PACCAR

2014 ANNUAL REPORT

STATEMENT OF COMPANY BUSINESS

PACCAR is a global technology company that designs and manufactures premium quality light, medium and heavy duty commercial vehicles sold worldwide under the Kenworth, Peterbilt and DAF nameplates. PACCAR designs and manufactures diesel engines for use in its own products and for sale to third party manufacturers of trucks and buses. 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. PACCAR manufactures and markets industrial winches under the Braden, Carco and Gearmatic nameplates. PACCAR maintains exceptionally high standards of quality for all of its products: they are well engineered, highly customized for specific applications and sell in the premium segments of their markets, where they have a reputation for superior performance and pride of ownership.

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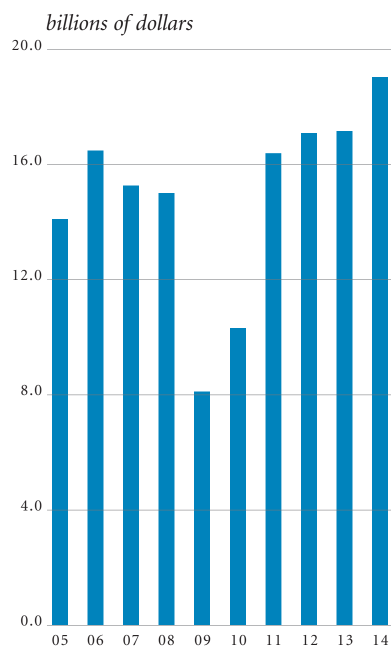
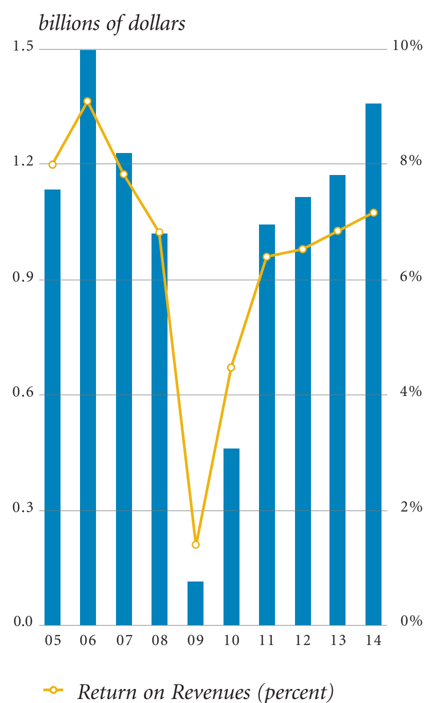
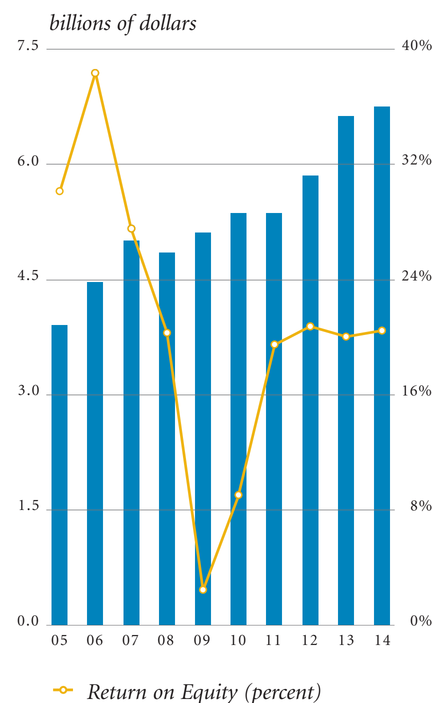
FINANCIAL HIGHLIGHTS

	2014	2013
	(millions except per share data)	
Truck, Parts and Other Net Sales and Revenues	**$17,792.8**	$15,948.9
Financial Services Revenues	**1,204.2**	1,174.9
Total Revenues	**18,997.0**	17,123.8
Net Income	**1,358.8**	1,171.3
Total Assets:		
Truck, Parts and Other	**8,701.5**	9,095.4
Financial Services	**11,917.3**	11,630.1
Truck, Parts and Other Long-Term Debt		150.0
Financial Services Debt	**8,230.6**	8,274.2
Stockholders' Equity	**6,753.2**	6,634.3
Per Common Share:		
Net Income:		
Basic	**$ 3.83**	$ 3.31
Diluted	**3.82**	3.30
Cash Dividends Declared	**1.86**	1.70







PACCAR is celebrating 110 years of success in 2015. It is a major milestone that speaks eloquently to the steady and consistent leadership of the company and the unwavering commitment of all employees to exceed our customers' expectations by delivering the highest quality products and services. PACCAR has strived to be at the forefront of technology for over a century and the world class range of company products reflects that dedicated resolve. PACCAR is recognized as one of the leading technology companies worldwide, and innovation continues to be a cornerstone of its success. PACCAR has integrated new technology, such as 3D component printing, to profitably support its business, as well as its dealers, customers and suppliers.

PACCAR has achieved excellent financial results by focusing on the premium quality segment of our industry – a notable record considering the cyclicality of the capital goods business. The company is also an environmental leader and has pioneered "no waste to landfill," led the industry in sales of alternative fuel vehicles and reduced its carbon footprint. Our shareholders have enjoyed excellent returns, with steady regular dividend growth and increased shareholder value. I would like to thank the tens of thousands of employees whose hard work, ingenuity and drive for quality through the decades have enabled PACCAR to grow into a global technology company.

The Board views succession planning as a critical responsibility and we are pleased that the transition to Ron Armstrong, chief executive officer, has been very smooth. Ron and team are experienced executives who have managed through many business cycles and have delivered outstanding results to our shareholders.

PACCAR had an excellent year in 2014 as it achieved record revenues due to good truck markets in North America and excellent results in the financial services and aftermarket parts businesses. Customers renewed and expanded their fleets, reflecting strong freight demand. PACCAR's financial results benefited from global diversification as the strong North American truck market countered the slower European truck market. The company has realized excellent synergies globally in product development, sales and finance activities, purchasing and manufacturing.

PACCAR's superb credit rating of A+/A1 results from consistent profitability, a strong balance sheet and excellent cash flow. PACCAR increased its regular quarterly dividend by 10 percent to $0.22/share and declared a special dividend of $1.00/share. Regular quarterly cash dividends have more than doubled in the last ten years. Shareholders' equity was a record $6.75 billion at year end.

On behalf of the company, I would like to thank John Fluke, who is retiring from the Board of Directors after 30 years of outstanding commitment and exemplary dedication to the global growth of PACCAR. Our shareholders have benefited from John's knowledge of the industry, excellent governance and broad perspective in analyzing business opportunities. John's thorough understanding of the cyclical capital goods business has enabled the company to make important investments during all phases of the business cycle. His focus on the long-term, rather than being swayed by business fads that do not stand the test of time, has kept the company on a steady profitable path. We are grateful for

John's wisdom, counsel, insight and friendship that have nurtured several generations of management leaders and contributed outstanding financial results to our shareholders.

I am pleased that the Board has elected Beth Ford to the Board of Directors, effective April 21, 2015. Beth's global experience and understanding of information technology and consumer markets will make an excellent contribution to PACCAR's success.

PACCAR and its employees are proud of the remarkable achievement of 76 consecutive years of net profit. The PACCAR Board of Directors embraces a long-term view of the business, and our shareholders have benefited from that approach. The embedded principles of integrity, quality and consistency of purpose define the course in PACCAR's operations. The proven business strategy — deliver technologically advanced premium products and provide an extensive array of tailored aftermarket customer services — enables PACCAR to pragmatically approach growth opportunities. We look forward to enhancing PACCAR's stellar reputation as a leading technology company in the capital goods and financial services marketplace.

Mark Pigott

MARK C. PIGOTT
Executive Chairman
February 18, 2015

PACCAR had an excellent year in 2014, achieving record revenues of $18.99 billion due to a strong truck market in North America and growth in aftermarket parts sales and financial services assets worldwide. Net income of $1.36 billion was the second best in company history. The company has earned an impressive 76 consecutive years of net income. This remarkable achievement was due to our 23,000 employees delivering industry-leading product quality and innovation, and outstanding operating efficiency. The benefits of global diversification were evident in 2014, with the strength of the North American truck market more than offsetting lower truck demand in Europe. PACCAR's superior financial strength enabled the company to invest $439 million in capital projects and research and development in 2014 to enhance its manufacturing capability, expand its range of vehicles and engines and strengthen its aftermarket capabilities. PACCAR delivered 142,900 trucks to its customers and sold a record $3.1 billion of aftermarket parts. PACCAR's excellent credit rating of A+/A1 supported PACCAR Financial Services' new loans and leases of $4.5 billion. Shareholders' equity was a record $6.75 billion.

Class 8 industry truck sales in North America, including Mexico, were 270,000 vehicles in 2014 compared to 236,000 the prior year. The European 16+ tonne market in 2014 declined to 227,000 vehicles compared to 241,000 in 2013. Customers in North America are generating good profits due to increased shipments, improved freight rates and higher fleet utilization.

PACCAR's excellent financial performance in 2014 benefited from record pre-tax profits for PACCAR Parts and PACCAR Financial Services. The company's 2014 after-tax return on revenues was 7.2%. After-tax return on beginning shareholder equity (ROE) was 20.5% in 2014 compared to 20.0% in 2013. PACCAR's long-term financial performance has enabled the company to distribute over $4.8 billion in dividends during the last 10 years. PACCAR's average annual total shareholder return over the last decade was 9.9%, versus 7.7% for the S&P 500 Index.

INVESTING FOR THE FUTURE — PACCAR's consistent profitability, strong balance sheet and intense focus on quality, technology and productivity have allowed the company to invest $5.8 billion in the last decade in world-class facilities, innovative products and new technologies. Productivity and efficiency improvements of 5-7% annually and capacity improvements of nearly 15% in the last five years have enhanced the capability of the company's manufacturing and parts facilities.

In 2014, capital investments were $223 million and research and development expenses were $216 million. PACCAR launched new truck models and expanded its product range, invested in global expansion and enhanced its manufacturing efficiency during the year. The new Kenworth T680 *Advantage*, Peterbilt Model 579 EPIQ and DAF XF and CF Euro 6 Transport Efficiency vehicles are leaders in fuel efficiency and premium quality. PACCAR's Mississippi engine factory produced a record number of PACCAR MX-13 and MX-11 engines in 2014. PACCAR engines installed in Kenworth and Peterbilt trucks total over 75,000 since engine production began in 2010. Customers benefit from the PACCAR MX engines' excellent fuel economy, light weight and reliability.

PACCAR expanded its investment in the BRIC countries (Brasil, Russia, India, China) in 2014. The company's new DAF factory in Ponta Grossa, Brasil completed its first full year of truck production. PACCAR Parts increased parts sales to DAF and Kenworth dealers in Russia by 31%. The PACCAR Technical Center in Pune, India provided excellent support to PACCAR's global product and technology initiatives and qualified many world-class Indian automotive suppliers for PACCAR. In China, the world's largest truck market, PACCAR expanded its purchasing activities and continued to examine joint venture opportunities.

SIX SIGMA — Six Sigma is integrated into all business activities at PACCAR and has been adopted at 280 of the company's suppliers and many of the company's dealers and customers. Six Sigma's statistical methodology is critical in the development of new product designs, customer services and manufacturing processes. Since 1997, Six Sigma has delivered over $2.6 billion in cumulative savings in all facets of the company. Over 15,000 employees have been trained in Six Sigma and 26,100 projects have been implemented. 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 and its 740 innovative employees are an important competitive asset for the company. PACCAR develops and integrates software and hardware to enhance the quality and efficiency of all products and operations throughout the company. In 2014, PACCAR was again recognized as a technology leader by *InformationWeek* magazine's "2014 Elite 100 Companies." Over 29,000 dealers, customers, suppliers and employees have experienced PACCAR's Technology Centers, which highlight electronic work instructions, mobile computing, an electronic leasing and finance office and an automated service analyst.

TRUCKS — U.S. and Canadian Class 8 industry retail sales in 2014 were 250,000 units and the Mexican market totaled 20,000. The European Union (EU) industry 16+ tonne sales were 227,000 units.

PACCAR's Class 8 retail sales in the U.S. and Canada achieved a market share of 27.9% in 2014. DAF achieved a 13.8% share in the 16+ tonne truck market in Europe. Industry Class 6 and 7 truck retail sales in the U.S. and Canada were 73,000 units, up 11% from the previous year. In the EU, the 6 to 16-tonne market was 47,000 units, down 18% compared to 2013. PACCAR's market shares in the U.S. and Canadian and European medium-duty truck segments were 16.7% and 8.8%, respectively, as the company delivered 22,300 medium-duty vehicles in 2014.

