses on receivables	Net Charge-offs	Increase (decrease) in allowance	Provision for losses on receivables
U.S. and Canada	\$ 63.9	\$(14.1)	\$ 49.8	\$ 85.7	\$(5.8)	\$ 79.9
Europe	43.6	(2.0)	41.6	11.8	3.2	15.0
Mexico and Australia	14.3	(1.3)	13.0	7.3	.7	8.0
	\$121.8	\$(17.4)	\$104.4	\$104.8	\$(1.9)	\$102.9

The provision for losses on receivables in 2009 of \$104.4 million was comparable to 2008 as higher net portfolio charge-offs in Europe, Mexico and Australia were offset by lower net charge-offs in the U.S. and Canada. There was a decrease in the allowance for losses in all markets due to declining receivable portfolios.

2008 Compared to 2007:

	2008	2007	% change
New loan and lease volume:			
U.S. and Canada	\$ 1,674.0	\$ 2,195.6	(24)
Europe	947.6	923.5	3
Mexico and Australia	728.6	812.1	(10)
	\$ 3,350.2	\$ 3,931.2	(15)
Average earning assets:			
U.S. and Canada	\$ 5,692.4	\$ 6,517.1	(13)
Europe	3,065.6	2,360.9	30
Mexico and Australia	1,621.0	1,279.6	27
	\$10,379.0	\$10,157.6	2
Average earning assets by product:			
Loans and finance leases	\$ 6,295.3	\$ 6,461.9	(3)
Dealer wholesale financing	1,693.0	1,507.3	12
Equipment on lease and other	2,390.7	2,188.4	9
	\$10,379.0	\$10,157.6	2
Revenues:			
U.S. and Canada	\$ 602.9	\$ 682.8	(12)
Europe	429.3	320.2	34
Mexico and Australia	230.7	188.3	23
	\$ 1,262.9	\$ 1,191.3	6
Revenue by product:			
Loans and finance leases	\$ 567.3	\$ 561.5	1
Dealer wholesale financing	116.1	111.3	4
Equipment on lease and other	579.5	518.5	12
	\$ 1,262.9	\$ 1,191.3	6
Income before taxes	\$ 216.9	\$ 284.1	(24)

PFS revenues increased 6% in 2008 to \$1.26 billion from \$1.19 billion in 2007 due to higher earning assets in all markets outside the U.S. and Canada partially offset by lower market interest rates. Revenues in the U.S. and Canada declined 12%, principally as a result of lower average assets. Total average assets declined in the U.S. and Canada due to lower new business volume from fewer new trucks sold and lower finance market share which declined from 29% to 28%. The decline in share is due to competition from banks and independent finance companies. Revenues

in Europe grew by 34% as average earning assets increased 30% from higher new loan and lease volume and wholesale flooring growth attributed to higher DAF truck production. PFS revenues in Mexico and Australia increased 23%, to \$230.7 million, primarily due to increases in average earning assets which grew 27% as new loan and lease volume exceeded repayments. This was partially offset by lower interest rates. Worldwide new business volume was \$3.35 billion in 2008 compared to \$3.93 billion in 2007. Worldwide, PFS provided loan and lease financing for 28% of PACCAR new trucks delivered in 2008 compared to 29% in 2007.

Interest and other borrowing expenses and Depreciation and other of \$831.9 million increased 10% from the \$755.3 million in 2007. This was primarily due to higher depreciation expense on operating leases which increased to \$304.1 million in 2008 from \$238.6 million in 2007 as a result of an increase in average operating lease assets in service during 2008. Interest expense in 2008 was similar to 2007 as slightly higher average borrowings to support portfolio growth were offset by lower average borrowing rates. Selling, general and administrative expenses of \$111.2 million were comparable to the prior year.

Income before taxes was \$216.9 million in 2008 compared to \$284.1 million in 2007 primarily due to a higher provision for losses on receivables. Net portfolio charge-offs were \$104.8 million compared to \$25.8 million in 2007 due to recessionary conditions in the U.S. and Canada and to a lesser extent in Europe. At December 31, 2008, the percentage of accounts 30+ days past-due was 3.3%, up from 2.0% at the end of 2007. The increase in the percentage of past-due accounts reflected the difficult economic conditions worldwide. The increase in past-due accounts in Mexico and Australia to 6.2% from 2.5% was primarily due to Mexico where a significant decline in the value of the peso compared to the dollar in the fourth quarter of 2008 resulted in cash flow difficulty for some customers.

Financial Services Outlook

Financial Services segment results are dependent on the generation of loans and leases and the related spread between the yields on loans and leases and borrowing costs, as well as access to liquidity to generate new business and the level of credit losses. The asset base in 2010 is expected to be comparable to 2009 levels. Recessionary economic conditions will continue to exert pressure on the profit margins of truck operators and challenge some customers ability to make timely payments to the Company. Improvement in past-due accounts and used truck values, fewer truck repossessions and voluntary truck returns are projected to benefit in 2010. See the Forward Looking Statement section of Management's Discussion and Analysis for factors that may affect this outlook.

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 2009, 2008 and 2007.

LIQUIDITY AND CAPITAL RESOURCES:

<i>At December 31</i>	2009	2008	2007
Cash and cash equivalents	\$1,912.0	\$1,955.2	\$1,858.1
Marketable debt securities	219.5	175.4	778.5
	\$2,131.5	\$2,130.6	\$2,636.6

The Company's total cash and marketable debt securities increased \$.9 million for the year ended December 31, 2009, as a decrease in cash and cash equivalents of \$43.2 million was more than offset by an increase in marketable securities of \$44.1 million.

The change in cash and cash equivalents is summarized below.

<i>For Years Ended December 31</i>	2009	2008	2007
Operating Activities:			
Net Income	\$ 111.9	\$1,017.9	\$1,227.3
Net income items not affecting cash	874.3	882.2	589.3
Changes in operating assets and liabilities	387.1	(595.2)	238.8
Net cash provided by operating activities	1,373.3	1,304.9	2,055.4
Net cash provided by (used in) investing activities	310.6	(251.9)	(1,296.8)
Net cash used in financing activities	(1,816.2)	(868.1)	(838.5)
Effect of exchange rate changes on cash	89.1	(87.8)	85.5
Net (decrease) increase in cash and cash equivalents	(43.2)	97.1	5.6
Cash and cash equivalents at beginning of the year	1,955.2	1,858.1	1,852.5
Cash and cash equivalents at end of the year	\$1,912.0	\$1,955.2	\$1,858.1

2009 Compared to 2008:

Operating activities: The Company's operating cash flow increased \$68.4 million compared to 2008. A decrease in net income of \$906.0 million was more than offset by a reduction in receivables of \$1,135.6 million primarily related to \$888.1 million of higher collections of wholesale receivables reflecting a reduction in funding of dealer new truck inventory, predominately in Europe. In addition there was a reduction of trade receivables of \$218.7 million as a result of lower sales levels.

Investing activities: Cash provided by investing activities increased by \$562.5 million to \$310.6 million in 2009 compared to 2008. Cash was provided by a larger decrease in the retail loan and lease portfolio of \$539.8 million as collections on outstanding balances exceeded net new loan and lease volume reflecting lower new truck sales. Investments in capital equipment decreased \$579.0 million, primarily due to reduced expenditures related to the current economic environment offset by \$614.9 million of lower cash provided by net purchases and sales of marketable securities compared to 2008.

Financing activities: The cash used in financing activities increased \$948.1 million to \$1,816.2 million in 2009 due to higher net debt repayments of \$1,601.7 million related to lower funding needed to finance a smaller financial services asset base. This was partially offset by no stock repurchases in 2009 compared to \$230.6 million in 2008 and a lower dividend of \$232.1 million compared to \$629.2 million in 2008.

2008 Compared to 2007:

Operating activities: The Company's operating cash flow of \$1,304.9 million decreased \$750.5 million compared to 2007. Net income in 2008 of \$1,017.9 million decreased by \$209.4 million compared to 2007. This was more than offset by a \$292.9 million increase relating to net income items not affecting cash to \$882.2 million in 2008. This is mainly from increased depreciation on higher depreciable assets and higher deferred taxes related to tax incentive depreciation in the U.S. Changes in operating assets and liabilities were a net cash outflow in 2008 of \$595.2 million compared to an inflow of \$238.8 million in 2007. The change of \$834.0 million was due in part to purchasing finished goods to secure inventory from a supplier exiting the business. In addition, \$246.3 million of cash was used for increased funding of dealer inventory by the Company's Financial Services segment primarily in Europe due to the abrupt market slowdown in the fourth quarter compared to a reduction of \$81.3 million in 2007.

Investing activities: Cash used in investing activities decreased to \$251.9 million in 2008 from \$1,296.8 million in 2007. The Company liquidated \$572.1 million of its marketable debt securities portfolio to improve liquidity due to the more difficult credit markets. The Financial Services segment experienced lower new loan and lease originations from lower demand for truck financing.

Financing activities: 2008 financing cash outflow of \$868.1 million was slightly higher than 2007 as the effect of lower net borrowings from a declining financial services asset base was offset by \$129.9 million of lower treasury stock repurchases in 2008 and \$107.5 million of lower cash dividends as a result of a smaller extra dividend in 2008.

Credit Lines and Other:

The Company has line of credit arrangements of \$3.67 billion, of which \$3.35 billion was unused at the end of December 2009. Included in these arrangements are \$3.0 billion of syndicated bank facilities. Of the \$3.0 billion bank facilities, \$2.0 billion matures in June 2010 and \$1.0 billion matures in June 2012. The Company intends to replace these credit facilities as they expire with facilities of similar amounts and duration. These credit facilities are maintained primarily to provide backup liquidity for commercial paper borrowings and maturing medium-term notes. There were no borrowings under the syndicated bank lines for the year ended December 31, 2009.

PACCAR Inc periodically files shelf registrations under the Securities Act of 1933. The total amount of medium-term notes outstanding for PACCAR Inc as of December 31, 2009 is \$870.0 million. The current registration expires in 2011 and does not limit the principal amount of debt securities that may be issued during the period.

The Company believes its strong liquidity position and AA- investment grade credit rating will continue to provide financial stability and access to capital 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. Through December 31, 2009, \$292 million of shares have been repurchased. In July 2008, PACCAR's Board of Directors approved the repurchase of an additional \$300 million of the Company's common stock. No shares have been repurchased pursuant to the July 2008 authorization.