A tremendous team effort by the company's engineering, purchasing, human resources, materials and production employees enabled the rapid acceleration of truck production rates in our North American factories to meet growing customer demand.

PACCAR's product innovation and manufacturing expertise continued to be recognized as the industry leader in 2014. PACCAR's engine factory in Columbus, Mississippi and Peterbilt's truck factory in Denton, Texas earned Frost and Sullivan's "*Manufacturing Leadership*" awards. DAF was awarded "*LGV Manufacturer of the Year*" in the United Kingdom by "*Green Fleet Magazine*."

PACCAR Mexico continues its sales leadership, achieving a 41% Class 8 market share. PACCAR truck deliveries in South America increased 36% in 2014.

PACCAR Australia achieved strong results in 2014 with combined heavy-duty market share of Kenworth and DAF of 23.5%. Kenworth introduced the PACCAR MX-13 engine for its Kenworth T400 truck models and unveiled a new conventional cab.

AFTERMARKET CUSTOMER SERVICES — PACCAR Parts had record revenues and profits in 2014 as dealers and customers embraced new innovative e-commerce platforms, national billing services and customized vehicle maintenance programs. With sales of $3.1 billion, PACCAR Parts is the primary source for aftermarket parts and services for PACCAR vehicles, as well as supplying its "TRP" branded parts for all makes of trucks, trailers and buses. Over six million heavy-duty trucks operate in North America and Europe. The large vehicle parc and the growing number of PACCAR MX engines installed in Peterbilt and Kenworth trucks in North America create excellent demand for parts and service and moderate the cyclicality of truck sales.

PACCAR Parts expanded its facilities to enhance logistics performance to dealers and customers. PACCAR Parts' new Montreal distribution center opened in October 2014 and construction began on a new 160,000 square-foot distribution center in Renton, Washington. PACCAR Parts continues to lead the industry with technology that offers competitive advantages at PACCAR dealerships.

FINANCIAL SERVICES — PACCAR Financial Services' (PFS) conservative business approach, coupled with PACCAR's superb S&P credit rating of A+ and the strength of the dealer network, enabled PFS to earn record pre-tax profits in 2014. PACCAR issued $1.6 billion in medium-term notes at attractive rates during the year. The PACCAR Financial Services group of companies has operations covering four continents and 22 countries. The global breadth of PFS and its rigorous credit application process support a portfolio of 166,000 trucks and trailers, with total assets of $11.9 billion. PACCAR Financial Corp. is the preferred funding source in North America for Peterbilt and Kenworth trucks, financing 21% of dealer Class 8 sales in the U.S. and Canada in 2014. Strategically located used truck centers, interactive webcasts and targeted marketing enabled PFS to sell over 8,000 used trucks worldwide.

PACCAR Financial Europe (PFE) focuses on the financing of new and used DAF trucks. PFE provides wholesale and retail financing for DAF dealers and customers in 15 European countries, and in 2014 financed over 26% of DAF's 6+ tonne vehicle sales.

PACCAR Leasing (PacLease) expanded its fleet to a record 38,000 vehicles. PacLease placed 6,700 new PACCAR vehicles in service in 2014. PacLease represents one of the largest full-service truck rental and leasing operations in North America and Germany and continued to increase its market presence in 2014, expanding its truck rental fleet by 20%.

ENVIRONMENTAL LEADERSHIP — PACCAR is a global environmental leader. All PACCAR manufacturing facilities have earned ISO 14001 environmental certification. The company's manufacturing facilities enhanced their "Zero Waste to Landfill" programs during the year. PACCAR joined the CDP (formerly

known as the Carbon Disclosure Project), which aligns corporate environmental goals with national and local "green" initiatives. PACCAR earned an excellent initial score of 94 (out of 100).

A LOOK AHEAD — PACCAR's 23,000 employees enable the company to distinguish itself as a global leader in the technology, capital goods, financial services and aftermarket parts businesses. The outlook for 2015 is good in North America as the economy is expected to generate growth of about 3%. The European economy is expected to grow about 1%.

The North American truck market is expected to build on the momentum gained during 2014, while the European truck market is forecast to be similar to 2014 as limited economic growth will affect heavy-duty truck demand. Current estimates for the 2015 Class 8 truck industry in the U.S. and Canada indicate that truck sales could range from 250,000-280,000 units. Sales for Class 6-7 trucks are expected to be between 70,000-80,000 vehicles. The European 16+ tonne truck market in 2015 is estimated to be in the range of 200,000-240,000 trucks, while demand for medium-duty trucks should range from 45,000-55,000 units.

PACCAR Parts' industry-leading services and strong freight demand in North America should deliver continued growth of the company's aftermarket parts business. PACCAR Financial is expected to perform well due to a good economy in North America and lower fuel prices.

PACCAR's new range of vehicles, modern high technology factories and superb customer service in parts and financial services provide an excellent foundation for future growth. PACCAR is well positioned and committed to maintaining the profitable results its shareholders expect.

RONALD E. ARMSTRONG
Chief Executive Officer
February 18, 2015

Front Row Left to Right: Kyle Quinn, Dan Sobic, Ron Armstrong, Bob Christensen, Harrie Schippers
Back Row Left to Right: Gary Moore, Michael Barkley, Sam Means, Bob Bengston, Dave Anderson, Jack LeVier

KW
T680

Kenworth produced its one millionth truck, launched the fuel-efficient Kenworth T680 *Advantage*, expanded production of the T880, introduced new medium-duty cabovers and increased PACCAR MX-13 engine sales.

Kenworth, "The World's Best", produced its one millionth truck in November 2014. The T680, Kenworth's most popular model, surpassed 15,000 customer deliveries in 2014. Kenworth unveiled its most fuel-efficient truck configuration, the industry-leading T680 *Advantage*, which features a factory-installed aerodynamic package and integrated powertrain including the PACCAR MX-13 engine, 10-speed automated transmission and lightweight, fuel-efficient rear axle options. The T680 *Advantage* tractor and the Kenworth Tour Trailer introduced the new T680 *Advantage* to 20,000 customers across North America. The new Kenworth Idle Management System for the T680 76" sleeper vehicle delivers fuel savings of up to $3,000 annually by operating the air conditioning when parked without idling the engine.

The T880 surpassed 5,600 customer deliveries in its first year of production and has become a top selling vocational model in Kenworth's range. The T880 is equipped with industry-leading forward lighting, a panoramic windshield offering 40 percent greater visibility and a wider cab with 30 percent more interior space. Kenworth introduced the 52" sleeper for the T880, which is a midsize sleeper configuration designed for heavy haul, bulk haul, flatbed and oilfield applications. The T680 and T880 lightweight, aluminum cabs are robotically assembled at Kenworth's Chillicothe, Ohio plant.

Kenworth installs the PACCAR MX-13 in over 35 percent of its vehicles due to the engine's excellent performance, fuel economy and reliability. The PACCAR MX-13 offers a range of 380 to 500 horsepower and torque up to 1,850 ft-lb.

Kenworth enhanced its natural gas and medium-duty product offerings. The T680 and T880 offer compressed and liquefied natural gas (CNG and LNG) configurations up to 400 horsepower, which reduces greenhouse gas emissions by up to 13 percent. Kenworth launched versatile medium-duty cabovers with extensive exterior and interior enhancements. The K270 and K370 cabovers are the ideal urban delivery truck and are designed with a 30 percent improved turning radius and 45" shorter overall length.

Kenworth's Chillicothe, Ohio and Renton, Washington assembly plants, and the PACCAR plant in Ste-Therese, Quebec increased truck production 30 percent in 2014. Thousands of customers enjoyed Kenworth "Right Choice" events as they experienced Kenworth's product quality, vehicle efficiency, environmental stewardship and customer satisfaction. The Kenworth Chillicothe plant celebrated its 40th anniversary of building The World's Best® trucks.

The Kenworth dealer network expanded to a record 371 locations in the U.S. and Canada.

The Kenworth T680 established an excellent performance standard in the industry with exceptional styling, superior fuel efficiency, outstanding performance and extraordinary comfort. The T680 *Advantage* package offers the latest aerodynamic innovations, further enhancing fuel efficiency and reducing customers' total cost of ownership. The flagship of the World's Best product line also offers best-in-class quietness, reliability, durability and serviceability.

Peterbilt

Peterbilt celebrated its 75th anniversary in 2014 and launched a special anniversary edition of its aerodynamic Model 579. The interactive Peterbilt tour trailer visited hundreds of Peterbilt dealerships throughout North America.

Peterbilt marked its historic 75th anniversary by introducing new, innovative products that provide customers with best-in-class solutions. The new medium-duty Model 220 cabover features 45 additional inches of payload, a 30 percent improvement in a curb-to-curb turning radius and a spacious, ergonomic driver operating environment.

Peterbilt's Model 579 exceptional fuel economy was enhanced by the aerodynamic EPIQ package. EPIQ includes new aerodynamic fairings and powertrain optimization that provides up to a 14 percent improvement in fuel efficiency. One-third of all Peterbilt heavy-duty trucks sold in 2014 were equipped with the PACCAR MX engine due to its excellent reputation for fuel efficiency and dependability.

Many of the technologies on the Model 579 EPIQ were proven on Peterbilt's concept SuperTruck vehicle that achieved an industry-leading result of 10.7 mpg and was the featured vehicle during a U.S. Presidential press conference on the future of commercial vehicle fuel efficiency.

Peterbilt's Driver Performance Assistant is a new fuel efficiency feature, providing operators with a real-time monitoring system that evaluates acceleration, braking and fuel use in a dash-installed gauge package.

Peterbilt continued its leadership in the development and sales of natural gas powered vehicles with a 26 percent market share. Peterbilt introduced natural gas configurations in the Model 348, Model 579 and the Model 567.

Peterbilt's initiatives to deliver operational efficiencies and superior product quality were recognized with prestigious "*Manufacturing Leadership*" awards from Frost & Sullivan's Manufacturing Leadership Council. Peterbilt earned awards for Human Centered Design, Lean Manufacturing Management, and Engineering and Product Technology Leadership.

The Peterbilt Denton, Texas assembly facility delivered a record number of trucks in 2014 and has produced over 440,000 Peterbilt trucks since the factory opened in 1980. Peterbilt added 25 dealer locations during 2014 and grew its sales and service network to 307 locations throughout North America. Peterbilt launched the Peterbilt Technician Institute, which trains certified dealer technicians in Peterbilt chassis and PACCAR engine service. Peterbilt also introduced Rapid Check, a diagnostic program which provides customers with timely, accurate service assessments.

The Peterbilt Model 579 EPIQ package offers state-of-the-art aerodynamics, industry-leading performance and the fuel economy of the PACCAR MX-13 engine. The "Class" of the industry appeals to customers who demand uncompromising quality, reliability and low cost of operation in their fleets.

XF
XF
DAF

DAF Trucks N.V. unveiled new DAF multi-axle Euro 6 models and expanded into emerging markets, strengthening its position as a leading global commercial vehicle manufacturer. DAF Westerlo produced its one millionth cab.

DAF expanded its industry-leading XF and CF Euro 6 product range with the introduction of a comprehensive range of multi-axle vocational vehicles, offering the optimal vehicle for every transport application. The new LF Euro 6, developed for urban distribution, is available with an integrated PACCAR body for enhanced vehicle aerodynamics. The new, ultra-silent DAF CF model enables goods to be loaded and unloaded in urban locations where noise restrictions apply.

At the IAA exhibition in Hanover, Germany, DAF demonstrated its technology leadership by announcing Predictive Cruise Control and Predictive Shifting. These advanced technologies determine ideal speed and gear through the application of sophisticated GPS technology and are part of DAF's new Transport Efficiency program to enhance vehicle performance.

DAF strengthened its presence in markets outside the EU. In Taiwan, DAF expanded its product range with the introduction of the CF65, specifically developed for city distribution, and the XF105, designed for long distance road transport. DAF trucks were introduced in Kazakhstan, Jordan and Nigeria and a company-owned sales and marketing organization was established in Turkey, a fast growing truck market.

DAF announced a €100 million investment in a new state-of-the-art cab paint facility at its Westerlo, Belgium plant. The new facility will be operational in 2017 and will support DAF's global growth. DAF's cab plant in Westerlo, Belgium produced its one millionth cab.