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 totaled \$172.3 million as of December 31, 2009.

Expenditures for property, plant and equipment in 2009 totaled \$127.7 million compared to \$462.8 million in 2008 as the Company reduced its spending to reflect the current economic environment. Over the last ten years, the Company's combined investments in worldwide capital projects and research and development totaled \$3.77 billion which have significantly increased capacity, efficiency and quality of the Company's premier products.

Capital spending in 2010 is expected to be approximately \$175 to \$200 million. Spending on research and development in 2010 is expected to be \$225 to \$250 million. PACCAR's will continue to focus on manufacturing efficiency improvements, engine development and new product programs.

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 markets 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).

In November 2009, PFC filed a shelf registration under the Securities Act of 1933. In December 2009, PFC issued \$250.0 million of fixed rate medium-term notes under this registration. The registration expires in 2012 and does not limit the principal amount of debt securities that may be issued during the period. The total amount of medium-term notes outstanding for PFC as of December 31, 2009, was \$1,148.5 million.

In the third quarter of 2009, PACCAR's European finance subsidiary, PACCAR Financial Europe, renewed the registration of a €1.5 billion medium-term note program with the London Stock Exchange. On December 31, 2009, €850 million remained available for issuance. This program is renewable annually through the filing of a new prospectus.

In June 2008, PACCAR Mexico registered a 7.0 billion peso medium-term note program with the Comision Nacional Bancaria y de Valores. The registration expires in 2012 and at December 31, 2009, 6.1 billion pesos remained available for issuance.

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, 2009:

	Maturity				Total
	Within 1 Year	1-3 Years	3-5 Years	More than 5 Years	
Borrowings*	\$3,580.5	\$1,950.1	\$522.6		\$6,053.2
Interest on term debt**	123.8	127.8	39.3		290.9
Operating leases	27.0	27.2	8.8	\$.5	63.5
Purchase obligations	147.2	237.3	2.0		386.5
Other obligations	11.1	6.4	2.2	17.4	37.1
	\$3,889.6	\$2,348.8	\$574.9	\$17.9	\$6,831.2

* Borrowings also include commercial paper and other short-term debt.

** Includes interest on fixed- and floating-rate term debt. Interest on floating-rate debt is based on the applicable market rates at December 31, 2009.

The Company had \$6.83 billion of cash commitments. Of the total cash commitments for borrowings and interest on term debt, \$6.14 billion were related to the Financial Services segment. As described in Note J of the consolidated financial statements, borrowings consist primarily of term notes 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 and capital equipment. Other obligations include deferred cash compensation.

The Company's other commitments include the following at December 31, 2009:

	Commitment Expiration				Total
	Within 1 Year	1-3 Years	3-5 Years	More than 5 Years	
Letters of credit	\$ 18.4	\$ 2.0	\$.1		\$ 20.5
Loan and lease commitments	105.3				105.3
Equipment acquisition commitments		53.4			53.4
Residual value guarantees	106.3	118.8	72.9	\$10.0	308.0
	\$230.0	\$174.2	\$73.0	\$10.0	\$487.2

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.

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. Expenditures related to environmental activities in 2009, 2008 and 2007 were \$1.3 million, \$3.8 million and \$1.9 million, respectively. 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 from estimates used by management, 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 F 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. Operating lease terms generally range from three to seven years. The resulting residual values on operating leases generally range between 30% and 50% of original equipment cost. 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.

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. A decrease in the estimated equipment residual values would increase annual depreciation expense over the remaining lease term.

During 2007 and 2008 market values on vehicles returning upon operating lease maturity were generally higher than the residual values on these vehicles resulting in a decrease of depreciation expense of \$15.5 million and \$6.9 million, respectively. During 2009, lower market values on trucks returning upon lease maturity, as well as impairments on existing operating leases resulted in additional depreciation expense of \$45.6 million.

At December 31, 2009, the aggregate residual value of equipment on operating leases in the Financial Services segment and residual value guarantee on trucks accounted for as operating leases in the Truck segment was \$1.14 billion. A 10% decrease in used truck values worldwide, expected to persist over the remaining maturities of the Company's operating leases, would reduce residual values estimates and result in the Company recording approximately \$30 million of additional depreciation per year.

Allowance for Credit Losses

The accounting for allowance for credit losses related to the Company's loans and finance leases is discussed in Note E of the consolidated financial statements. The Company determines the allowance for credit losses on financial services retail and wholesale receivables based on historical loss information, using past-due account data, current market conditions and expectations about the future. The allowance for credit losses consists of both a specific reserve and a general reserve based 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 specifically evaluates large retail and wholesale accounts with past-due balances or that otherwise are deemed to be at a higher risk of credit loss. All other past-due customers, dealers and current accounts are evaluated as a group.

The Company has developed a range of specific loss estimates for each of its portfolios by country based on historical experience, taking into account loss frequency and severity in both strong and weak truck market conditions. A projection is made of the range of estimated credit losses inherent in the portfolio from which an amount is determined as probable based on current market conditions and other factors impacting the creditworthiness of the Company's borrowers and their ability to repay. The projected amount is then compared to the allowance for credit loss balance and an appropriate adjustment is made.

The adequacy of the allowance is evaluated quarterly based on the most recent information and expectations about the future. As accounts become past due, the likelihood increases they will not be fully collected. The Company's experience indicates the probability of not fully collecting past-due accounts range between 20% and 80%. Over the past three years, the Company's year-end 30+ days past-due accounts have ranged between 2.0% and 3.8% of average loan and lease receivables. Historically, a 100 basis point increase in the 30+ days past-due percentage has resulted in an increase in future credit losses of 10 to 35 basis points of average receivables. Past-dues were 3.8% at December 31, 2009. If past-dues were 100 basis points higher or 4.8% as of December 31, 2009, the Company's estimate of future credit losses would likely have increased by approximately \$5 to \$20 million depending on the extent of the past-dues, the estimated value of the collateral as compared to amounts owed and general economic factors.

Product Warranty

The accounting for product warranty is discussed in Note I of the consolidated financial statements. 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, net of recoveries. Management takes actions to minimize warranty costs through quality-improvement programs; however, actual claim costs incurred could materially differ from the estimated amounts and require adjustments to the reserve. Historically those adjustments have not been material. Over the past three years, the Company's year-end warranty expense as a percentage of net sales and revenues has ranged between 1.2% and 1.3%. For 2009, warranty expense was 1.2% of net sales and revenues. If warranty expense were .2% higher as a percentage of truck net sales and revenues in 2009, warranty expense would have increased by approximately \$17 million.

Pension Benefits

The Company's accounting for employee pension 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, inflation rates, retirement rates, mortality rates and other factors. Management bases these assumptions on historical results, the current environment and reasonable estimates of future events.

The discount rate for pension benefits 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.

Because differences between actual results and the assumptions for returns on plan assets, retirement rates and mortality rates are accumulated and amortized into expense over future periods, management does not believe these differences or a typical percentage change in these assumptions worldwide would have a material effect on its financial results in the next year. The most significant assumption which could negatively affect pension expense is a decrease in the discount rate. If the discount rate was to decrease .5%, 2009 net pension expense would increase to \$36.8 million from \$25.3 million, and the projected benefit obligation would increase \$97.1 million to \$1,421.9 million from \$1,324.8 million.

Income Taxes

The accounting for income taxes is discussed in Note N of the consolidated financial statements. The Company calculates income tax expense on pretax income based on current tax law. Deferred tax assets and liabilities are recorded for future tax consequences on temporary differences between recorded amounts in the financial statements and their respective tax basis. The determination of income tax expense requires management estimates and involves judgment regarding indefinitely reinvested foreign earnings, jurisdictional mix of earnings and future outcomes regarding tax law issues included in tax returns. The Company updates its assumptions based on all of these factors each quarter as well as new information on tax laws and differences between estimated tax returns and actual returns when filed. If the Company's assessment of these matters changes, the effect is accounted for in earnings in the period the change is made.

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; fluctuations in interest rates; changes in the levels of the Financial Services segment new business volume due to unit fluctuations in new PACCAR truck sales; changes affecting the profitability of truck owners and operators; price changes impacting equipment costs and residual values; 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. A more detailed description of these and other risks is included under the heading Part 1, Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31	2009	2008	2007
	<i>(millions except per share data)</i>		
TRUCK AND OTHER:			
Net sales and revenues	\$ 7,076.7	\$13,709.6	\$14,030.4
Cost of sales and revenues	6,483.4	11,736.9	11,917.3
Research and development	199.2	341.8	255.5
Selling, general and administrative	348.4	470.2	491.4
Curtailement gain	(66.0)		
Interest and other expense (income), net	43.6	(1.8)	(18.6)
	7,008.6	12,547.1	12,645.6
<i>Truck and Other Income Before Income Taxes</i>	68.1	1,162.5	1,384.8
FINANCIAL SERVICES:			
Interest and fees	501.8	683.4	672.8
Operating lease, rental and other income	508.0	579.5	518.5
Revenues	1,009.8	1,262.9	1,191.3
Interest and other borrowing expenses	291.8	394.1	391.2
Depreciation and other	442.5	437.8	364.1
Selling, general and administrative	86.5	111.2	110.9
Provision for losses on receivables	104.4	102.9	41.0
	925.2	1,046.0	907.2
<i>Financial Services Income Before Income Taxes</i>	84.6	216.9	284.1
Investment income	22.3	84.6	95.4
<i>Total Income Before Income Taxes</i>	175.0	1,464.0	1,764.3
Income taxes	63.1	446.1	537.0
<i>Net Income</i>	\$ 111.9	\$ 1,017.9	\$ 1,227.3
Net Income Per Share			
Basic	\$.31	\$ 2.79	\$ 3.31
Diluted	\$.31	\$ 2.78	\$ 3.29
Weighted average number of common shares outstanding			
Basic	363.8	364.2	371.1
Diluted	364.9	365.9	373.3
<i>See notes to consolidated financial statements.</i>			

CONSOLIDATED BALANCE SHEETS

40

ASSETS

<i>December 31</i>	2009	2008
	<i>(millions of dollars)</i>	
TRUCK AND OTHER:		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 1,836.5	\$ 1,899.2
Trade and other receivables, net	554.7	698.7
Marketable debt securities	219.5	175.4
Inventories	632.1	658.1
Other current assets	224.3	211.7
<i>Total Truck and Other Current Assets</i>	3,467.1	3,643.1
Equipment on operating leases, net	503.8	425.3
Property, plant and equipment, net	1,757.7	1,782.8
Other noncurrent assets	409.1	368.2
<i>Total Truck and Other Assets</i>	6,137.7	6,219.4
FINANCIAL SERVICES:		
Cash and cash equivalents	75.5	56.0
Finance and other receivables, net	6,497.7	8,036.4
Equipment on operating leases, net	1,513.2	1,534.8
Other assets	344.9	403.2
<i>Total Financial Services Assets</i>	8,431.3	10,030.4
	\$14,569.0	\$16,249.8

LIABILITIES AND STOCKHOLDERS' EQUITY

<i>December 31</i>	2009	2008
	<i>(millions of dollars)</i>	
TRUCK AND OTHER:		
<i>Current Liabilities</i>		
Accounts payable, accrued expenses and other	\$ 1,490.0	\$ 1,792.3
Dividend payable		36.3
<i>Total Truck and Other Current Liabilities</i>	1,490.0	1,828.6
Long-term debt	172.3	19.3
Residual value guarantees and deferred revenues	547.2	470.8
Other liabilities	405.3	636.6
<i>Total Truck and Other Liabilities</i>	2,614.8	2,955.3
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	215.2	249.2
Commercial paper and bank loans	3,011.2	3,576.2
Term notes	2,889.3	3,889.3
Deferred taxes and other liabilities	734.8	733.1
<i>Total Financial Services Liabilities</i>	6,850.5	8,447.8
STOCKHOLDER'S EQUITY		
Preferred stock, no par value – authorized 1.0 million shares, none issued		
Common stock, \$1 par value – authorized 1.2 billion shares; issued 364.4 million and 363.1 million shares	364.4	363.1
Additional paid-in capital	80.0	46.1
Treasury stock – at cost	(17.4)	(17.4)
Retained earnings	4,640.5	4,724.7
Accumulated other comprehensive income (loss)	36.2	(269.8)
<i>Total Stockholders' Equity</i>	5,103.7	4,846.7
	\$14,569.0	\$16,249.8

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

42

Year Ended December 31	2009	2008	2007
	(millions of dollars)		
OPERATING ACTIVITIES:			
<i>Net income</i>	\$ 111.9	\$1,017.9	\$1,227.3
<i>Items included in net income not affecting cash:</i>			
Depreciation and amortization:			
Property, plant and equipment	188.0	226.5	196.4
Equipment on operating leases and other	450.1	422.9	330.0
Provision for losses on financial services receivables	104.4	102.9	41.0
Curtailment gain	(66.0)		
Gain on sale of property	.9		(21.7)
Deferred taxes	159.7	131.0	38.3
Other, net	37.2	(1.1)	5.3
<i>Change in operating assets and liabilities:</i>			
Decrease (increase) in assets other than cash and equivalents:			
Receivables:			
Trade and other	163.2	(55.5)	143.6
Wholesale receivables on new trucks	641.8	(246.3)	81.3
Sales-type finance leases and dealer direct loans on new trucks	81.6	52.8	40.3
Inventories	53.4	(85.2)	114.4
Other, net	8.1	8.8	16.8
(Decrease) increase in liabilities:			
Accounts payable and accrued expenses	(271.8)	(239.3)	(277.6)
Residual value guarantees and deferred revenues	48.2	118.1	85.1
Pension and post retirement contributions	(176.6)	(68.0)	(16.8)
Other, net	(160.8)	(80.6)	51.7
<i>Net Cash Provided by Operating Activities</i>	1,373.3	1,304.9	2,055.4
INVESTING ACTIVITIES:			
Retail loans and direct financing leases originated	(1,282.2)	(2,307.5)	(3,116.6)
Collections on retail loans and direct financing leases	2,285.5	2,771.0	2,837.3
Net decrease in wholesale receivables on used equipment	3.5	10.4	13.7
Marketable securities purchases	(288.3)	(667.3)	(1,282.9)
Marketable securities sales and maturities	245.5	1,239.4	1,345.5
Acquisition of property, plant and equipment	(127.7)	(462.8)	(425.7)
Acquisition of equipment for operating leases	(843.3)	(1,087.2)	(841.7)
Proceeds from asset disposals	317.6	239.3	240.1
Other, net		12.8	(66.5)
<i>Net Cash Provided by (Used in) Investing Activities</i>	310.6	(251.9)	(1,296.8)
FINANCING ACTIVITIES:			
Cash dividends paid	(232.1)	(629.2)	(736.7)
Purchase of treasury stock		(230.6)	(360.5)
Stock compensation transactions	17.6	11.5	30.8
Net decrease in commercial paper and short-term bank loans	(789.8)	(482.0)	(366.1)
Proceeds from long-term debt	1,373.0	1,190.9	879.5
Payments on long-term debt	(2,184.9)	(728.7)	(285.5)
<i>Net Cash Used in Financing Activities</i>	(1,816.2)	(868.1)	(838.5)
Effect of exchange rate changes on cash	89.1	(87.8)	85.5
<i>Net (Decrease) Increase in Cash and Cash Equivalents</i>	(43.2)	97.1	5.6
Cash and Cash Equivalents at beginning of year	1,955.2	1,858.1	1,852.5
<i>Cash and Cash Equivalents at end of year</i>	\$1,912.0	\$1,955.2	\$1,858.1

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

December 31	2009	2008	2007
	<i>(millions except per share data)</i>		
COMMON STOCK, \$1 PAR VALUE:			
Balance at beginning of year	\$ 363.1	\$ 368.4	\$ 248.5
Treasury stock retirement		(5.9)	(3.8)
50% stock dividend			122.8
Stock compensation	1.3	.6	.9
Balance at end of year	364.4	363.1	368.4
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	46.1	37.7	27.5
Treasury stock retirement		(14.0)	(33.8)
Stock compensation and tax benefit	33.9	22.4	44.0
Balance at end of year	80.0	46.1	37.7
TREASURY STOCK, AT COST:			
Balance at beginning of year	(17.4)	(61.7)	(2.1)
Purchases: (shares) 2008-5.1; 2007-5.1		(230.6)	(359.6)
Retirements		274.9	300.0
Balance at end of year	(17.4)	(17.4)	(61.7)
RETAINED EARNINGS:			
Balance at beginning of year	4,724.7	4,260.6	4,026.1
Net income	111.9	1,017.9	1,227.3
Cash dividends declared on common stock, per share: 2009-\$.54; 2008-\$.82; 2007-\$1.65	(196.1)	(298.8)	(607.6)
Treasury stock retirement		(255.0)	(262.4)
50% stock dividend			(122.8)
Balance at end of year	4,640.5	4,724.7	4,260.6
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Balance at beginning of year	(269.8)	408.1	156.2
Other comprehensive income (loss)	306.0	(677.9)	251.9
Balance at end of year	36.2	(269.8)	408.1
<i>Total Stockholders' Equity</i>	\$5,103.7	\$4,846.7	\$5,013.1

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

44

Year Ended December 31	2009	2008	2007
		<i>(millions of dollars)</i>	
Net income	\$111.9	\$1,017.9	\$1,227.3
Other comprehensive income (loss):			
Unrealized (losses) gains on derivative contracts			
Losses arising during the period	(71.6)	(85.5)	(32.5)
Tax effect	21.3	24.7	15.9
Reclassification adjustment	119.9	(17.4)	(14.8)
Tax effect	(35.7)	4.1	5.6
	33.9	(74.1)	(25.8)
Unrealized (losses) gains on investments			
Net holding (loss) gain	(.3)	2.9	5.2
Tax effect	.1	(.9)	(2.1)
Reclassification adjustment	.7	(5.1)	.2
Tax effect	(.2)	1.8	(.1)
	.3	(1.3)	3.2
Pension and postretirement			
Gains (losses) arising during the period	73.0	(395.1)	87.0
Tax effect	(32.1)	144.7	(32.2)
Reclassification adjustment	11.2	6.0	12.7
Tax effect	(3.9)	(2.1)	(4.6)
	48.2	(246.5)	62.9
Foreign currency translation gains (losses)	223.6	(356.0)	211.6
Net other comprehensive income (loss)	306.0	(677.9)	251.9
<i>Comprehensive Income</i>	\$417.9	\$ 340.0	\$1,479.2

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (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 design, 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 recorded at cost on the balance sheet net of allowances.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

45

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 tested for impairment on an annual basis. Impairment charges were insignificant during the three years ended December 31, 2009.

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 F). 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 over the expected life of the contracts, generally three to six years, using the straight line method which approximates the interest method. 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. Payments received while the loan is in non-accrual status are applied to interest and principal amounts in accordance with the contractual terms.

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 and resulting adjustments are included in net income.

Earnings per Share: Basic earnings per common share are computed by dividing earnings by the weighted average number of commons shares outstanding, plus the effect of any participating securities. Diluted earnings per common share are computed assuming that all potentially dilutive securities are converted into common shares under the treasury stock method. The dilutive and antidilutive options are shown separately in the table below.

<i>Year Ended December 31,</i>	2009	2008	2007
Additional shares	1,103,600	1,721,300	2,206,800
Antidilutive options	2,290,400	1,397,800	

New Accounting Pronouncements: The Company adopted Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (FAS 161) effective January 1, 2009. FAS 161 amends and expands the disclosure requirements for derivative instruments and hedging activities. Accordingly, the Company's disclosure in Note P has been updated to comply with this standard.

The Company adopted Statement No. 165, *Subsequent Events* effective July 1, 2009, with no significant effect on the financial statements.

The Company adopted FASB Staff Position FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* effective for the year ended December 31, 2009. FSP FAS 132(R)-1 requires additional disclosures relating to investment of plan assets. Accordingly, the Company's disclosure in Note M has been updated to comply with this standard.

Subsequent Events: The Company has evaluated subsequent events through the date the financial statements were issued on February 26, 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

46 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. The proceeds from sales and maturities of marketable securities during 2009 were \$245.5. Gross realized gains and losses were \$1.2, \$5.1, and nil, and \$.1, \$.1 and \$.1 for the years ended December 31, 2009, 2008 and 2007, respectively.