DAF's market-leading TRP aftermarket parts program celebrated its 20th anniversary. TRP offers DAF customers over 110,000 truck, bus and trailer parts supported by DAF's excellent dealer network.

The DAF XF Euro 6 was voted '*Truck of the Year*' in Poland. The new PACCAR MX-11 engine earned the *Truck Innovation Award* in Ireland for its leading reliability and efficiency. The DAF LF was voted the most popular commercial vehicle in Slovakia.

Thousands of customers enjoyed the "*DAF Experience 2014*", which included a tour of DAF's modern production facilities and a showcase of DAF's premium trucks, aftermarket parts and financial services, at the PACCAR Technology Center in Eindhoven, the Netherlands.

DAF has more than 1,000 independent dealers. In 2014, DAF further expanded its extensive distribution network by adding 75 new dealer facilities in Western, Central and Eastern Europe, Russia, South America and Asia.

The new DAF XF Euro 6 is a global leader in transport efficiency, with advanced technologies, low operational costs and best-in-class performance. DAF's new range of Euro 6 vehicles have new interior and exterior designs and are equipped with state-of-the-art PACCAR MX-11 and MX-13 engines.

PACCAR Australia achieved a 23.5 percent share of the Australian heavy-duty truck market in 2014, continuing the tradition of industry-leading quality and performance in one of the world's toughest operating environments.

PACCAR Australia has delivered 54,000 Kenworth and DAF vehicles since opening the Bayswater plant near Melbourne in 1971. Kenworth Australia introduced many exciting new products in 2014, including the popular PACCAR MX-13 engine in the Kenworth T4 series at the International Truck, Trailer and Equipment Show in Melbourne. The launch of the PACCAR MX-13 engine was complemented by the introduction of a new conventional Kenworth cab, which provides 13 percent more interior space, enhancing Kenworth's industry-leading driver comfort, safety and productivity. Kenworth Australia was honored with the "*PowerTorque Technology and Innovation*" award at the 2014 *Motoring Matters* awards ceremony.

The DAF XF, CF and LF vehicles continue to grow market share in Australia as customers experience the exceptional quality, durability and efficiency of the DAF product range.

PACCAR Parts achieved record sales in Australia, which were enhanced by the rapid growth of the TRP all-makes brand.

Kenworth and DAF trucks are renowned in Australia for their reliability under the most challenging operating conditions. The Kenworth T409, equipped with the PACCAR MX-13 engine, offers unparalleled productivity with industry-leading performance and fuel efficiency.

PACCAR Mexico (KENMEX) achieved a 41 percent share of the Class 8 market in Mexico in 2014 and increased sales in Central America and the Andean region of South America. KENMEX has manufactured 235,000 vehicles since its founding in 1959.

KENMEX produces a broad range of Kenworth and Peterbilt Class 5-8 vehicles for NAFTA, Central America and Andean countries in its state-of-the-art 590,000 square-foot production facilities in Mexicali, Mexico. KENMEX built 14,400 vehicles in 2014, including 2,800 vehicles for export to Latin America, and introduced new Kenworth T680 and T880 models with the PACCAR MX-13 engine in Mexico.

The PACCAR Production System and KENMEX's Lean Manufacturing initiatives form the foundation of its legendary reputation for operational efficiency and product quality and supported a 58 percent build rate increase in the second half of the year.

During the year, KENMEX delivered the first CNG powered Kenworth T440 models to Colombia and updated its complete range of vehicles to meet the new Euro 4 and Euro 5 emissions standards in Colombia and Chile.

KENMEX's 235 dealer locations in Mexico and Latin America and the world-class PACCAR Parts Distribution Centers (PDC) in San Luis Potosi, Mexico and Santiago, Chile offer unrivaled customer support.

The Kenworth T880 has earned a reputation as the most robust and reliable vocational truck in Mexico. The Kenworth T880, equipped with the PACCAR MX-13 engine, offers customers a comfortable work environment, lower operating costs and enhanced productivity. The Kenworth T880 provides modern styling, excellent maneuverability and superior fuel efficiency.

Leyland, the United Kingdom's leading truck manufacturer, produced its 125,000th DAF LF vehicle in 2014 and delivered 11,900 DAF vehicles to customers in Europe, Asia, Australia, the Middle East, Russia and the Americas in the year.

Leyland's highly efficient 710,000 square-foot manufacturing facility features a technologically advanced production system which incorporates a robotic chassis paint system and electronic work instructions to deliver engineering designs and build instructions to employees through interactive touch screens. Leyland builds the full DAF product range of LF, CF and XF models for right and left-hand drive markets. Leyland produced its 125,000th DAF LF vehicle in 2014.

Leyland increased production of the new DAF LF, CF and XF Euro 6 trucks in 2014. The DAF LF Euro 6 features a new powertrain, a reconfigured chassis, and a new aerodynamic exterior and interior design, which further enhances DAF's family of 7.5 - 18.0 tonne vehicles. The new DAF LF Euro 6 is offered with a factory-installed PACCAR Aerobody. Leyland delivered its 5,000th DAF vehicle with a PACCAR body in 2014.

DAF was awarded *"LGV Manufacturer of the Year"* in the United Kingdom by *"Green Fleet Magazine"*, recognizing Leyland's world-class manufacturing capability and the efficient Euro 6 product design and applications.

Leyland manufactures the entire DAF product range, including the new Euro 6 LF series equipped with the aerodynamic, factory-installed PACCAR Aerobody that can increase fuel efficiency by up to eight percent. The DAF LF is the ideal truck for pick-up and delivery application in urban settings.

PACCAR sells DAF, Kenworth and Peterbilt trucks and parts to customers in 100 countries on six continents. In 2014, PACCAR expanded its geographic diversification through significant investments in Brasil, India and China.

PACCAR completed construction of its state-of-the-art, 300,000 square-foot DAF truck assembly facility in Ponta Grossa, Brasil in October 2013 and began assembling the DAF XF for Brasil and other South American markets. The DAF CF will be introduced in Brasil in 2015. DAF Brasil dealers opened several new dealership facilities in 2014, offering customers best-in-class products and facilities.

DAF increased deliveries in Taiwan by 67 percent in 2014, supported by the launch of the DAF XF105 model and new DAF CF configurations. The successful introduction of the DAF LF has given DAF an eight percent market share in Taiwan's 6-16 tonne segment. DAF is the largest European truck manufacturer in the 6+ tonne segment.

DAF achieved further growth in New Zealand, South Africa and Jordan. New dealerships will open in Nigeria and other West African markets in 2015 to enhance growth. PACCAR has expanded its component purchases from India and China for global production and aftermarket operations.

The DAF assembly facility in Taiwan builds the full range of DAF XF, CF and LF models. DAF trucks assembled in DAF Brasil's Ponta Grossa plant are distributed by DAF's growing independent dealer network. PACCAR engineering teams in India support the PACCAR truck divisions around the world.

PACCAR Parts achieved record worldwide revenue and pre-tax profit in 2014, delivering 1.35 million parts shipments to over 2,000 Kenworth, Peterbilt and DAF dealer locations.

PACCAR Parts expanded its industry-leading Fleet Services Program offering guaranteed national pricing, centralized billing and diagnostic scheduling to over 450 commercial vehicle fleets. PACCAR Parts' successful TRP aftermarket all-makes brand for trucks, buses and trailers offers 110,000 part numbers. TRP rewards customers with the highest quality parts and cost-effective choices for vehicle repair and maintenance.

PACCAR Parts expanded to 17 Parts Distribution Centers (PDC) worldwide during 2014, opening a new 40,000 square-foot PDC in Montreal, Canada to serve the expanding Eastern Canada market. PACCAR Parts' PDC in Ponta Grossa, Brasil supports DAF's growing dealer network in Brasil with deliveries of DAF, PACCAR Genuine and TRP products.

The Kenworth *Privileges*, Peterbilt *Preferred*, and DAF *MAX* loyalty cards achieved 2.6 million customer redemptions in 2014. PACCAR Parts employs state-of-the-art technologies, including integrated logistics systems and dealer inventory management tools, that provide industry-leading support to its aftermarket customers.

PACCAR Parts sells quality original equipment parts and TRP aftermarket parts for all makes of trucks, trailers and buses. PACCAR Customer Support Centers provide industry-leading support to truck operators around the world. PACCAR Parts Distribution Centers, including its new PDC in Montreal, use advanced inventory management technology to ensure customers have their required parts on a timely basis.

PACCAR engines were installed in over 35 percent of Kenworth and Peterbilt heavy-duty vehicles in 2014, and in 100 percent of DAF vehicles. Customers realized the benefits of PACCAR MX engines' superior reliability, excellent fuel economy and low total cost of ownership.

PACCAR is one of the premier diesel engine manufacturers in the world, with over 800,000 square-feet of production facilities in Columbus, Mississippi and Eindhoven, the Netherlands. PACCAR also operates two world-class engine research and development centers with 46 sophisticated engine test cells to enhance its engine design and manufacturing capability. PACCAR has designed diesel engines for 54 years and produced over 1.25 million engines, with the Columbus facility producing 75,000 engines since its opening in 2010.

The PACCAR MX-13 engine is a global engine platform incorporating precision manufacturing, advanced design and premium materials to deliver best-in-class operating efficiency, performance and durability. The PACCAR MX-13 engine was introduced in Mexico and Australia in 2014. The new PACCAR MX-11 engine has a 10.8 liter displacement configuration and is currently available in Europe with power ratings up to 440 horsepower. The MX-11 will be introduced in North America in 2016.

PACCAR engine factories in the Netherlands and Mississippi represent technology leadership in commercial vehicle diesel engine production. PACCAR engines are standard in Kenworth, Peterbilt and DAF vehicles worldwide, where they have earned a reputation for superior reliability, durability and operating efficiency.

PACCAR Financial Services (PFS), which supports the sale of PACCAR trucks worldwide, achieved retail market share of 27.7% and earned record pre-tax profits of $370 million in 2014.

The PFS portfolio is comprised of 166,000 trucks and trailers, with total assets of $11.9 billion. PACCAR's excellent balance sheet, complemented by its A+/A1 credit rating, enabled PFS to issue $1.6 billion in three, four, and five-year medium term notes in 2014. Ongoing access to the capital markets allowed PFS to support the sale of Kenworth, Peterbilt and DAF trucks in 22 countries on four continents. PFS sold 8,200 pre-owned PACCAR trucks worldwide in 2014.

For over 50 years, PACCAR Financial Corp. (PFC) has facilitated the sale of premium Kenworth and Peterbilt trucks in North America. PFC financed 60 percent of dealer inventories and 21 percent of new Kenworth and Peterbilt Class 8 trucks sold or leased. PFC implemented a state-of-the-art Finance Sales and Credit system in 2014, which streamlines the credit approval and loan origination process to improve the ease of conducting business with customers.

PACCAR Financial Europe (PFE) has $2.7 billion in assets and provides financial services to DAF dealers and customers in 15 European countries. PFE achieved a 26.2 percent retail market share in 2014.

PACCAR Financial facilitates the sale of premium-quality PACCAR vehicles worldwide by offering a full range of financial products and by utilizing leading-edge web-based information technologies to streamline communication for dealers and customers.

PACCAR Leasing provided a strong profit contribution in 2014 and increased its worldwide fleet to over 38,000 vehicles.

PacLease offers only premium-quality Kenworth, Peterbilt and DAF vehicles, which are valued for their reliability and superior fuel efficiency. In 2014, PacLease delivered over 6,700 Kenworth, Peterbilt and DAF vehicles to customers.

In the United States and Canada, PacLease grew its rental fleet by 20 percent and expanded private fleet business to over half the top 100 private fleets. PacLease is a leader in introducing new technologies, such as advanced safety features, on-board telematics, aerodynamic specifications and alternative fuel vehicles.

Kenworth and Peterbilt vehicles powered by PACCAR MX-13 engines represented 68 percent of all PacLease Class 8 orders due to the engine's superior productivity, reliability and fuel economy. PacLease will offer Kenworth and Peterbilt vehicles equipped with the fuel efficient PACCAR MX-11 engine in 2016.

PacLease Mexico operates a fleet of 7,500 trucks and trailers, ranking it as the largest full-service lease provider in Mexico. PacLease also operates a fleet of 3,200 trucks and trailers in Europe.

PacLease has one of the most innovative global truck leasing networks in the industry, providing customers with value-added transportation services and premium-quality Kenworth, Peterbilt and DAF vehicles.

PACCAR's Technical Centers' (PTC) world-class product development, simulation and validation capabilities accelerate product development and ensure that PACCAR continues to deliver the highest-quality products in the industry.