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:

2009	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
U.S. government and agency securities	\$ 6.5			\$ 6.5
U.S. tax-exempt securities	141.2	\$ 1.3		142.5
U.S. corporate securities	22.0	.2	\$.1	22.1
Non U.S. corporate securities	22.0			22.0
Non U.S. government securities	12.2			12.2
Other debt securities	14.2			14.2
	\$218.1	\$ 1.5	\$.1	\$219.5

2008	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
U.S. tax-exempt securities	\$167.2	\$ 1.7	\$.4	\$168.5
Non U.S. corporate securities	4.3		.3	4.0
Non U.S. government securities	2.9			2.9
	\$174.4	\$ 1.7	\$.7	\$175.4

The fair value of marketable debt securities that have been in a continuous unrealized loss position for 12 months or greater at December 31, 2009 and 2008, were \$27.4 and \$16.7, and their unrealized losses were \$.1 and \$.6, respectively.

Contractual maturities at December 31, 2009, were as follows:

<i>Maturities:</i>	AMORTIZED COST	FAIR VALUE
Within one year	\$ 99.7	\$100.3
One to five years	104.5	105.3
Ten or more years	13.9	13.9
	\$218.1	\$219.5

Marketable debt securities included \$11.6 and \$65.9 of variable-rate demand obligations (VRDOs) at December 31, 2009 and 2008, respectively. VRDOs are debt instruments with long-term scheduled maturities which have interest rates that reset periodically.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

C. INVENTORIES

Inventories include the following:

<i>At December 31,</i>	2009	2008
Finished products	\$ 312.5	\$ 394.3
Work in process and raw materials	487.5	421.7
	800.0	816.0
Less LIFO reserve	(167.9)	(157.9)
	\$ 632.1	\$ 658.1

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 58% and 52% of consolidated inventories before deducting the LIFO reserve at December 31, 2009 and 2008.

D. FINANCE AND OTHER RECEIVABLES

Finance and other receivables include the following:

<i>At December 31,</i>	2009	2008
Loans	\$2,875.2	\$3,506.7
Retail direct financing leases	2,260.0	2,558.4
Sales-type finance leases	764.9	817.9
Dealer wholesale financing	1,015.2	1,635.0
Interest and other receivables	109.6	127.3
Unearned interest: Finance leases	(359.6)	(430.6)
	6,665.3	8,214.7
Less allowance for losses (see Note E)		
Loans, leases and other	(157.1)	(167.1)
Dealer wholesale	(10.5)	(11.2)
	\$6,497.7	\$8,036.4

Loans represent fixed- or floating-rate loans to customers collateralized by the vehicles purchased. Retail direct financing and sales-type finance leases are contracts that lease equipment to retail customers and dealers, respectively. These leases are reported as the sum of minimum lease payments receivable and estimated residual value of the property subject to the contracts, reduced by unearned interest on finance leases which is shown separately. Dealer wholesale financing represents floating-rate wholesale loans to PACCAR dealers for new and used trucks. The loans are collateralized by the trucks being financed. Interest and other receivables are interest due on loans and leases and other amounts due in the normal course of business.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

48

Annual minimum payments due on loans and leases are as follows:

<i>Beginning January 1, 2010</i>	LOANS	FINANCE LEASES	DEALER WHOLESALE
2010	\$1,123.3	\$ 984.7	\$ 815.3
2011	817.1	792.0	199.9
2012	525.4	527.4	
2013	283.3	309.8	
2014	108.0	141.3	
Thereafter	18.1	82.9	
	\$2,875.2	\$2,838.1	\$1,015.2

Included in Loans are dealer direct loans on the sale of new trucks of \$143.7 and \$171.6 as of December 31, 2009 and 2008. Estimated residual values included with finance leases amounted to \$186.8 in 2009 and \$190.6 in 2008. Repayment experience indicates that some loan and lease receivables will be paid prior to contract maturity, while others may be extended or revised. Experience also indicates that the majority of dealer wholesale financing will be repaid within one year. Items included in Interest and other receivables are all due within one year. 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.

E. ALLOWANCE FOR LOSSES

Allowance for losses for loans, leases and other are evaluated together as a group since they relate to a similar customer base and their contractual terms require regular payment of principal and interest principally over 36 to 60 months and they are secured by the same type of collateral. The allowance for credit losses consists of both a specific reserve and a general reserve.

Receivables are charged to the allowance for losses when, in the judgment of management, they are considered uncollectible (generally upon repossession of the collateral). The provision for losses on finance, trade and other receivables is charged to income based on management's estimate of incurred credit losses, net of recoveries, inherent in the portfolio.

The allowance for losses is summarized as follows:

	TRUCK AND OTHER	FINANCIAL SERVICES
Balance, December 31, 2006	\$ 5.7	\$ 169.0
Provision for losses	.2	41.0
Net charge-offs	(.5)	(25.8)
Acquisitions	.2	1.8
Currency translation	1.9	7.4
Balance, December 31, 2007	7.5	193.4
Provision for losses	(.3)	102.9
Net charge-offs	(2.0)	(104.8)
Currency translation	(.3)	(13.2)
Balance, December 31, 2008	4.9	178.3
Provision for losses	1.1	104.4
Net charge-offs	(1.8)	(121.8)
Currency translation	.1	6.7
Balance, December 31, 2009	\$ 4.3	\$ 167.6

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, receivables are collateralized by the related equipment and parts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

49

Impaired finance and other receivables include accounts that may or may not have a specific reserve and certain accounts that are placed on non-accrual status. The majority of the loans that have a specific reserve are also on non-accrual status.

The Company's Financial Services segment information on impaired finance and other receivables is as follows:

<i>As of and for the Years Ended December 31,</i>	2009	2008
Finance receivables on non-accrual status	\$ 88.4	\$ 59.8
Impaired receivables with specific reserve	38.3	28.5
Impaired receivables with no specific reserve	29.1	34.5
Specific loss reserves on impaired receivables	7.3	4.8
Average balance of impaired receivables	84.9	80.0
Interest recognized on impaired receivables	4.3	2.6

The Company repossesses vehicles which serve as collateral for loans and finance leases and records the vehicles as used truck inventory included in Financial Services Other Assets on the balance sheet. The Company repossessed collateral valued at \$203.0 and recorded \$106.5 of credit losses upon repossession in 2009. Repossessed assets are typically disposed of promptly after repossession with differences between the estimated market value and the ultimate sales price resulting in an adjustment to credit losses. The Company sold \$213.1 of repossessed assets and recorded an additional loss of \$10.6 in 2009. As of December 31, 2009 and 2008, a total of \$28.5 and \$41.9 respectively, of repossessed assets were held for sale.

F. 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 eight years. The Company reviews residual values of equipment on operating leases periodically to determine that recorded amounts are appropriate.

A summary of equipment on operating leases for the Truck and Other segment and for the Financial Services segment is as follows:

<i>At December 31,</i>	TRUCK & OTHER		FINANCIAL SERVICES	
	2009	2008	2009	2008
Equipment on operating leases	\$730.6	\$610.6	\$2,090.8	\$2,053.4
Less allowance for depreciation	(226.8)	(185.3)	(577.6)	(518.6)
	\$503.8	\$425.3	\$1,513.2	\$1,534.8

Annual minimum lease payments due on financial services operating leases beginning January 1, 2010, are \$383.0, \$254.6, \$157.0, \$79.7, \$27.9 and \$2.9 thereafter.

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:

<i>At December 31,</i>	TRUCK & OTHER	
	2009	2008
Deferred lease revenues	\$ 239.2	\$ 204.8
Residual value guarantees	308.0	266.0
<i>Total</i>	\$ 547.2	\$ 470.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

50

The deferred lease revenue is amortized on a straight-line basis over the RVG contract period. At December 31, 2009, the annual amortization of deferred revenues beginning January 1, 2010, is \$82.5, \$53.4, \$39.0, \$40.8, \$15.6 and \$7.9 thereafter. Annual maturities of the residual value guarantees beginning January 1, 2010, are \$106.3, \$68.7, \$50.1, \$52.7, \$20.2 and \$10.0 thereafter.

G. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation is computed principally by the straight-line method based on the estimated useful lives of the various classes of assets. Certain production tooling is amortized on a unit of production basis. Property, plant and equipment include the following:

<i>At December 31,</i>	USEFUL LIVES	2009	2008
Land		\$ 206.3	\$ 186.8
Buildings and improvements	10-40 years	1,007.6	951.1
Machinery, equipment and production tooling	3-12 years	2,489.0	2,355.2
		3,702.9	3,493.1
Less allowance for depreciation		(1,945.2)	(1,710.3)
		\$1,757.7	\$1,782.8

H. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER

Accounts payable, accrued expenses and other include the following:

<i>At December 31,</i>	2009	2008
<i>Truck and Other:</i>		
Accounts payable	\$ 622.5	\$ 617.9
Accrued expenses	226.0	388.4
Salaries and wages	132.9	168.7
Product support reserves	230.8	298.6
Other	277.8	318.7
	\$1,490.0	\$1,792.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

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, net of any recoveries. 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:

<i>At December 31,</i>	2009	2008	2007
Beginning balance	\$450.4	\$ 483.3	\$ 458.3
Cost accruals and revenue deferrals	169.0	312.3	339.2
Payments and revenue recognized	(245.6)	(304.6)	(345.1)
Currency translation	12.6	(40.6)	30.9
	\$386.4	\$ 450.4	\$ 483.3

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

<i>At December 31,</i>	2009	2008
<i>Truck and Other:</i>		
Accounts payable, accrued expenses and other	\$ 230.8	\$ 298.6
Other liabilities	84.3	83.9
<i>Financial Services:</i>		
Deferred taxes and other liabilities	71.3	67.9
	\$ 386.4	\$ 450.4

I. BORROWINGS AND CREDIT ARRANGEMENTS

Truck and Other long-term debt at December 31, 2009, consisted of \$150.0 of notes bearing interest at 6.9% which mature in 2014 and \$22.3 of non-interest bearing notes which mature in 2011. In 2008, long-term debt consisted of non-interest bearing notes of \$19.3.