PACCAR's Technical Centers in Europe and North America are equipped with state-of-the-art product development and validation capabilities and staffed with experts in powertrain and vehicle development. The advanced engineering tools in the Technical Centers are utilized to innovate and accelerate the launch of new products. Digitally controlled, proprietary hydraulic road simulators enhance product validation by replicating millions of road miles in weeks, instead of years. Sophisticated computer simulations and advanced analysis of engine and vehicle control systems operate on powerful supercomputers to optimize vehicle efficiency.

PACCAR's Technical Centers partner with government agencies and academic institutions to evaluate future vehicle technologies. The Technical Centers leverage these partnerships to identify innovative designs that will further improve the industry-leading performance and fuel efficiency of Kenworth, Peterbilt and DAF trucks.

PACCAR Technical Centers in Europe and North America advance the quality and competitiveness of PACCAR products worldwide. In 2015, PACCAR will complete construction of its chassis climactic wind tunnel, further enhancing the state-of-the-art product test and validation capabilities at its Mt. Vernon, Washington facility.

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.

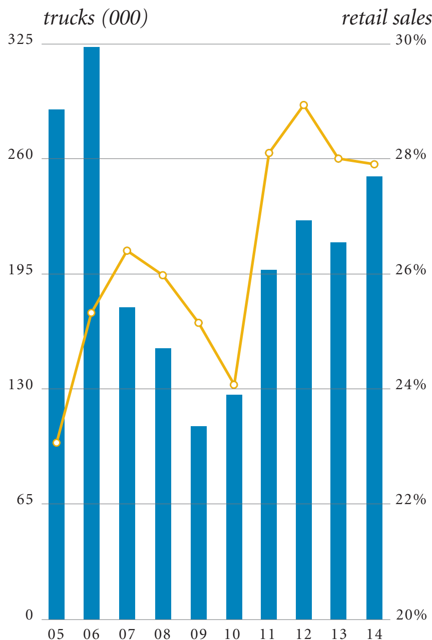
PACCAR was recognized as a leader in "*InformationWeek*" magazine's list of "2014 Elite 100 companies," highlighting leading innovators of advanced technologies. ITD achieved 2014 recognition for the development of complex algorithms and the use of big data in PACCAR's initiative to minimize greenhouse gas emissions.

ITD's 740 employees collaborate with PACCAR divisions in the application of new technologies to enhance manufacturing, financial services and engineering design. This year ITD partnered with DAF to develop a new truck configurator and integrated sales suite. ITD also introduced PACCAR mobile applications for remote business use with the latest generation of smart phones and tablets.

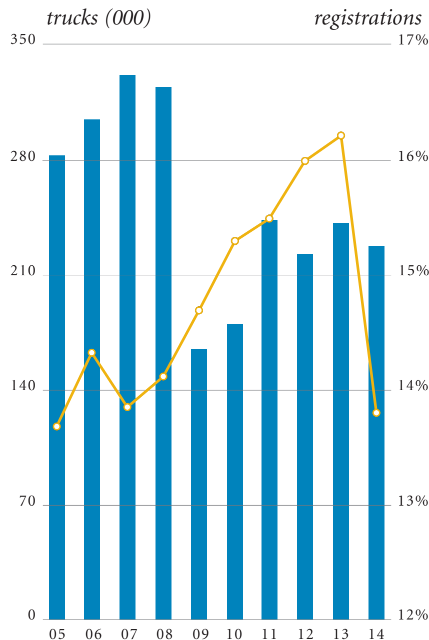
ITD partnered with PACCAR Financial to develop an advanced Finance Sales and Credit system that delivers powerful new tools for loan and lease origination. ITD also enhanced PACCAR's information security with the latest technologies in data and system protection.

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

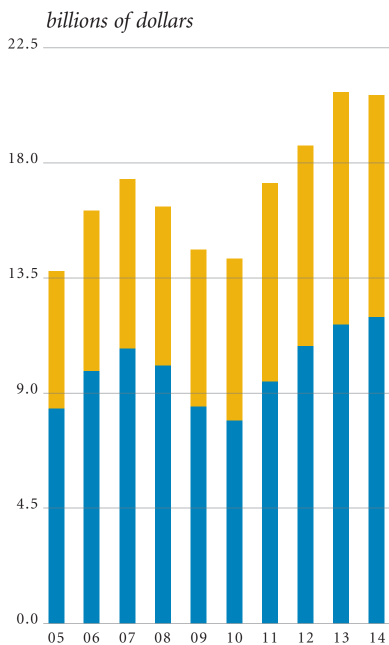
U.S. AND CANADA CLASS 8 MARKET SHARE



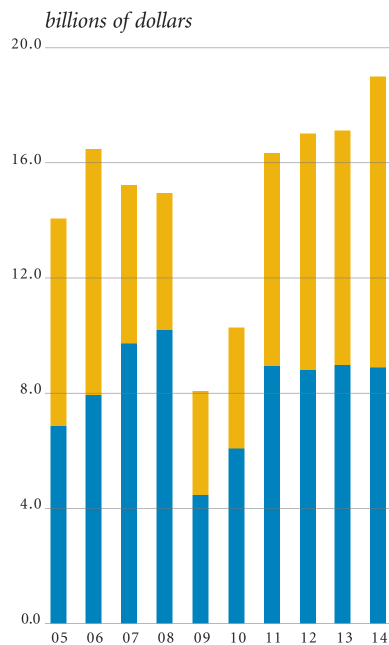
WESTERN AND CENTRAL EUROPE 16+ T MARKET SHARE



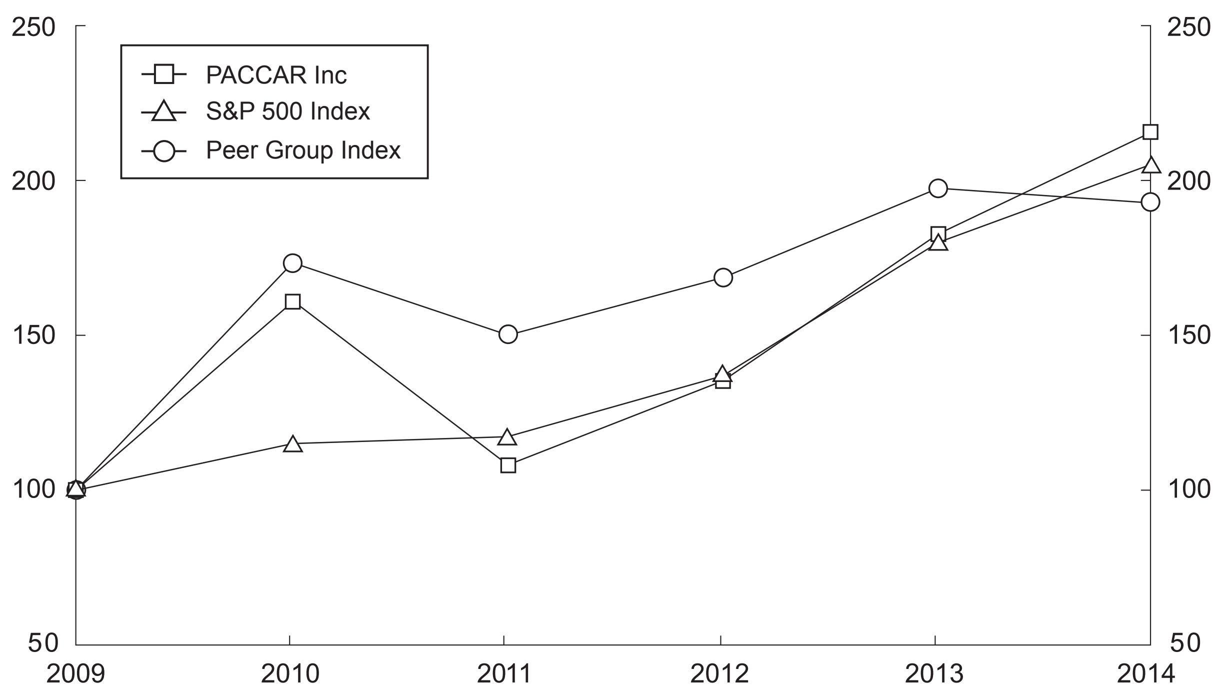
TOTAL ASSETS



GEOGRAPHIC REVENUE



The following line graph compares the yearly percentage change in the cumulative total stockholder return on the Company's common stock, to the cumulative total return of the Standard & Poor's Composite 500 Stock Index and the return of an industry peer group of companies (the Peer Group Index) for the last five fiscal years ended December 31, 2014. Standard & Poor's has calculated a return for each company in the Peer Group Index weighted according to its respective capitalization at the beginning of each period with dividends reinvested on a monthly basis. Management believes that the identified companies and methodology used in the graph for the Peer Group Index provide a better comparison than other indices available. The Peer Group Index consists of AGCO Corporation, Caterpillar Inc., Cummins Inc., Dana Holding Corporation, Deere & Company, Eaton Corporation, Meritor Inc., Navistar International Corporation, Oshkosh Corporation and AB Volvo. Scania AB is no longer included in the Peer Group Index of the performance graph due to its acquisition in 2014. The comparison assumes that $100 was invested on December 31, 2009 in the Company's common stock and in the stated indices and assumes reinvestment of dividends.



	2009	2010	2011	2012	2013	2014
PACCAR Inc	100	160.38	108.27	135.46	182.73	215.96
S&P 500 Index	100	115.06	117.49	136.30	180.44	205.14
Peer Group Index	100	173.34	149.98	169.25	197.02	192.63

OVERVIEW:

PACCAR is a global technology company whose Truck segment includes the design and manufacture of high-quality, light-, medium- and heavy-duty commercial trucks. In North America, trucks are sold under the Kenworth and Peterbilt nameplates, in Europe, under the DAF nameplate and in Australia and South America, under the Kenworth and DAF nameplates. The Parts segment includes the distribution of aftermarket parts for trucks and related commercial vehicles. The Company's Financial Services segment derives its earnings primarily from financing or leasing PACCAR products in North America, Europe and Australia. The Company's Other business is the manufacturing and marketing of industrial winches.

Consolidated net sales and revenues of $18.99 billion in 2014 were the highest in the Company's history. The increase of 11% from $17.12 billion in 2013 was mainly due to record truck and aftermarket parts sales and higher financial services revenues. Truck unit sales increased in 2014 to 142,900 units from 137,100 units in 2013, reflecting higher industry retail sales in the U.S. and Canada, partially offset by a lower over 16-tonne market in Europe. Record freight volumes and improving fleet utilization are contributing to excellent parts and service business.

In 2014, PACCAR earned net income for the 76th consecutive year. Net income in 2014 of $1.36 billion was the second highest in the Company's history, increasing from $1.17 billion in 2013, primarily due to record Truck and Parts segment sales, improved Truck segment operating margin and record Financial Services segment pre-tax income. Earnings per diluted share of $3.82 was the second best in the Company's history.

DAF introduced a new range of Euro 6 CF and XF four-axle trucks and tractors for heavy-duty applications. These new vehicles expand DAF's product range in the construction, container and refuse markets and complement DAF's award-winning Euro 6 on-highway trucks. In addition, DAF introduced the new DAF Euro 6 CF Silent distribution truck for deliveries in urban areas with noise restrictions, and the new DAF Euro 6 CF and XF Low Deck tractors which maximize trailer volume within European height and length regulations. These new vehicles expand DAF's product range in distribution and over-the-road applications and expand DAF's Euro 6 range of trucks.

Kenworth and Peterbilt launched their new medium-duty cab-over-engine distribution trucks with extensive exterior and interior enhancements. In addition, new vocational Kenworth T880 and Peterbilt Model 567 trucks were introduced, which expanded PACCAR's offerings in the construction, utility and refuse markets.

In 2014, the Company's research and development expenses were $215.6 million compared to $251.4 million in 2013.

PACCAR Parts opened a new distribution center in Montreal, Canada and now has 17 parts distribution centers supporting over 2,000 DAF, Kenworth and Peterbilt dealer locations. PACCAR began construction of a new 160,000 square-foot distribution center in Renton, Washington. The new facility will increase the distribution capacity for the Company's dealers and customers in the northwestern U.S. and western Canada.

The PACCAR Financial Services (PFS) group of companies has operations covering four continents and 22 countries. The global breadth of PFS and its rigorous credit application process support a portfolio of loans and leases with total assets of $11.92 billion that earned a record pre-tax profit of $370.4 million. PFS issued $1.58 billion in medium-term notes during the year to support portfolio growth.

Truck and Parts Outlook

Truck industry retail sales in the U.S. and Canada in 2015 are expected to be 250,000–280,000 units compared to 249,400 units in 2014 driven by expansion of truck industry fleet capacity and economic growth. In Europe, the 2015 truck industry registrations for over 16-tonne vehicles are expected to be 200,000–240,000 units, compared to the 226,900 truck registrations in 2014.

Heavy-duty truck industry sales for South America were 129,000 units in 2014, and heavy-duty truck industry sales are estimated to be in a range of 110,000 to 130,000 units in 2015. The production of DAF trucks in Brasil and the continued growth of the DAF Brasil dealer network will further enhance PACCAR's vehicle sales in South America.

In 2015, PACCAR Parts sales are expected to grow 5-8% in North America, reflecting steady economic growth and high fleet utilization. PACCAR Parts deliveries are expected to increase in Europe, reflecting slightly improving freight markets and PACCAR Parts' innovative customer service programs. Sales in Europe may be affected by recent declines in the values of the euro relative to the U.S. dollar.

Capital investments in 2015 are expected to be $300 to $350 million, focused on enhanced powertrain development and increased operating efficiency for our factories and distribution centers. Research and development (R&D) in 2015 is expected to be $220 to $260 million, focused on new products and services.

Financial Services Outlook

Based on the truck market outlook, average earning assets in 2015 are expected to be slightly higher than current levels. Current levels of freight tonnage, freight rates and fleet utilization are contributing to customers' profitability and cash flow. If current freight transportation conditions decline due to weaker economic conditions, then past due accounts, truck repossessions and credit losses would likely increase from the current low levels.

See the Forward-Looking Statements section of Management's Discussion and Analysis for factors that may affect these outlooks.

RESULTS OF OPERATIONS:

($ in millions, except per share amounts) *Year Ended December 31,*	**2014**	2013	2012
Net sales and revenues:			
Truck	**$ 14,594.0**	$ 13,002.9	$ 13,131.5
Parts	**3,077.5**	2,822.2	2,667.5
Other	**121.3**	123.8	152.7
Truck, Parts and Other	**17,792.8**	15,948.9	15,951.7
Financial Services	**1,204.2**	1,174.9	1,098.8
	$ 18,997.0	$ 17,123.8	$ 17,050.5
Income (loss) before income taxes:			
Truck	**$ 1,160.1**	$ 936.7	$ 920.4
Parts	**496.7**	416.0	374.6
Other	**(31.9)**	(26.5)	(7.0)
Truck, Parts and Other	**1,624.9**	1,326.2	1,288.0
Financial Services	**370.4**	340.2	307.8
Investment income	**22.3**	28.6	33.1
Income taxes	**(658.8)**	(523.7)	(517.3)
Net Income	**$ 1,358.8**	$ 1,171.3	$ 1,111.6
Diluted earnings per share	**$ 3.82**	$ 3.30	$ 3.12
Return on revenues	**7.2%**	6.8%	6.5%

The following provides an analysis of the results of operations for the Company's three reportable segments - Truck, Parts and Financial Services. Where possible, the Company has quantified the impact of factors identified in the following discussion and analysis. In cases where it is not possible to quantify the impact of factors, the Company lists them in estimated order of importance. Factors for which the Company is unable to specifically quantify the impact include market demand, fuel prices, freight tonnage and economic conditions affecting the Company's results of operations.

2014 Compared to 2013:

Truck

The Company's Truck segment accounted for 77% and 76% of total revenues for 2014 and 2013, respectively.

($ in millions) *Year Ended December 31,*	**2014**	2013	% CHANGE
Truck net sales and revenues:			
U.S. and Canada	**$ 8,974.5**	$ 7,138.1	26
Europe	**3,657.6**	3,844.4	(5)
Mexico, South America, Australia and other	**1,961.9**	2,020.4	(3)
	$ 14,594.0	$ 13,002.9	12
Truck income before income taxes	**$ 1,160.1**	$ 936.7	24
Pre-tax return on revenues	**7.9%**	7.2%	

The Company's worldwide truck net sales and revenues increased to $14.59 billion from $13.0 billion in 2013, primarily due to higher truck deliveries in the U.S. and Canada, higher price realization in Europe related to higher content Euro 6 emission vehicles, partially offset by lower truck deliveries in Europe and Mexico.

Truck segment income before income taxes and pre-tax return on revenues reflect higher truck unit deliveries and improved price realization in the U.S. and Canada and lower R&D spending, partially offset by lower deliveries in Europe and Mexico.

The Company's new truck deliveries are summarized below:

Year Ended December 31,	**2014**	2013	% CHANGE
U.S.	**74,300**	59,000	26
Canada	**10,500**	9,700	8
U.S. and Canada	**84,800**	68,700	23
Europe	**39,500**	48,400	(18)
Mexico, South America, Australia and other	**18,600**	20,000	(7)
Total units	**142,900**	137,100	4

In 2014, industry retail sales in the heavy-duty market in the U.S. and Canada increased to 249,400 units from 212,200 units in 2013. The Company's heavy-duty truck retail market share was 27.9% compared to 28.0% in 2013. The medium-duty market was 73,300 units in 2014 compared to 65,900 units in 2013. The Company's medium-duty market share was a record 16.7% in 2014 compared to 15.7% in 2013.

The over 16-tonne truck market in Western and Central Europe in 2014 was 226,900 units, a 6% decrease from 240,800 units in 2013. The largest decreases were in the U.K. and France, partially offset by increases in Germany and Spain. The Company's market share was 13.8% in 2014, a decrease from 16.2% in 2013. The decrease in market share was primarily due to the lower DAF registrations in the U.K. and the Netherlands which were impacted by the Euro 5/Euro 6 transition rules. The 6 to 16-tonne market in 2014 was 46,900 units compared to 57,200 units in 2013. The Company's market share was 8.8% in 2014, a decrease from 11.8% in 2013. The decline in market share is a result of reduced registrations in the U.K. which were also affected by the Euro 5/Euro 6 transition rules.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between 2014 and 2013 for the Truck segment are as follows:

($ in millions)	NET SALES	COST OF SALES	GROSS MARGIN
2013	**$13,002.9**	**$11,691.9**	**$ 1,311.0**
Increase (decrease)			
Truck delivery volume	**1,265.8**	**1,086.9**	**178.9**
Average truck sales prices	**477.4**		**477.4**
Average per truck material, labor and other direct costs		**408.6**	**(408.6)**
Factory overhead and other indirect costs		**63.6**	**(63.6)**
Operating leases	**(7.2)**	**(12.5)**	**5.3**
Currency translation	**(144.9)**	**(133.0)**	**(11.9)**
Total increase	**1,591.1**	**1,413.6**	**177.5**
2014	**$14,594.0**	**$13,105.5**	**$ 1,488.5**

- Truck delivery volume reflects higher truck deliveries in the U.S. and Canada which resulted in higher sales ($1,798.6 million) and cost of sales ($1,511.5 million), partially offset by lower truck deliveries in Europe and Mexico which resulted in lower sales ($564.3 million) and costs of sales ($457.8 million).
- Average truck sales prices increased sales by $477.4 million, primarily due to higher content Euro 6 emission vehicles in Europe ($274.9 million), improved price realization in the U.S. and Canada ($146.6 million) and in Mexico ($31.9 million).
- Average cost per truck increased cost of sales by $408.6 million, primarily due to higher content Euro 6 emission vehicles in Europe ($352.6 million).
- Factory overhead and other indirect costs increased $63.6 million, primarily due to higher salaries and related costs ($59.5 million) to support higher sales volume, higher depreciation expense ($13.0 million), partially offset by lower Euro 6 project expenses ($17.4 million).
- Operating lease revenues and cost of sales decreased due to lower average asset balances as lease maturities exceeded new lease volume.
- Truck gross margins in 2014 of 10.2% increased from 10.1% in 2013 due to factors noted above.

Truck selling, general and administrative (SG&A) expenses for 2014 decreased to $198.2 million from $214.1 million in 2013. The decrease was primarily due to lower promotion and marketing costs. As a percentage of sales, SG&A decreased to 1.4% in 2014 compared to 1.6% in 2013, reflecting higher sales volume and ongoing cost controls.

Parts

The Company's Parts segment accounted for 16% of total revenues for both 2014 and 2013.

($ in millions) *Year Ended December 31,*	**2014**	2013	% CHANGE
Parts net sales and revenues:			
U.S. and Canada	**$ 1,842.9**	$ 1,635.5	13
Europe	**867.2**	828.3	5
Mexico, South America, Australia and other	**367.4**	358.4	3
	$ 3,077.5	$ 2,822.2	9
Parts income before income taxes	**$ 496.7**	$ 416.0	19
Pre-tax return on revenues	**16.1%**	14.7%	

The Company's worldwide parts net sales and revenues increased due to higher aftermarket demand in all markets. The increase in Parts segment income before taxes and pre-tax return on revenues was primarily due to higher sales and gross margins.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between 2014 and 2013 for the Parts segment are as follows:

($ in millions)	NET SALES	COST OF SALES	GROSS MARGIN
2013	**$ 2,822.2**	**$ 2,107.0**	**$ 715.2**
Increase (decrease)			
Aftermarket parts volume	**187.8**	**120.0**	**67.8**
Average aftermarket parts sales prices	**82.5**		**82.5**
Average aftermarket parts direct costs		**57.8**	**(57.8)**
Warehouse and other indirect costs		**8.0**	**(8.0)**
Currency translation	**(15.0)**	**(11.1)**	**(3.9)**
Total increase	**255.3**	**174.7**	**80.6**
2014	**$ 3,077.5**	**$ 2,281.7**	**$ 795.8**

- Higher market demand in all markets resulted in increased aftermarket parts sales volume of $187.8 million and related cost of sales by $120.0 million.
- Average aftermarket parts sales prices increased sales by $82.5 million reflecting improved price realization in all markets.
- Average aftermarket parts direct costs increased $57.8 million due to higher material costs in all markets.
- Warehouse and other indirect costs increased $8.0 million primarily due to additional costs to support higher sales volume.
- Parts gross margins in 2014 of 25.9% increased from 25.3% in 2013 due to higher price realization and other factors noted above.

Parts SG&A expense for 2014 increased to $207.5 million from $204.1 million in 2013. The increase was primarily due to higher salaries and related expenses. As a percentage of sales, Parts SG&A decreased to 6.7% in 2014 from 7.2% in 2013, reflecting higher sales volume.

Financial Services

The Company's Financial Services segment accounted for 6.3% and 6.9% of total revenues for 2014 and 2013, respectively.

($ in millions) *Year Ended December 31,*	**2014**	2013	% CHANGE
New loan and lease volume:			
U.S. and Canada	**$ 2,798.3**	$ 2,617.4	7
Europe	**988.1**	838.3	18
Mexico and Australia	**668.7**	862.9	(23)
	$ 4,455.1	$ 4,318.6	3
New loan and lease volume by product:			
Loans and finance leases	**$ 3,516.7**	$ 3,368.1	4
Equipment on operating lease	**938.4**	950.5	(1)
	$ 4,455.1	$ 4,318.6	3
New loan and lease unit volume:			
Loans and finance leases	**32,900**	32,200	2
Equipment on operating lease	**9,000**	9,000	
	41,900	41,200	2
Average earning assets:			
U.S. and Canada	**$ 6,779.0**	$ 6,331.9	7
Europe	**2,683.8**	2,495.9	8
Mexico and Australia	**1,721.4**	1,770.1	(3)
	$ 11,184.2	$ 10,597.9	6
Average earning assets by product:			
Loans and finance leases	**$ 7,269.3**	$ 6,876.3	6
Dealer wholesale financing	**1,462.0**	1,490.9	(2)
Equipment on lease and other	**2,452.9**	2,230.7	10
	$ 11,184.2	$ 10,597.9	6
Revenues:			
U.S. and Canada	**$ 641.2**	$ 626.6	2
Europe	**317.8**	303.5	5
Mexico and Australia	**245.2**	244.8	
	$ 1,204.2	$ 1,174.9	2
Revenue by product:			
Loans and finance leases	**$ 410.3**	$ 407.7	1
Dealer wholesale financing	**52.3**	55.1	(5)
Equipment on lease and other	**741.6**	712.1	4
	$ 1,204.2	$ 1,174.9	2
Income before income taxes	**$ 370.4**	$ 340.2	9

In 2014, new loan and lease volume of $4.46 billion increased 3% compared to $4.32 billion in 2013. PFS's finance market share on new PACCAR truck sales was 27.7% in 2014 compared to 29.2% in 2013 due to increased competition.