Financial Services borrowings include the following:

<i>At December 31,</i>	EFFECTIVE RATE	2009	2008
Commercial paper	2.8%	\$2,695.6	\$3,332.6
Bank loans:			
Short-term			50.4
Medium-term	7.6%	315.6	193.2
		3,011.2	3,576.2
Term notes	4.8%	2,889.3	3,889.3
		\$5,900.5	\$7,465.5

The term notes of \$2,889.3 at December 31, 2009, include an increase in fair value of \$19.6 for notes designated to fair value hedges. The effective rate is the weighted average rate as of December 31, 2009, and includes the effects of interest rate contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

52

The annual maturities of the financial services borrowings are as follows:

<i>Beginning January 1, 2010</i>	COMMERCIAL PAPER	BANK LOANS	TERM NOTES	TOTAL
2010	\$2,695.6	\$ 95.1	\$ 789.8	\$3,580.5
2011		154.7	1,109.9	1,264.6
2012		43.2	620.0	663.2
2013		22.6		22.6
2014			350.0	350.0
	\$2,695.6	\$315.6	\$2,869.7	\$5,880.9

Interest paid on borrowings was \$267.6, \$327.1 and \$339.0 in 2009, 2008 and 2007. The weighted average interest rate on consolidated commercial paper and short-term bank loans was 2.8% and 3.8% at December 31, 2009 and 2008, respectively.

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 Inc, PACCAR Financial Corp. (PFC), PACCAR Financial Europe and PACCAR Mexico.

PACCAR Inc intends to periodically file shelf registrations under the Securities Act of 1933. The total amount of medium-term notes outstanding for PACCAR Inc as of December 31, 2009, is \$870.0. The current registration expires in 2011 and does not limit the principal amount of debt securities that may be issued during the period.

In November 2009, the Company's U.S. finance subsidiary, PFC, filed a shelf registration under the Securities Act of 1933. In December 2009, PFC issued \$250.0 of fixed rate medium-term notes under this registration. The total amount of medium-term notes outstanding for PFC as of December 31, 2009, was \$1,148.5. The registration expires in 2012 and does not limit the principal amount of debt securities that may be issued during the period.

At December 31, 2009, PACCAR's European finance subsidiary, PACCAR Financial Europe, had €850.0 available for issuance under a €1,500.0 medium-term note program registered with the London Stock Exchange. The program was renewed in the third quarter of 2009 and is renewable annually.

In June 2008, PACCAR Mexico registered a 7,000 peso medium-term note program with the Comision Nacional Bancaria y de Valores. The registration expires in 2012 and at December 31, 2009, 6,100 pesos remained available for issuance.

The Company has line of credit arrangements of \$3,668.2, of which \$3,352.6 was unused at the end of December 2009. Included in these arrangements is \$3,000.0 of syndicated bank facilities. Of the \$3,000.0 bank facilities, \$2,000.0 matures in June 2010 and \$1,000.0 matures in June 2012. The Company intends to replace these credit facilities as they expire with facilities of similar amounts and duration. These credit facilities are maintained primarily to provide backup liquidity for commercial paper borrowings and maturing medium-term notes. There were no borrowings under the syndicated bank lines for the year ended December 31, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

53

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, 2010, are \$27.0, \$17.5, \$9.7, \$6.1, \$2.7 and \$.5 thereafter. Total rental expenses under all leases amounted to \$40.6, \$43.3 and \$41.1 for 2009, 2008 and 2007, respectively.

L. 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 2009, 2008 and 2007 were \$1.3, \$3.8, and \$1.9, respectively.

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, 2009, PACCAR had standby letters of credit of \$20.5, which guarantee various insurance and financing activities. The Company is committed, under specific circumstances, to purchase equipment at a cost of \$53.4 in 2011. At December 31, 2009, PACCAR’s financial services companies, in the normal course of business, had outstanding commitments to fund new loan and lease transactions amounting to \$105.3. The commitments generally expire in 90 days. At December 31, 2009, the Company had commitments related to the construction of its engine facility in Columbus, Mississippi of \$11.4 in 2010 and \$56.2 thereafter. The Company had other commitments, primarily to purchase production inventory, amounting to \$113.7 in 2010 and \$183.1 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.

M. EMPLOYEE BENEFITS

Severance Costs: During 2009 and 2008, the Company incurred severance costs as summarized below. These costs were the result of work force adjustments reflecting low truck demand, primarily in Europe.

	2009	2008
Truck and Other:		
Cost of sales and revenues	\$19.2	\$13.1
Sales, general and administrative	6.4	3.4
	\$25.6	\$16.5
Financial Services:		
Sales, general and administrative	.3	.8
Total Severance Costs	\$25.9	\$17.3

At December 31, 2009, the Company had \$3.6 accrued for future severance payments expected in the next year, compared to an accrual of \$4.6 at December 31, 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

54

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 \$173.4 to its pension plans in 2009 and \$63.9 in 2008. The Company expects to contribute in the range of \$25.0 to \$75.0 to its pension plans in 2010 of which \$10.3 is estimated to satisfy minimum funding requirements. Annual benefits expected to be paid beginning January 1, 2010, are \$55.6, \$58.8, \$64.9, \$68.7, \$75.8 and for the five years thereafter, a total of \$433.6.

Plan assets are invested in global 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. Typically, each defined benefit plan has an investment policy that includes a target for asset mix including maximum and minimum ranges for allocation percentages by investment category. The actual allocation of assets may vary at times based upon rebalancing policies and other factors. The Company periodically assesses the target asset mix by evaluating external sources of information regarding the long-term historical return, volatilities and expected future returns for each investment category. In addition, the long-term rates of return assumptions for pension accounting are reviewed annually to ensure they are appropriate. Target asset mix and forecast long-term returns by asset category are considered in determining the assumed long-term rates of return, although historical returns realized are given some consideration.

The following information details the allocation of plan assets by investment type. See Note Q for definitions of fair value levels.

<i>At December 31, 2009</i>	TARGET	LEVEL 1	LEVEL 2	TOTAL
<i>Equity Funds:</i>				
U.S. equity funds		\$ 29.2	\$374.2	\$ 403.4
Global equity funds			311.4	311.4
Total equity funds	50-70%	29.2	685.6	714.8
<i>Fixed Income Funds:</i>				
U.S. fixed income funds		303.2	109.3	412.5
Non U.S. fixed income funds		13.8	102.4	116.2
Total fixed income funds	30-50%	317.0	211.7	528.7
Cash and other		5.6	27.2	32.8
Total plan assets		\$351.8	\$924.5	\$1,276.3

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

<i>At December 31,</i>	2009	2008
<i>Weighted Average Assumptions:</i>		
Discount rate	5.9%	6.2%
Rate of increase in future compensation levels	3.9%	4.3%
Assumed long-term rate of return on plan assets	7.4%	7.4%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

The components of the Change in Projected Benefit Obligation and Change in Plan Assets are as follows:

55

	2009	2008
<i>Change in Projected Benefit Obligation:</i>		
Benefit obligation at January 1	\$1,196.4	\$1,201.0
Service cost	36.2	46.6
Interest cost	71.1	73.9
Benefits paid	(59.6)	(48.8)
Actuarial loss	46.7	3.0
Curtailement gain	(.1)	(3.3)
Currency translation	31.0	(80.9)
Participant contributions	3.1	4.9
Projected benefit obligation at December 31	\$1,324.8	\$1,196.4
<i>Change in Plan Assets:</i>		
Fair value of plan assets at January 1	\$ 913.8	\$1,312.5
Employer contributions	173.4	63.9
Actual return on plan assets	215.9	(336.4)
Benefits paid	(59.6)	(48.8)
Currency translation	29.7	(82.3)
Participant contributions	3.1	4.9
Fair value of plan assets at December 31	1,276.3	913.8
Funded status at December 31	\$ (48.5)	\$ (282.6)
<i>Amounts Recorded in Balance Sheet:</i>		
Other noncurrent assets	\$ 59.9	\$ 5.5
Other liabilities	(108.4)	(288.1)
Accumulated other comprehensive loss:		
Actuarial loss	291.0	334.5
Prior service cost	9.5	10.1
Net initial transition amount	.5	1.0

Of the December 31, 2009, amounts in accumulated other comprehensive loss, \$14.8 of unrecognized actuarial loss, \$1.8 of unrecognized prior service cost and \$.1 of unrecognized net initial transition amount are expected to be amortized into net pension expense in 2010.

The accumulated benefit obligation for all pension plans of the Company, except for certain multi-employer and foreign-insured plans was \$1,214.0 at December 31, 2009, and \$1,037.6 at December 31, 2008.

Information for all plans with accumulated benefit obligation in excess of plan assets is as follows:

<i>At December 31,</i>	2009	2008
Projected benefit obligation	\$ 429.0	\$ 933.7
Accumulated benefit obligation	418.9	791.9
Fair value of plan assets	322.9	650.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

56

Year Ended December 31,	2009	2008	2007
<i>Components of Pension Expense:</i>			
Service cost	\$ 36.2	\$46.6	\$ 49.7
Interest on projected benefit obligation	71.1	73.9	68.7
Expected return on assets	(93.1)	(92.8)	(89.7)
Amortization of prior service costs	1.7	2.4	2.9
Recognized actuarial loss	9.5	3.0	8.4
Curtailment (gain) loss	(.1)	.9	2.7
Net pension expense	\$ 25.3	\$34.0	\$ 42.7

Pension expense for multi-employer and foreign-insured plans was \$41.2, \$45.8 and \$37.9 in 2009, 2008 and 2007.

The Company has certain defined contribution benefit plans whereby it generally matches employee contributions up to 5% of base wages. In 2009, the Company match was 1% of base wages and 5% in 2008 and 2007. The majority of participants in these plans are non-union employees located in the United States. Expenses for these plans were \$6.8, \$22.1 and \$22.6 in 2009, 2008 and 2007.

During the second quarter of 2009, the Company discontinued subsidizing postretirement medical costs for the majority of its U.S. employees and recognized a curtailment gain of \$47.7. The Company also recognized a curtailment gain of \$18.3 in the third quarter for the discontinuation of postretirement healthcare related to the permanent closure of the Peterbilt facility in Madison, Tennessee.

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

	2009	2008
<i>Change in Projected Benefit Obligation:</i>		
Benefit obligation at January 1	\$80.9	\$ 88.0
Service cost		3.2
Interest cost	.5	4.7
Benefits paid	(3.2)	(4.1)
Curtailment gain	(66.0)	
Actuarial gain	(5.5)	(10.9)
Projected benefit obligation at December 31	6.7	80.9
Unfunded Status at December 31	\$ (6.7)	\$(80.9)
<i>Amounts Recorded in Balance Sheet:</i>		
Other liabilities	\$ (6.7)	\$(80.9)
Accumulated other comprehensive (income) loss:		
Actuarial (gain) loss	(.9)	1.8
Prior service cost		.1
Net initial transition amount		.8

Year Ended December 31,	2009	2008	2007
<i>Components of Retiree Expense:</i>			
Service cost		\$ 3.2	\$ 4.8
Interest cost	\$.5	4.7	5.2
Recognized actuarial loss			.9
Recognized prior service cost		.1	.1
Curtailment gain	(66.0)		
Recognized net initial obligation		.4	.4
Net retiree (income) expense	\$(65.5)	\$ 8.4	\$ 11.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

N. INCOME TAXES

57

The Company's tax rate is based on income and statutory tax rates in the various jurisdictions in which the Company operates. Tax law requires items to be included in the Company's tax returns at different times than the items reflected in the Company's financial statements. As a result, the Company's annual tax rate reflected in its financial statements is different than that reported in its tax returns. Some of these differences are permanent, such as expenses that are not deductible in the Company's tax return, and some differences reverse over time, such as depreciation expense. These temporary differences create deferred tax assets and liabilities. The Company establishes valuation allowances for its deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The components of the Company's income before income taxes include the following:

Year Ended December 31,	2009	2008	2007
Domestic	\$ 79.1	\$ 96.0	\$ 419.1
Foreign	95.9	1,368.0	1,345.2
	\$ 175.0	\$1,464.0	\$1,764.3

The components of the Company's provision for income taxes include the following:

Year Ended December 31,	2009	2008	2007
Current provision (benefit):			
Federal	\$(102.4)	\$ (24.7)	\$ 120.5
State	(2.5)	(7.9)	11.1
Foreign	8.3	347.7	367.1
	(96.6)	315.1	498.7
Deferred provision (benefit):			
Federal	125.4	123.7	41.9
State	8.2	12.5	3.6
Foreign	26.1	(5.2)	(7.2)
	159.7	131.0	38.3
	\$ 63.1	\$ 446.1	\$ 537.0

Tax benefits recognized for net operating loss carryforwards were \$27.8, \$4.7 and \$21.2 for the years ended 2009, 2008 and 2007. Tax expense for the year ended December 31, 2009, includes a charge of \$11.4 resulting from the retroactive effects of a Mexican tax law enacted in December 2009.

A reconciliation of the statutory U.S federal tax rate to the effective income tax rate is as follows:

	2009	2008	2007
Statutory rate	35.0%	35.0%	35.0%
Effect of:			
Mexican tax law change	6.5		
Qualified dividends to defined contribution plan	(2.3)	(.4)	(.7)
Research and development credit	(2.1)	(.4)	(.3)
Tax on foreign earnings	.8	(4.6)	(4.1)
Tax contingencies	2.2	(.3)	(.1)
Other, net	(4.0)	1.2	.6
	36.1%	30.5%	30.4%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

58

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, 2009, the amount of undistributed earnings which are considered to be indefinitely reinvested is \$3,117.8.

At December 31, 2009, the Company had net operating loss carryforwards of \$365.7, of which \$209.0 were in foreign subsidiaries and \$156.7 were in the U.S. The related deferred tax asset was \$70.9. The carryforward periods range from five years to indefinite, subject to certain limitations under applicable laws. At December 31, 2009, the Company has U.S. tax credit carryforwards of \$68.4, most of which expire in 2018 and 2019. The future tax benefits of net operating loss and credit carryforwards are evaluated on a regular basis, including a review of historical and projected operating results.

The tax effects of temporary differences representing deferred tax assets and liabilities are as follows:

At December 31,	2009	2008
<i>Assets:</i>		
Accrued expenses	\$ 123.2	\$ 156.4
Net operating loss carryforwards	70.9	54.0
Tax credit carryforwards	68.4	
Allowance for losses on receivables	54.4	58.0
Postretirement benefit plans	15.6	124.3
Other	98.7	152.1
	431.2	544.8
Valuation allowance	(4.0)	(5.4)
	427.2	539.4
<i>Liabilities:</i>		
Financial Services leasing depreciation	(524.1)	(524.1)
Depreciation and amortization	(167.9)	(116.4)
Other	(16.9)	(55.1)
	(708.9)	(695.6)
Net deferred tax liability	\$ (281.7)	\$(156.2)

The balance sheet classification of the Company's deferred tax assets and liabilities are as follows:

At December 31,	2009	2008
<i>Truck and Other:</i>		
Other current assets	\$ 76.9	\$ 83.5
Other noncurrent assets	135.8	195.3
Accounts payable, accrued expenses and other	(.1)	(13.3)
Other liabilities	(35.0)	(13.1)
<i>Financial Services:</i>		
Other assets	68.0	56.4
Deferred taxes and other liabilities	(527.3)	(465.0)
Net deferred tax liability	\$ (281.7)	\$(156.2)

Cash paid for income taxes was \$67.3, \$452.0 and \$412.9 in 2009, 2008 and 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

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

59

	2009	2008	2007
Balance at January 1	\$ 37.1	\$ 57.9	\$ 54.3
Additions based on tax positions and settlements related to the current year	1.1	7.1	11.4
Additions based on tax positions and settlements related to the prior year	14.9	2.6	8.7
Reductions for tax positions of prior years	(6.5)	(20.7)	(11.6)
Lapse of statute of limitations	(2.5)	(9.8)	(4.9)
Balance at December 31	\$ 44.1	\$ 37.1	\$ 57.9

The Company had \$21.8 and \$15.3 of related assets at December 31, 2009 and 2008. All of the unrecognized tax benefits and related assets would impact the effective tax rate if recognized. Based on the resolution of certain tax examinations in January 2010, the Company anticipates a decrease of \$11.3 to its unrecognized tax benefits during the first quarter of 2010.

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, 2009, 2008 and 2007. Amounts accrued for the payment of penalties and interest at December 31, 2009 and 2008 were also not significant.

As of December 31, 2009, the United States Internal Revenue Service has completed examinations of the Company's tax returns for all years through 2004. The Company's tax returns for other major jurisdictions remain potentially subject to examination for the years ranging from 2003 through 2009.

O. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Income (Loss): Following are the components of accumulated other comprehensive income:

<i>At December 31,</i>	2009	2008	2007
Unrealized gain on investments	\$ 1.4	\$ 1.0	\$ 3.2
Tax effect	(.5)	(.4)	(1.3)
	.9	.6	1.9
Unrealized loss on derivative contracts	(73.4)	(121.7)	(18.8)
Tax effect	25.0	39.4	10.6
	(48.4)	(82.3)	(8.2)
Pension and postretirement:			
Unrecognized:			
Actuarial loss	(444.7)	(525.9)	(131.6)
Prior service cost	(14.7)	(16.0)	(20.0)
Net initial obligation	(.6)	(2.3)	(3.5)
Tax effect	159.9	195.9	53.3
	(300.1)	(348.3)	(101.8)
Currency translation adjustment	383.8	160.2	516.2
Accumulated other comprehensive income (loss)	\$ 36.2	\$(269.8)	\$408.1

Other Capital Stock Changes: PACCAR had 409,000 treasury shares at December 31, 2009, and 2008, and 1,278,900 treasury shares at December 31, 2007.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

60

P. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used to hedge exposures to fluctuations in interest rates and foreign currency exchange rates. Certain derivative instruments designated as either cash flow hedges or fair value hedges are subject to hedge accounting. Derivative instruments that are not subject to hedge accounting are held as economic hedges. The Company's policies prohibit the use of derivatives for speculation or trading. At inception of each hedge relationship, the Company documents its risk management objectives, procedures and accounting treatment. Exposure limits and minimum credit ratings are used to minimize the risks of counterparty default. The Company had no material exposures to default at December 31, 2009.

Interest-Rate Contracts: The Company enters into various interest-rate contracts, including interest-rate swaps and cross currency interest-rate swaps. Interest-rate swaps involve the exchange of fixed for floating rate or floating for fixed rate interest payments based on the contractual notional amounts in a single currency. Cross currency interest-rate swaps involve the exchange of notional amounts and interest payments in different currencies. These contracts are used to manage exposures to fluctuations in interest rates and foreign currency exchange rates. Net amounts paid or received are reflected as adjustments to interest expense.

At December 31, 2009, the notional amount of the Company's interest-rate contracts was \$3,541.2. Notional maturities for all interest-rate contracts are \$1,396.0 for 2010, \$1,148.9 for 2011, \$826.5 for 2012, \$29.3 for 2013 and \$140.5 for 2014. 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.

Foreign-Exchange Contracts: The Company enters into foreign-exchange contracts to hedge certain anticipated transactions and assets and liabilities denominated in foreign currencies, particularly the Canadian dollar, the euro, the British pound, the Australian dollar and the Mexican peso. At December 31, 2009, the notional amount of the outstanding foreign-exchange contracts was \$155.1. Foreign-exchange contracts mature within one year.

The following table presents the balance sheet locations and fair value of derivative financial instruments:

<i>At December 31, 2009</i>	ASSETS	LIABILITIES
Derivatives designated under hedge accounting:		
<i>Interest-rate contracts:</i>		
Financial Services:		
Other assets	\$ 10.8	
Deferred taxes and other liabilities		\$ 107.1
<i>Foreign-exchange contracts:</i>		
Truck and Other:		
Deferred taxes and other current assets	.1	
Accounts payable and accrued expenses		.2
Total	\$ 10.9	\$ 107.3
Economic hedges:		
<i>Interest-rate contracts:</i>		
Financial Services:		
Other assets	\$.4	
Deferred taxes and other liabilities		\$ 9.0
<i>Foreign-exchange contracts:</i>		
Truck and Other:		
Accounts payable, accrued expenses and other		.2
Financial Services:		
Other assets	.3	
Deferred taxes and other liabilities		.1
Total	\$.7	\$ 9.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

Substantially all of the Company's interest-rate contracts and some foreign-exchange contracts have been designated as cash flow hedges. The Company uses regression analysis to assess and measure effectiveness of interest-rate contracts. For foreign-exchange contracts, the Company performs quarterly assessments to ensure that critical terms continue to match. Gains or losses on the ineffective portion of cash flow hedges are recognized currently in earnings and were immaterial for 2009. Hedge accounting is discontinued prospectively when the Company determines that a derivative financial instrument has ceased to be a highly effective hedge.

Fair Value Hedges: Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings together with the changes in fair value of the hedged item attributable to the risk being hedged. In 2009, the Company recognized income of \$3.6 on interest rate swaps designated as fair value hedges which was offset by \$3.9 of expense on the fixed-rate term notes being hedged. Both the income and expense were recorded in the Financial Services segment in Interest and other borrowing expenses.