PFS revenue of $1.20 billion in 2014 was comparable to $1.17 billion in 2013. PFS income before income taxes increased to a record $370.4 million compared to $340.2 million in 2013, primarily due to higher finance and lease margins related to increased average earning asset balances.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin for the year ended December 31, 2014 are outlined below:

($ in millions)	INTEREST AND FEES	INTEREST AND OTHER BORROWING EXPENSES	FINANCE MARGIN
2013	**$ 462.8**	**$ 155.9**	**$ 306.9**
Increase (decrease)			
Average finance receivables	**23.7**		**23.7**
Average debt balances		**5.3**	**(5.3)**
Yields	**(19.1)**		**(19.1)**
Borrowing rates		**(26.0)**	**26.0**
Currency translation	**(4.8)**	**(1.5)**	**(3.3)**
Total (decrease) increase	**(.2)**	**(22.2)**	**22.0**
2014	**$ 462.6**	**$ 133.7**	**$ 328.9**

- Average finance receivables increased $462.3 million (net of foreign exchange effects) in 2014 as a result of retail portfolio new business volume exceeding collections.
- Average debt balances increased $329.4 million in 2014 (net of foreign exchange effects). The higher average debt balances reflect funding for a higher average earning asset portfolio, including loans, finance leases and equipment on operating leases.
- Lower market rates resulted in lower portfolio yields (5.3% in 2014 and 5.6% in 2013) and lower borrowing rates (1.6% in 2014 and 2.0% in 2013).

The following table summarizes operating lease, rental and other revenues and depreciation and other expense:

($ in millions) *Year Ended December 31,*	**2014**	2013
Operating lease and rental revenues	**$ 712.2**	$ 663.0
Used truck sales and other	**29.4**	49.1
Operating lease, rental and other revenues	**$ 741.6**	$ 712.1
Depreciation of operating lease equipment	**$ 472.3**	$ 435.4
Vehicle operating expenses	**100.6**	98.1
Cost of used truck sales and other	**15.6**	38.2
Depreciation and other expense	**$ 588.5**	$ 571.7

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expense and related lease margin for the year ended December 31, 2014 are outlined below:

($ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSE	LEASE MARGIN
2013	**$ 712.1**	**$ 571.7**	**$ 140.4**
Increase (decrease)			
Used truck sales	**(20.5)**	**(20.7)**	**.2**
Results on returned lease assets		**(6.5)**	**6.5**
Average operating lease assets	**39.7**	**30.6**	**9.1**
Revenue and cost per asset	**10.5**	**15.7**	**(5.2)**
Currency translation and other	**(.2)**	**(2.3)**	**2.1**
Total increase	**29.5**	**16.8**	**12.7**
2014	**$ 741.6**	**$ 588.5**	**$ 153.1**

- A lower volume of used truck sales decreased operating lease, rental and other revenues by $20.5 million and decreased depreciation and other expense by $20.7 million.
- Average operating lease assets increased $222.3 million in 2014, which increased revenues by $39.7 million and related depreciation and other expense by $30.6 million.
- Revenue per asset increased $10.5 million due to higher rental rates, partially offset by lower fee income. Cost per asset increased $15.7 million due to higher depreciation and maintenance expenses.

The following table summarizes the provision for losses on receivables and net charge-offs:

($ in millions)	**2014**		2013	
	PROVISION FOR LOSSES ON RECEIVABLES	**NET CHARGE-OFFS**	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS
U.S. and Canada	**$ 6.1**	**$ 5.1**	$ 1.9	$ .5
Europe	**5.4**	**6.5**	7.4	11.0
Mexico and Australia	**3.9**	**4.4**	3.6	2.1
	$ 15.4	**$ 16.0**	$ 12.9	$ 13.6

The provision for losses on receivables was $15.4 million in 2014, an increase of $2.5 million compared to 2013, mainly due to a higher portfolio balance in the U.S., higher past dues resulting from a weaker mining industry in Australia, partially offset by improved portfolio performance across other markets.

The Company modifies loans and finance leases as a normal part of its Financial Services operations. The Company may modify loans and finance leases for commercial reasons or for credit reasons. Modifications for commercial reasons are changes to contract terms for customers that are not considered to be in financial difficulty. Insignificant delays are modifications extending terms up to three months for customers experiencing some short-term financial stress, but not considered to be in financial difficulty. Modifications for credit reasons are changes to contract terms for customers considered to be in financial difficulty. The Company's modifications typically result in granting more time to pay the contractual amounts owed and charging a fee and interest for the term of the modification. When considering whether to modify customer accounts for credit reasons, the Company evaluates the creditworthiness of the customers and modifies those accounts that the Company considers likely to perform under the modified terms. When the Company modifies loans and finance leases for credit reasons and grants a concession, the modifications are classified as troubled debt restructurings (TDR).

The post-modification balance of accounts modified during the years ended December 31, 2014 and 2013 are summarized below:

($ in millions)	2014		2013	
	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*
Commercial	**$ 181.6**	**2.5%**	$ 233.0	3.2%
Insignificant delay	**64.1**	**.9%**	110.1	1.6%
Credit - no concession	**31.5**	**.4%**	24.2	.3%
Credit - TDR	**27.1**	**.4%**	13.6	.2%
	$ 304.3	**4.2%**	$ 380.9	5.3%

* Recorded investment immediately after modification as a percentage of ending retail portfolio.

In 2014, total modification activity decreased compared to 2013 primarily due to lower modifications for commercial reasons and insignificant delays, partially offset by an increase in TDR modifications. The decrease in commercial modifications primarily reflects lower levels of additional equipment financed and end-of-contract modifications. The decline in modifications for insignificant delays reflects 2013 extensions granted to two customers in Australia primarily due to business disruptions arising from flooding. TDR modifications increased primarily due to a contract modification for a large customer in the U.S.

The following table summarizes the Company's 30+ days past due accounts:

At December 31,	2014	2013
Percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	**.1%**	.3%
Europe	**1.1%**	.7%
Mexico and Australia	**2.0%**	1.4%
Worldwide	**.5%**	.5%

Accounts 30+ days past due were .5% at December 31, 2014 and 2013. The higher past dues in Europe, Mexico and Australia were offset by lower past dues in the U.S. and Canada. The Company continues to focus on maintaining low past due balances.

When the Company modifies a 30+ days past due account, the customer is then generally considered current under the revised contractual terms. The Company modified $4.0 million of accounts worldwide during the fourth quarter of 2014 and $4.9 million during the fourth quarter of 2013 that were 30+ days past due and became current at the time of modification. Had these accounts not been modified and continued to not make payments, the pro forma percentage of retail loan and lease accounts 30+ days past due would have been as follows:

At December 31,	2014	2013
Pro forma percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	**.1%**	.3%
Europe	**1.2%**	.8%
Mexico and Australia	**2.3%**	1.7%
Worldwide	**.6%**	.6%

Modifications of accounts in prior quarters that were more than 30 days past due at the time of modification are included in past dues if they were not performing under the modified terms at December 31, 2014 and 2013. The effect on the allowance for credit losses from such modifications was not significant at December 31, 2014 and 2013.

The Company's 2014 and 2013 pre-tax return on average earning assets for Financial Services was 3.3% and 3.2%, respectively.

Other

Other includes the winch business as well as sales, income and expenses not attributable to a reportable segment, including a portion of corporate expense. Other sales represent approximately 1% of consolidated net sales and revenues for 2014 and 2013. Other SG&A was $59.5 million in 2014 and $47.1 million in 2013. The increase in SG&A was primarily due to higher salaries and related expenses of $11.4 million. Other income (loss) before tax was a loss of $31.9 million in 2014 compared to a loss of $26.5 million in 2013. The higher loss in 2014 was primarily due to higher salaries and related expenses and lower income before tax from the winch business.

Investment income was $22.3 million in 2014 compared to $28.6 million in 2013. The lower investment income in 2014 primarily reflects lower yields on investments due to lower market interest rates, partially offset by higher average investment balances.

The 2014 effective income tax rate of 32.7% increased from 30.9% in 2013. The increase in the effective tax rate was primarily due to a higher proportion of income generated in higher taxed jurisdictions.

($ in millions) *Year Ended December 31,*	**2014**	2013
Domestic income before taxes	**$ 1,267.3**	$ 827.0
Foreign income before taxes	**750.3**	868.0
Total income before taxes	**$ 2,017.6**	$ 1,695.0
Domestic pre-tax return on revenues	**12.4%**	10.2%
Foreign pre-tax return on revenues	**8.6%**	9.7%
Total pre-tax return on revenues	**10.6%**	9.9%

The higher income before income taxes and pre-tax return on revenues for domestic operations were primarily due to higher revenues from trucks and parts operations and higher truck margins. The lower income before income taxes and pre-tax return on revenues for foreign operations were primarily due to lower revenues and truck margins in all foreign markets, except Canada.

2013 Compared to 2012:

Truck

The Company's Truck segment accounted for 76% and 77% of total revenues for 2013 and 2012, respectively.

($ in millions) *Year Ended December 31,*	2013	2012	% CHANGE
Truck net sales and revenues:			
U.S. and Canada	$ 7,138.1	$ 7,467.8	(4)
Europe	3,844.4	3,217.1	19
Mexico, South America, Australia and other	2,020.4	2,446.6	(17)
	$ 13,002.9	$ 13,131.5	(1)
Truck income before income taxes	$ 936.7	$ 920.4	2
Pre-tax return on revenues	7.2%	7.0%	

The Company's worldwide truck net sales and revenues decreased due to lower market demand in the U.S. and Canada ($329.7 million), South America ($342.3 million) and Australia ($94.8 million), partially offset by higher market demand in Europe ($627.3 million). Truck segment income before income taxes and pre-tax return on revenues reflects improved price realization, primarily in Europe, and lower R&D and SG&A expenses, partially offset by lower truck unit deliveries.

The Company's new truck deliveries are summarized below:

Year Ended December 31,	2013	2012	% CHANGE
U.S.	59,000	62,200	(5)
Canada	9,700	10,900	(11)
U.S. and Canada	68,700	73,100	(6)
Europe	48,400	43,500	11
Mexico, South America, Australia and other	20,000	23,800	(16)
Total units	137,100	140,400	(2)

In 2013, industry retail sales in the heavy-duty market in the U.S. and Canada decreased to 212,200 units compared to 224,900 units in 2012. The Company's heavy-duty truck retail market share was 28.0% compared to 28.9% in 2012. The medium-duty market was 65,900 units in 2013 compared to 64,600 units in 2012. The Company's medium-duty market share was 15.7% in 2013 compared to 15.4% in 2012.

The over 16-tonne truck market in Western and Central Europe in 2013 was 240,800 units, an 8% increase from 222,000 units in 2012 reflecting a pre-buy of Euro 5 trucks by some customers ahead of Euro 6 emissions regulations effective in 2014. The Company's market share was a record 16.2% in 2013, an increase from 16.0% in 2012. The 6 to 16-tonne market in 2013 was 57,200 units compared to 55,500 units in 2012. The Company's market share was a record 11.8% in 2013, an increase from 11.4% in 2012.

Sales in Mexico, South America, Australia and other markets decreased in 2013 primarily due to fewer new truck deliveries in Colombia.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between 2013 and 2012 for the Truck segment are as follows:

($ in millions)	NET SALES	COST OF SALES	GROSS MARGIN
2012	$13,131.5	$11,794.0	$ 1,337.5
Increase (decrease)			
Truck delivery volume	(399.7)	(324.5)	(75.2)
Average truck sales prices	57.6		57.6
Average per truck material, labor and other direct costs		2.2	(2.2)
Factory overhead and other indirect costs		20.6	(20.6)
Operating leases	149.0	142.4	6.6
Currency translation	64.5	57.2	7.3
Total decrease	(128.6)	(102.1)	(26.5)
2013	$13,002.9	$11,691.9	$ 1,311.0

- Truck delivery volume reflects lower truck deliveries in all markets except Europe. Higher deliveries in Europe reflect purchases of Euro 5 vehicles ahead of the Euro 6 emission requirement in 2014.
- Average truck sales prices increased sales by $57.6 million, reflecting increased price realization from higher market demand in Europe.
- Factory overhead and other indirect costs increased $20.6 million, primarily due to higher depreciation expense.
- Operating lease revenues and cost of sales increased due to a higher volume of operating leases in Europe.
- Truck gross margins in 2013 of 10.1% decreased slightly from 10.2% in 2012 primarily from lower truck volume as noted above.