Cash Flow Hedges: Changes in the fair value of derivatives designated as cash flow hedges are recorded in accumulated other comprehensive income to the extent such hedges are considered effective. Amounts in accumulated other comprehensive income are reclassified into net income in the same period in which the hedged transaction affects earnings. Net realized gains and losses from interest-rate contracts are recognized as an adjustment to interest expense. 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.

The following table presents the pre-tax effects of derivative instruments recognized in earnings and Other Comprehensive Income (OCI):

<i>Year Ended December 31, 2009</i>	INTEREST-RATE CONTRACTS	FOREIGN- EXCHANGE CONTRACTS
(Gain) loss recognized in OCI:		
Truck and Other		\$ (.6)
Financial Services	\$ 72.0	.2
Total	\$ 72.0	\$ (.4)

(Income) expense reclassified from Accumulated OCI into income:

Truck and Other:		
Cost of sales and revenues		\$(10.0)
Interest and other expense (income), net		(1.7)
Financial Services:		
Interest and other borrowing expenses	\$131.4	.2
Total	\$131.4	\$(11.5)

Of the \$48.4 accumulated net loss on derivative contracts included in accumulated other comprehensive income as of December 31, 2009, \$39.3, net of taxes, is expected to be reclassified to interest expense or cost of sales in the following 12 months. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

62

Economic Hedges: Changes in the fair value of economic hedges are recorded in earnings in the period in which the change occurs.

The (income) or expense recognized in earnings related to economic hedges is as follows:

<i>Year Ended December 31, 2009</i>	INTEREST-RATE CONTRACTS	FOREIGN EXCHANGE CONTRACTS
Truck and Other:		
Cost of sales and revenues		\$(14.4)
Interest and other expense (income), net	\$ 6.1	18.3
Financial Services:		
Interest and other borrowing expenses	4.0	2.3
Total	\$10.1	\$ 6.2

Q. FAIR VALUE MEASUREMENTS

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy of fair value measurements is described below.

Level 1 – Valuations are based on quoted prices that the Company has the ability to obtain in actively traded markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market or exchange traded market, valuation of these instruments does not require a significant degree of judgment.

Level 2 – Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuations are based on model-based techniques for which some or all of the assumptions are obtained from indirect market information that is significant to the overall fair value measurement and which require a significant degree of management judgment. The Company has no financial instruments requiring Level 3 valuation.

The Company uses the following methods and assumptions to measure fair value for assets and liabilities subject to recurring fair value measurements.

Marketable Securities: The Company's marketable debt securities consist of municipal bonds, government obligations and investment-grade corporate bonds. The fair value of government obligations is based on quoted prices in active markets. These are categorized as Level 1. The fair value of municipal bonds and corporate bonds are estimated using recent transactions, market price quotations and pricing models that consider, where applicable, interest rates and other observable market information. These bonds are categorized as Level 2.

Derivative Financial Instruments: The Company's derivative contracts consist of interest rate contracts and foreign currency exchange contracts. These derivative contracts are over the counter and their fair value is determined using modeling techniques that include market inputs such as interest rates, yield curves and currency exchange rates. These contracts are categorized as Level 2. A portion of the Company's fixed-rate term notes has been converted to variable-rate term notes using fair value hedges for interest-rate risk. Fair value is determined using modeling techniques that include market inputs for interest rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

PACCAR's assets and liabilities subject to recurring fair value measurements, are either Level 1 or Level 2 as follows:

63

<i>At December 31, 2009</i>	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities	\$ 6.5	\$213.0	\$219.5
Derivative contracts		11.6	11.6
Liabilities:			
Derivative contracts		116.6	116.6
<hr/>			
<i>At December 31, 2008</i>	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities	\$ 6.9	\$168.5	\$175.4
Derivative contracts		60.4	60.4
Liabilities:			
Derivative contracts		173.0	173.0

Other nonfinancial assets that are measured at fair value on a nonrecurring basis are as follows:

<i>At December 31,</i>	2009	2008
	LEVEL 2	LEVEL 2
Used trucks held for sale:		
Truck and Other	\$ 28.1	\$ 27.9
Financial Services	124.7	96.6
	\$152.8	\$124.5

The carrying amount of used trucks held for sale is written down when appropriate to reflect their fair value. The fair value of used trucks is determined based on management's evaluation of factors such as recent sales prices of comparable units, the condition of the vehicles and the number of similar units to be sold. Used truck write-downs during 2009 were \$34.7. Of the \$34.7 recorded in 2009, \$18.0 was recorded in cost of sales in the truck segment and \$16.7 was recorded in the financial services segment (credit losses of \$4.7 and depreciation and other expense of \$12.0). The amount of used truck write-downs was \$23.5 for the year ended December 31, 2008 of which \$12.1 was recorded in cost of sales in the truck segment and \$11.4 was recorded in the financial services segment (credit losses of \$9.2 and depreciation and other expense of \$2.2).

The Company used the following methods and assumptions to determine the fair value of financial instruments that are not recognized at fair value as described below.

Cash and Cash Equivalents: Carrying amounts approximate fair value.

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.

Debt: The carrying amounts of financial services commercial paper, variable-rate bank loans and variable-rate term notes approximate fair value. For fixed-rate debt, fair values are estimated using discounted cash flow analysis based on current rates for comparable debt.

Trade Receivables and Payables: Carrying amounts approximate fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

64

Fixed-rate loans that are not carried at approximate fair value are as follows:

At December 31,	2009		2008	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets:				
Financial Services fixed-rate loans	\$2,491.1	\$2,539.0	\$3,011.1	\$3,030.8
Liabilities:				
Truck and Other fixed-rate debt	172.3	192.4	19.3	18.6
Financial Services fixed-rate debt	1,645.4	1,746.7	752.7	788.1

R. 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, 2009, the maximum number of shares available for future grants was 17.7 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 ten years from the grant date and generally vest within three years. Stock option activity is summarized below:

	NUMBER OF SHARES	EXERCISE PRICE*
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
Granted	734,300	45.74
Exercised	(403,000)	16.95
Cancelled	(241,000)	39.50
Outstanding at 12/31/08	5,799,300	26.39
Granted	1,182,800	30.81
Exercised	(1,181,900)	14.99
Cancelled	(232,500)	41.36
Outstanding at 12/31/09	5,567,700	\$ 29.12

*Weighted Average

For options exercised, the aggregate difference between the market price and strike price on the date of exercise was \$22.7 in 2009, \$10.8 in 2008 and \$40.4 in 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

The following tables summarize information about options outstanding at December 31, 2009:

65

RANGE OF EXERCISE PRICES	NUMBER OF SHARES	REMAINING CONTRACTUAL LIFE IN YEARS	AVERAGE EXERCISE PRICE*
<i>Exercisable:</i>			
\$ 8.25-10.20	464,600	1.1	\$10.16
12.54-13.96	958,300	2.6	13.28
25.31	437,800	4.0	25.31
32.11-32.23	1,340,700	5.6	32.17
	3,201,400	3.8	22.39
<i>Not Exercisable:</i>			
44.56	624,400	7.1	44.56
45.74	601,700	8.1	45.74
30.81	1,140,200	9.1	30.81
	2,366,300	8.3	38.23
	5,567,700	5.7	\$29.12

*Weighted Average

The fair value of restricted stock awards was determined based on the stock price at the award date. Certain restricted stock awards granted in 2008 and 2007 contain conditions tied to the Company's performance over a five year period. Compensation expense for awards with performance conditions is recorded only when it is probable that the requirements will be achieved. Compensation expense related to restricted stock awards with only service conditions is recognized over the requisite service period.

Realized tax benefits for 2009 of \$7.1 and 2008 of \$3.7 related to the excess of deductible amounts over compensation costs recognized have been classified as a financing cash flow. Stock based compensation expense was \$9.5, \$10.2 and \$12.3 in 2009, 2008 and 2007 respectively. As of December 31, 2009, there was \$7.7 of unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a remaining weighted-average vesting period of 1.7 years. Unrecognized compensation cost at December 31, 2009, related to unvested restricted stock awards of \$1.0 is expected to be recognized over a remaining weighted-average vesting period of 2.2 years.

The estimated fair value of stock options granted during 2009, 2008 and 2007 was \$8.47, \$8.58 and \$10.10 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:

	2009	2008	2007
Risk-free interest rate	2.00%	2.86%	4.80%
Expected volatility	39%	29%	30%
Expected dividend yield	3.0%	4.0%	4.0%
Expected term	5 years	5 years	5 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

66

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 nil, \$17.2 and \$24.9 for 2009, 2008 and 2007, respectively. Included in All Other income before income taxes of \$42.2 in 2009 was \$66.0 of curtailment gains and \$22.2 of expense related to economic hedges. Geographic revenues from external customers are presented based on the country of the customer.

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

<i>Geographic Area Data</i>	2009	2008	2007
Revenues:			
United States	\$3,594.4	\$ 4,765.6	\$ 5,517.5
Europe	2,828.3	7,023.4	6,159.6
Other	1,663.8	3,183.5	3,544.6
	\$8,086.5	\$14,972.5	\$15,221.7
Property, plant and equipment, net:			
United States	\$ 814.6	\$ 820.7	\$ 621.1
The Netherlands	452.8	467.3	480.7
Other	490.3	494.8	540.8
	\$1,757.7	\$ 1,782.8	\$ 1,642.6
Equipment on operating leases, net:			
United States	\$ 686.6	\$ 634.9	\$ 464.4
Germany	362.7	358.4	243.3
United Kingdom	349.7	290.9	342.8
Mexico	186.7	212.4	186.6
Other	431.3	463.5	570.8
	\$2,017.0	\$ 1,960.1	\$ 1,807.9
<i>Business Segment Data</i>	2009	2008	2007
Net sales and revenues:			
Truck			
Total	\$7,388.6	\$14,142.7	\$14,295.7
Less intersegment	(394.6)	(595.3)	(441.4)
Net Truck	6,994.0	13,547.4	13,854.3
All Other	82.7	162.2	176.1
Truck and Other	7,076.7	13,709.6	14,030.4
Financial Services	1,009.8	1,262.9	1,191.3
	\$8,086.5	\$14,972.5	\$15,221.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007 (currencies in millions)

<i>Business Segment Data</i>	2009	2008	2007
Income before income taxes:			
Truck	\$ 25.9	\$ 1,156.5	\$ 1,352.8
All Other	42.2	6.0	32.0
	68.1	1,162.5	1,384.8
Financial Services	84.6	216.9	284.1
Investment income	22.3	84.6	95.4
	\$ 175.0	\$ 1,464.0	\$ 1,764.3
Depreciation and amortization:			
Truck	\$ 277.2	\$ 309.0	\$ 261.4
Financial Services	350.8	329.4	252.7
All Other	10.1	11.0	12.3
	\$ 638.1	\$ 649.4	\$ 526.4
Expenditures for long-lived assets:			
Truck	\$ 324.2	\$ 671.6	\$ 562.3
Financial Services	646.0	859.4	671.7
All Other	.8	19.0	33.4
	\$ 971.0	\$ 1,550.0	\$ 1,267.4
Segment assets:			
Truck	\$ 3,849.1	\$ 3,939.3	\$ 3,846.7
Other	232.6	205.5	238.2
Cash and marketable securities	2,056.0	2,074.6	2,515.0
	6,137.7	6,219.4	6,599.9
Financial Services	8,431.3	10,030.4	10,710.3
	\$14,569.0	\$16,249.8	\$17,310.2

67

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

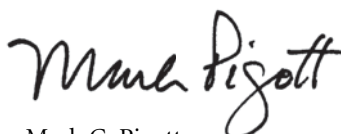
68

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, 2009, 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, 2009.

Ernst & Young LLP, the Independent Registered Public Accounting Firm that audited the financial statements included in this Annual Report, has issued an attestation report on the Company's internal control over financial reporting. The attestation report is included on page 69.



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

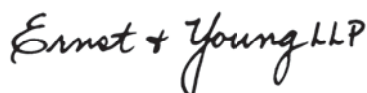
We have audited the accompanying consolidated balance sheets of PACCAR Inc as of December 31, 2009 and 2008, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial 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, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PACCAR Inc's internal control over financial reporting as of December 31, 2009, 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 26, 2010 expressed an unqualified opinion thereon.

Seattle, Washington
February 26, 2010



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

The Board of Directors and Stockholders of PACCAR Inc

69

We have audited PACCAR Inc's internal control over financial reporting as of December 31, 2009, 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, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PACCAR Inc as of December 31, 2009 and 2008 and the related consolidated statements of income, comprehensive income, stockholders' equity, cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 26, 2010 expressed an unqualified opinion thereon.

Seattle, Washington
February 26, 2010

Ernst + Young LLP

SELECTED FINANCIAL DATA

70

	2009	2008	2007	2006	2005
	<i>(millions except per share data)</i>				
Truck and Other Net Sales and Revenues	\$ 7,076.7	\$13,709.6	\$14,030.4	\$15,503.3	\$13,298.4
Financial Services Revenues	1,009.8	1,262.9	1,191.3	950.8	759.0
Total Revenues	\$ 8,086.5	\$14,972.5	\$15,221.7	\$16,454.1	\$14,057.4
Net Income	\$ 111.9	\$ 1,017.9	\$ 1,227.3	\$ 1,496.0	\$ 1,133.2
Net Income Per Share:					
Basic	.31	2.79	3.31	3.99	2.93
Diluted	.31	2.78	3.29	3.97	2.92
Cash Dividends Declared Per Share	.54	.82	1.65	1.84	1.28
Total Assets:					
Truck and Other	6,137.7	6,219.4	6,599.9	6,296.2	5,359.5
Financial Services	8,431.3	10,030.4	10,710.3	9,811.2	8,355.9
Truck and Other Long-Term Debt	172.3	19.3	23.6	20.2	20.2
Financial Services Debt	5,900.5	7,465.5	7,852.2	7,259.8	6,226.1
Stockholders' Equity	5,103.7	4,846.7	5,013.1	4,456.2	3,901.1
Ratio of Earnings to Fixed Charges	1.57x	4.58x	5.36x	7.78x	9.62x

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. There were 2,273 record holders of the common stock at December 31, 2009.

QUARTER	2009			2008		
	DIVIDENDS DECLARED	STOCK PRICE HIGH	STOCK PRICE LOW	DIVIDENDS DECLARED	STOCK PRICE HIGH	STOCK PRICE LOW
First	\$.18	\$32.04	\$20.89	\$.18	\$55.54	\$41.14
Second	.18	35.83	26.14	.18	53.81	41.36
Third	.09	39.74	29.13	.18	45.95	36.22
Fourth	.09	39.68	35.31	.18	37.99	21.96
Year-End Extra				.10		

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)

	FIRST	SECOND	THIRD	FOURTH
	QUARTER			
	(millions except per share data)			
2009				
Truck and Other:				
Net sales and revenues	\$1,730.4	\$1,602.3	\$1,758.5	\$1,985.5
Cost of sales and revenues	1,561.1	1,492.8	1,646.5	1,783.0
Research and development	52.3	52.8	43.4	50.7
Financial Services:				
Revenues	255.8	246.6	252.5	254.9
Interest and other borrowing expenses	91.3	73.0	66.7	60.8
Depreciation and other	102.9	107.6	120.0	112.0
Net Income	26.3	26.5	13.0	46.1
Net Income Per Share (1):				
Basic	\$.07	\$.07	\$.04	\$.13
Diluted	.07	.07	.04	.13
2008				
Truck and Other:				
Net sales and revenues	\$3,621.0	\$3,782.0	\$3,682.1	\$2,624.5
Cost of sales and revenues	3,079.3	3,202.2	3,113.5	2,341.9
Research and development	82.9	90.7	88.1	80.1
Financial Services:				
Revenues	317.4	330.5	322.8	292.2
Interest and other borrowing expenses	95.7	104.9	102.1	91.4
Depreciation and other	107.9	112.5	113.1	104.3
Net Income	292.3	313.5	299.0	113.1
Net Income Per Share (1):				
Basic	\$.80	\$.86	\$.82	\$.31
Diluted	.79	.86	.82	.31

(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.

MARKET RISKS AND DERIVATIVE INSTRUMENTS

(currencies in millions)

72

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

Fair Value Gains (Losses)	2009	2008
CONSOLIDATED:		
<i>Assets</i>		
Cash equivalents and marketable securities	\$ (2.4)	\$ (1.4)
TRUCK AND OTHER:		
<i>Liabilities</i>		
Fixed-rate long-term debt	6.8	.5
FINANCIAL SERVICES:		
<i>Assets</i>		
Fixed-rate loans	(40.1)	(50.0)
<i>Liabilities</i>		
Fixed-rate term debt	39.7	14.8
Interest-rate swaps related to financial services debt	30.8	51.8
Total	\$34.8	\$ 15.7

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 P 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 \$24.0 related to contracts outstanding at December 31, 2009, compared to a loss of \$103.0 at December 31, 2008. These amounts would be largely offset by changes in the values of the underlying hedged exposures.

OFFICERS AND DIRECTORS

73

OFFICERS

Mark C. Pigott
Chairman and
Chief Executive Officer

Thomas E. Plimpton
Vice Chairman

James G. Cardillo
President

Daniel D. Sobic
Executive Vice President

Ronald E. Armstrong
Senior Vice President

Robert J. Christensen
Senior Vice President

David C. Anderson
Vice President and
General Counsel

Michael T. Barkley
Vice President and Controller

T. Kyle Quinn
Vice President and
Chief Information Officer

Richard E. Bangert, II
Vice President

Robert A. Bengston
Vice President

Richard T. Gorman
Vice President

Timothy M. Henebry
Vice President

William D. Jackson
Vice President

William R. Kozek
Vice President

Jack K. LeVier
Vice President

Thomas A. Lundahl
Vice President

Helene N. Mawyer
Vice President

George E. West, Jr.
Vice President

Robin E. Easton
Treasurer

Janice M. D'Amato
Secretary

DIRECTORS

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

Alison J. Carnwath
Chairman
MF Global Ltd. (2, 4)

John M. Fluke, Jr.
Chairman
Fluke Capital Management, L.P. (1, 3, 4)

Kirk S. Hachigian
Chairman and
Chief Executive Officer
Cooper Industries, plc (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 (1)

John M. Pigott
Partner
Beta Business Ventures LLC

Thomas E. Plimpton
Vice Chairman
PACCAR Inc

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

Gregory M. E. Spierkel
Chief Executive Officer
Ingram Micro Inc. (2)

Warren R. Staley
Retired Chairman and
Chief Executive Officer
Cargill Inc. (4)

Charles R. Williamson
Chairman
Weyerhaeuser Company and
Chairman
Talisman Energy Inc. (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

Factory:
 Denton, Texas

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

Factory:
 Ste-Thérèse, Quebec

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

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

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

Factories:
 Eindhoven,
 The Netherlands
 Westerlo, Belgium

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

Factory:
 Leyland, Lancashire

Kenworth Mexicana, S.A. de C.V.
 Calzada Gustavo Vildósola
 Castro 2000
 Mexicali, Baja California Mexico

Factory:
 Mexicali, Baja California

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

Factory:
 Bayswater, Victoria

TRUCK PARTS AND SUPPLIES

PACCAR 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 Mexicana S.A. de C.V.
 Calzada Gustavo Vildósola
 Castro 2000
 Mexicali, Baja California Mexico

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

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

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

EXPORT SALES

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

Offices:
 Beijing, People's Republic of China
 Jakarta, Indonesia
 Manama, Bahrain
 Miami, Florida
 Moscow, Russia

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

Web site
www.paccar.com



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

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

**Online Delivery of
Annual Report and Proxy
Statement**
PACCAR's 2009 Annual Report and the 2010 Proxy Statement are available on PACCAR's Web site at [www.paccar.com/
2010annualmeeting/](http://www.paccar.com/2010annualmeeting/)

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.

AeroCab, AERODYNE, Air Leaf, Braden, Carco, ComfortClass, Connect, DAF, Dynacraft, Gearmatic, Kenmex, Kenworth, Kenworth Clean Power, Leyland, Magnum, MAX-card, PACCAR, PACCAR MX, PACCAR PX, PacLease, PacTrac, Peterbilt, PX-6, PX-8, The World's Best, TRP, UltraCab and Unibilt 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](http://www.paccar.com/investors/investor_resources.asp), under SEC Filings.

**Annual Stockholders'
Meeting**
April 20, 2010, 10:30 a.m.
Meydenbauer Center
11100 N.E. Sixth Street
Bellevue, Washington
98004

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