Truck SG&A was $214.1 million in 2013 compared to $231.0 million in 2012. The lower spending in 2013 was primarily due to lower sales and marketing expense of $5.9 million and ongoing cost controls. As a percentage of sales, SG&A decreased to 1.6% in 2013 compared to 1.8% in 2012.

Parts

The Company's Parts segment accounted for 16% of total revenues for both 2013 and 2012.

($ in millions) *Year Ended December 31,*	2013	2012	% CHANGE
Parts net sales and revenues:			
U.S. and Canada	$ 1,635.5	$ 1,529.1	7
Europe	828.3	786.7	5
Mexico, South America, Australia and other	358.4	351.7	2
	$ 2,822.2	$ 2,667.5	6
Parts income before income taxes	$ 416.0	$ 374.6	11
Pre-tax return on revenues	14.7%	14.0%	

The Company's worldwide parts net sales and revenues increased due to higher aftermarket demand worldwide. The increase in Parts segment income before taxes and pre-tax return on revenues was primarily due to higher sales, gross margins and cost controls.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between 2013 and 2012 for the Parts segment are as follows:

($ in millions)	NET SALES	COST OF SALES	GROSS MARGIN
2012	$ 2,667.5	$ 1,995.0	$ 672.5
Increase (decrease)			
Aftermarket parts volume	103.6	67.4	36.2
Average aftermarket parts sales prices	38.3		38.3
Average aftermarket parts direct costs		29.6	(29.6)
Warehouse and other indirect costs		6.5	(6.5)
Currency translation	12.8	8.5	4.3
Total increase	154.7	112.0	42.7
2013	$ 2,822.2	$ 2,107.0	$ 715.2

- Higher market demand in all markets resulted in increased aftermarket parts sales volume of $103.6 million and related cost of sales by $67.4 million.
- Average aftermarket parts sales prices increased sales by $38.3 million reflecting improved price realization.
- Average aftermarket parts direct costs increased $29.6 million due to higher material costs.
- Warehouse and other indirect costs increased $6.5 million primarily due to higher costs from warehouse capacity expansion to support sales volume.
- Parts gross margins in 2013 of 25.3% increased slightly from 25.2% in 2012 due to the factors noted above.

Parts SG&A decreased slightly to $204.1 million in 2013 from $206.0 million in 2012 due to lower sales and marketing expenses. As a percentage of sales, Parts SG&A decreased to 7.2% in 2013 from 7.7% in 2012, due to cost controls and higher sales volume.

Financial Services

The Company's Financial Services segment accounted for 6.9% and 6.4% of total revenues for 2013 and 2012, respectively.

($ in millions) *Year Ended December 31,*	2013	2012	% CHANGE
New loan and lease volume:			
U.S. and Canada	$ 2,617.4	$ 2,913.1	(10)
Europe	838.3	888.2	(6)
Mexico and Australia	862.9	820.9	5
	$ 4,318.6	$ 4,622.2	(7)
New loan and lease volume by product:			
Loans and finance leases	$ 3,368.1	$ 3,660.7	(8)
Equipment on operating lease	950.5	961.5	(1)
	$ 4,318.6	$ 4,622.2	(7)
New loan and lease unit volume:			
Loans and finance leases	32,200	36,100	(11)
Equipment on operating lease	9,000	9,400	(4)
	41,200	45,500	(9)
Average earning assets:			
U.S. and Canada	$ 6,331.9	$ 5,894.6	7
Europe	2,495.9	2,285.1	9
Mexico and Australia	1,770.1	1,556.0	14
	$ 10,597.9	$ 9,735.7	9
Average earning assets by product:			
Loans and finance leases	$ 6,876.3	$ 6,213.2	11
Dealer wholesale financing	1,490.9	1,574.7	(5)
Equipment on lease and other	2,230.7	1,947.8	15
	$ 10,597.9	$ 9,735.7	9
Revenues:			
U.S. and Canada	$ 626.6	$ 592.8	6
Europe	303.5	283.5	7
Mexico and Australia	244.8	222.5	10
	$ 1,174.9	$ 1,098.8	7
Revenue by product:			
Loans and finance leases	$ 407.7	$ 392.2	4
Dealer wholesale financing	55.1	61.5	(10)
Equipment on lease and other	712.1	645.1	10
	$ 1,174.9	$ 1,098.8	7
Income before income taxes	$ 340.2	$ 307.8	11

In 2013, new loan and lease volume decreased 7% to $4.32 billion from $4.62 billion in 2012. The lower volume in 2013 primarily reflects lower market shares. PFS's finance market share on new PACCAR truck sales was 29.2% in 2013 compared to 30.6% in the prior year primarily due to lower market share in the U.S. and Canada and Europe.

The increase in PFS revenue to $1.17 billion in 2013 from $1.10 billion in 2012 primarily resulted from higher average earning asset balances, partially offset by lower yields. PFS income before income taxes increased to a record $340.2 million compared to $307.8 million in 2012 primarily due to higher finance and lease margins and a lower provision for losses on receivables.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin for the year ended December 31, 2013 are outlined below:

($ in millions)	INTEREST AND FEES	INTEREST AND OTHER BORROWING EXPENSES	FINANCE MARGIN
2012	$ 453.7	$ 158.4	$ 295.3
Increase (decrease)			
Average finance receivables	33.5		33.5
Average debt balances		13.1	(13.1)
Yields	(20.5)		(20.5)
Borrowing rates		(15.7)	15.7
Currency translation	(3.9)	.1	(4.0)
Total increase (decrease)	9.1	(2.5)	11.6
2013	$ 462.8	$ 155.9	$ 306.9

- Average finance receivables increased $590.5 million (net of foreign exchange effects) in 2013 from retail portfolio new business volume exceeding collections, partially offset by a decrease in dealer wholesale financing, primarily in the U.S. and Canada.
- Average debt balances increased $671.5 million in 2013 and included increased medium-term note funding. The higher average debt balances reflect funding for a higher average earning asset portfolio, including loans, finance leases and equipment on operating leases.
- Lower market rates resulted in lower portfolio yields (5.6% in 2013 and 5.8% in 2012) and lower borrowing rates (2.0% in 2013 and 2.2% in 2012).

The following table summarizes operating lease, rental and other revenues and depreciation and other expense:

($ in millions) *Year Ended December 31,*	2013	2012
Operating lease and rental revenues	$ 663.0	$ 585.9
Used truck sales and other	49.1	59.2
Operating lease, rental and other revenues	$ 712.1	$ 645.1
Depreciation of operating lease equipment	$ 435.4	$ 369.9
Vehicle operating expenses	98.1	97.0
Cost of used truck sales and other	38.2	50.5
Depreciation and other expense	$ 571.7	$ 517.4

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expense and related lease margin for the year ended December 31, 2013 are outlined below:

($ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSE	LEASE MARGIN
2012	$ 645.1	$ 517.4	$ 127.7
Increase (decrease)			
Used truck sales and other	(10.1)	(12.2)	2.1
Results on returned lease assets		2.9	(2.9)
Average operating lease assets	55.3	43.6	11.7
Revenue and cost per asset	17.5	16.0	1.5
Currency translation	4.3	4.0	.3
Total increase	67.0	54.3	12.7
2013	$ 712.1	$ 571.7	$ 140.4

- Used truck sales and other revenues decreased operating lease, rental and other revenues by $10.1 million and decreased depreciation and other expense by $12.2 million, reflecting a lower number of used truck units sold.
- Average operating lease assets increased $282.9 million in 2013, which increased revenues by $55.3 million and related depreciation and other expense by $43.6 million, as a result of a higher demand for leased vehicles.
- Revenue and cost per asset increased $17.5 million and $16.0 million, respectively, reflecting the higher demand for leased vehicles and the related costs for higher fleet utilization.

The following table summarizes the provision for losses on receivables and net charge-offs:

($ in millions)	2013		2012	
	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS
U.S. and Canada	$ 1.9	$ .5	$ 4.6	$ 15.2
Europe	7.4	11.0	9.9	9.2
Mexico and Australia	3.6	2.1	5.5	6.9
	$ 12.9	$ 13.6	$ 20.0	$ 31.3

The provision for losses on receivables was $12.9 million in 2013, a decrease of $7.1 million compared to 2012, due to lower provisions in all markets reflecting improved portfolio performance.

The Company modifies loans and finance leases as a normal part of its Financial Services operations. The Company may modify loans and finance leases for commercial reasons or for credit reasons. Modifications for commercial reasons are changes to contract terms for customers that are not considered to be in financial difficulty. Insignificant delays are modifications extending terms up to three months for customers experiencing some short-term financial stress, but not considered to be in financial difficulty. Modifications for credit reasons are changes to contract terms for customers considered to be in financial difficulty. The Company's modifications typically result in granting more time to pay the contractual amounts owed and charging a fee and interest for the term of the modification. When considering whether to modify customer accounts for credit reasons, the Company evaluates the creditworthiness of the customer and modifies those accounts that the Company considers likely to perform under the modified terms. When the Company modifies loans and finance leases for credit reasons and grants a concession, the modifications are classified as troubled debt restructurings (TDR).

The post-modification balances of accounts modified during the years ended December 31, 2013 and 2012 are summarized below:

($ in millions)	2013		2012	
	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*
Commercial	$ 233.0	3.2%	$ 211.6	3.1%
Insignificant delay	110.1	1.6%	57.1	.9%
Credit - no concession	24.2	.3%	41.0	.6%
Credit - TDR	13.6	.2%	56.9	.8%
	$ 380.9	5.3%	$ 366.6	5.4%

* Recorded investment immediately after modification as a percentage of ending retail portfolio.

In 2013, total modification activity increased slightly compared to 2012 due to higher modifications for commercial reasons and insignificant delays, partially offset by lower credit modifications. The increase in commercial modifications primarily reflects higher levels of additional equipment financed and end-of-contract modifications. The higher modifications for insignificant delays were mainly due to granting two customers in Australia extensions due to business disruptions arising from flooding and granting one large fleet customer in the U.S. a one-month extension.

The following table summarizes the Company's 30+ days past due accounts:

At December 31,	2013	2012
Percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	.3%	.3%
Europe	.7%	1.0%
Mexico and Australia	1.4%	1.5%
Worldwide	.5%	.6%

Worldwide PFS accounts 30+ days past due were .5% at December 31, 2013 and have decreased .1% from December 31, 2012. The Company continues to focus on maintaining low past due balances.

When the Company modifies a 30+ days past due account, the customer is then generally considered current under the revised contractual terms. The Company modified $4.9 million of accounts worldwide during the fourth quarter of 2013 and $11.5 million during the fourth quarter of 2012 that were 30+ days past due and became current at the time of modification. Had these accounts not been modified and continued to not make payments, the pro forma percentage of retail loan and lease accounts 30+ days past due would have been as follows:

At December 31,	2013	2012
Pro forma percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	.3%	.4%
Europe	.8%	1.3%
Mexico and Australia	1.7%	1.9%
Worldwide	.6%	.8%

Modifications of accounts in prior quarters that were more than 30 days past due at the time of modification are included in past dues if they were not performing under the modified terms at December 31, 2013 and 2012. The effect on the allowance for credit losses from such modifications was not significant at December 31, 2013 and 2012.

The Company's 2013 and 2012 pre-tax return on average earning assets for Financial Services was 3.2%.

Other

Other includes the winch business as well as sales, income and expenses not attributable to a reportable segment, including a portion of corporate expense. Other sales represent approximately 1.0% of consolidated net sales and revenues for 2013 and 2012. Other SG&A was $47.1 million in 2013 and $39.4 million in 2012 as higher salaries and related expenses of $6.2 million and charitable contributions of $3.0 million were partially offset by lower professional fees of $1.6 million. Other income (loss) before tax was a loss of $26.5 million in 2013 compared to a loss of $7.0 million in 2012. The higher loss in 2013 was primarily due to lower income before tax from the winch business.

Investment income was $28.6 million in 2013 compared to $33.1 million in 2012. The lower investment income in 2013 primarily reflects lower yields on investments from lower market interest rates.

The 2013 effective income tax rate of 30.9% decreased from 31.8% in 2012. The decrease in the effective tax rate was primarily due to a higher proportion of income generated in lower taxed jurisdictions.

($ in millions) *Year Ended December 31,*	2013	2012
Domestic income before taxes	$ 827.0	$ 786.6
Foreign income before taxes	868.0	842.3
Total income before taxes	$ 1,695.0	$ 1,628.9
Domestic pre-tax return on revenues	10.2%	9.6%
Foreign pre-tax return on revenues	9.7%	9.6%
Total pre-tax return on revenues	9.9%	9.6%

The higher income before income taxes and return on revenues for domestic operations were primarily due to higher revenues and margins from parts and financial services operations, partially offset by lower revenues and margins from the Truck segment. The higher income before income taxes and return on revenues for foreign operations were primarily due to higher revenues and margins from parts operations, partially offset by lower revenues and margins from all foreign truck markets, except Europe.

LIQUIDITY AND CAPITAL RESOURCES:

($ in millions) *At December 31,*	**2014**	2013	2012
Cash and cash equivalents	**$ 1,737.6**	$ 1,750.1	$ 1,272.4
Marketable debt securities	**1,272.0**	1,267.5	1,192.7
	$ 3,009.6	$ 3,017.6	$ 2,465.1

The Company's total cash and marketable debt securities at December 31, 2014 was comparable to December 31, 2013.

The change in cash and cash equivalents is summarized below:

($ in millions) *Year Ended December 31,*	**2014**	2013	2012
Operating activities:			
Net income	**$ 1,358.8**	$ 1,171.3	$ 1,111.6
Net income items not affecting cash	**875.5**	957.5	906.6
Pension contributions	**(81.1)**	(26.2)	(190.8)
Changes in operating assets and liabilities, net	**(29.6)**	273.1	(308.4)
Net cash provided by operating activities	**2,123.6**	2,375.7	1,519.0
Net cash used in investing activities	**(1,531.9)**	(2,151.0)	(2,588.0)
Net cash (used in) provided by financing activities	**(520.5)**	273.8	209.5
Effect of exchange rate changes on cash	**(83.7)**	(20.8)	25.2
Net (decrease) increase in cash and cash equivalents	**(12.5)**	477.7	(834.3)
Cash and cash equivalents at beginning of the year	**1,750.1**	1,272.4	2,106.7
Cash and cash equivalents at end of the year	**$ 1,737.6**	$ 1,750.1	$ 1,272.4

2014 Compared to 2013:

Operating activities: Cash provided by operations decreased $252.1 million to $2.12 billion in 2014 compared to $2.38 billion in 2013. Lower operating cash flow reflects a higher increase in Financial Services segment wholesale receivables of $150.3 million and a higher increase in net purchases of inventories of $149.9 million. In addition, lower cash inflows resulted from a reduction in liabilities for residual value guarantees (RVG) and deferred revenues of $138.7 million, primarily due to a lower volume of new RVG contracts compared to 2013, and $54.9 million in higher pension contributions. These outflows were partially offset by $187.5 million of higher net income and $74.5 million of higher depreciation on property, plant and equipment.

Investing activities: Cash used in investing activities of $1.53 billion in 2014 decreased $619.1 million from the $2.15 billion used in 2013, primarily due to lower net new loan and lease originations of $257.0 million, lower payments for property, plant and equipment of $212.4 million and lower cash used in the acquisitions of equipment for operating leases of $123.1 million.

Financing activities: Cash used in financing activities was $520.5 million for 2014 compared to cash provided by financing activities of $273.8 million in 2013. The Company paid $623.8 million of dividends in 2014 compared to $283.1 million paid in 2013, an increase of $340.7 million. The higher dividends in 2014 reflect a special dividend declared in 2013 and paid in early 2014. In 2013, there was no special dividend payment, as the 2012 special dividend was declared and paid in 2012. The Company also repurchased .7 million shares of common stock for $42.7 million in 2014. In 2014, the Company issued $1.65 billion in long-term debt and $349.1 million of commercial paper and short-term bank loans to repay long-term debt of $1.88 billion. In 2013, the Company issued $2.13 billion in medium-term debt to repay medium-term debt of $568.9 million and reduce its outstanding commercial paper and bank loans by $1.04 billion. This resulted in cash provided by borrowing activities of $116.9 million, $409.0 million lower than cash provided by borrowing activities of $525.9 million in 2013.

2013 Compared to 2012:

Operating activities: Cash provided by operations increased $856.7 million to $2.38 billion in 2013 primarily due to an improvement in working capital and $164.6 million in lower pension contributions. Higher operating cash flow reflects a $544.4 million higher inflow for purchases of goods and services in accounts payable and accrued expenses in excess of payments, $87.9 million in higher depreciation of equipment on operating leases and $59.7 million of higher net income. In addition, there was a $21.9 million lower increase in inventories. These cash inflows were partially offset by a $190.2 million increase in sales of goods and services in accounts receivable exceeding cash receipts.

Investing activities: Cash used in investing activities of $2.15 billion in 2013 decreased $437.0 million from the $2.59 billion used in 2012. Net new loan and lease originations in the Financial Services segment in 2013 were

$307.6 million lower, reflecting a lower growth in the portfolio. In addition, net purchases of marketable securities were $179.4 million lower in 2013.

Financing activities: Cash provided by financing activities increased to $273.8 million from $209.5 million in 2012. The Company paid $283.1 million of dividends in 2013, a decrease of $526.4 million, compared to the $809.5 million paid in 2012. The higher dividends paid in 2012 reflect a special dividend declared in 2011 and paid in early 2012, and a special dividend declared and paid at the end of 2012. The special dividend declared in 2013 is payable in 2014. In addition, there were no purchases of treasury stock in 2013, compared to $162.1 million purchased in 2012. In 2013, the Company issued $2.13 billion of medium-term debt, $67.0 million less than 2012. The proceeds were used to repay medium-term debt of $568.9 million and to reduce outstanding balances on commercial paper and bank loans by $1.04 billion, resulting in cash provided by borrowing activities of $525.9 million, $641.3 million lower than the cash provided by borrowing activities of $1.17 billion in 2012.

Credit Lines and Other:

The Company has line of credit arrangements of $3.50 billion, of which $3.37 billion were unused at December 31, 2014. Included in these arrangements are $3.0 billion of syndicated bank facilities, of which $1.0 billion matures in June 2015, $1.0 billion matures in June 2018 and $1.0 billion matures in June 2019. 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 facilities for the year ended December 31, 2014.

In December 2011, PACCAR Inc filed a shelf registration under the Securities Act of 1933; the registration expired in the fourth quarter of 2014. Upon maturity in February 2014, $500.0 million of medium-term notes, of which $150.0 million was manufacturing debt, were repaid in full.

In December 2011, PACCAR's Board of Directors approved the repurchase of $300.0 million of the Company's common stock, and as of December 31, 2014, $234.7 million of shares have been repurchased pursuant to the authorization.

At December 31, 2014 and December 31, 2013, the Company had cash and cash equivalents and marketable debt securities of $1.60 billion and $1.75 billion, respectively, which are considered indefinitely reinvested in foreign subsidiaries. The Company periodically repatriates foreign earnings that are not indefinitely reinvested. Dividends paid by foreign subsidiaries to the U.S. parent were $.24 billion, $.19 billion and $.23 billion in 2014, 2013 and 2012, respectively. The Company believes that its U.S. cash and cash equivalents and marketable debt securities, future operating cash flow and access to the capital markets, along with periodic repatriation of foreign earnings, will be sufficient to meet U.S. liquidity requirements.

Truck, Parts and Other

The Company provides funding for working capital, capital expenditures, R&D, 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.

Investments for property, plant and equipment in 2014 totaled $220.8 million compared to $406.5 million in 2013 as the Company invested in new products and expanded its aftermarket distribution centers and enhanced its production facilities. Investments in 2014 were lower than 2013, as 2013 included higher spending for new product development and construction of the Eindhoven parts distribution center in Europe and the DAF Brasil factory. Over the past decade, the Company's combined investments in worldwide capital projects and R&D totaled $5.83 billion, which have significantly increased operating capacity and efficiency of its facilities and the competitive advantage of the Company's premium products.

In 2015, capital investments are expected to be $300 to $350 million and are targeted for enhanced powertrain development and increased operating efficiency of the Company's factories and parts distribution centers. Spending on R&D in 2015 is expected to be $220 to $260 million, as PACCAR will continue to focus on new products and increased manufacturing capacity.

The Company conducts business in Spain, Italy, Portugal, Ireland, Greece, Russia, Ukraine and certain other countries which have been experiencing significant financial stress, fiscal or political strain and are subject to potential default. The Company routinely monitors its financial exposure to global financial conditions, its global counterparties and its operating environments. As of December 31, 2014, the Company had finance and trade receivables in these countries of approximately 1% of consolidated total assets. As of December 31, 2014, the Company did not have any marketable debt security investments in corporate or sovereign government securities in these countries. In addition, the Company had no derivative counterparty credit exposures in these countries as of December 31, 2014.

Financial Services

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

The Company issues commercial paper for a portion of its funding in its Financial Services segment. Some of this commercial paper is converted to fixed interest rate debt through the use of interest rate swaps, which are used to manage interest rate risk. In the event of a future significant disruption in the financial markets, the Company may not be able to issue replacement commercial paper. As a result, the Company is exposed to liquidity risk from the shorter maturity of short-term borrowings paid to lenders compared to the longer timing of receivable collections from customers. The Company believes its cash balances and investments, collections on existing finance receivables, syndicated bank lines and current investment-grade credit ratings of A+/A1 will continue to provide it with sufficient resources and access to capital markets at competitive interest rates and therefore contribute to the Company maintaining its liquidity and financial stability. A decrease in these credit ratings could negatively impact the Company's ability to access capital markets at competitive interest rates and the Company's ability to maintain liquidity and financial stability.

In November 2012, the Company's U.S. finance subsidiary, PACCAR Financial Corp. (PFC), filed a shelf registration under the Securities Act of 1933. The total amount of medium-term notes outstanding for PFC as of December 31, 2014 was $4.15 billion. The registration expires in November 2015 and does not limit the principal amount of debt securities that may be issued during that period.

As of December 31, 2014, the Company's European finance subsidiary, PACCAR Financial Europe, had €366.9 million available for issuance under a €1.50 billion medium-term note program registered with the London Stock Exchange. The program was renewed in the second quarter of 2014 and is renewable annually through the filing of a new prospectus.

In April 2011, PACCAR Financial Mexico registered a 10.00 billion peso medium-term note and commercial paper program with the Comision Nacional Bancaria y de Valores. The registration expires in 2016 and limits the amount of commercial paper (up to one year) to 5.00 billion pesos. At December 31, 2014, 8.00 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, 2014:

	MATURITY				
($ in millions)	WITHIN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS	TOTAL
Borrowings*	$ 4,129.2	$ 3,464.4	$ 638.0		$ 8,231.6
Purchase obligations	255.0	135.2			390.2
Interest on debt**	54.4	57.3	15.5		127.2
Operating leases	19.5	23.9	9.5	$ 2.2	55.1
Other obligations	10.1	14.1	7.0	7.9	39.1
	$ 4,468.2	$ 3,694.9	$ 670.0	$ 10.1	$ 8,843.2

* Borrowings 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, 2014.

Total cash commitments for borrowings and interest on term debt are $8.36 billion and were related to the Financial Services segment. As described in Note I 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 commitments 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, 2014:

	COMMITMENT EXPIRATION				
($ in millions)	WITHIN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS	TOTAL
Loan and lease commitments	$ 769.6				$ 769.6
Residual value guarantees	228.9	$ 279.9	$ 104.9	$ 15.4	629.1
Letters of credit	17.1	1.6	.2	.1	19.0
	$ 1,015.6	$ 281.5	$ 105.1	$ 15.5	$ 1,417.7

Loan and lease commitments are for funding new retail loan and lease contracts. 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 the years ended December 31, 2014, 2013 and 2012 were $1.2 million, $2.3 million and $1.7 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:

The Company's significant accounting policies are disclosed in Note A of the consolidated financial statements. 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

Trucks sold pursuant to agreements accounted for as operating leases are disclosed in Note E 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 five 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 estimated residual value, 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 2014, 2013 and 2012, market values on equipment returning upon operating lease maturity were generally higher than the residual values on the equipment, resulting in a decrease in depreciation expense of $10.6 million, $4.4 million and $5.0 million, respectively.

At December 31, 2014, 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 $1.91 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 value estimates and result in the Company recording an average of approximately $47.8 million of additional depreciation per year.

Allowance for Credit Losses

The allowance for credit losses related to the Company's loans and finance leases is disclosed in Note D of the consolidated financial statements. The Company has developed a systematic methodology for determining the allowance for credit losses for its two portfolio segments, retail and wholesale. The retail segment consists of retail loans and direct and sales-type finance leases, net of unearned interest. The wholesale segment consists of truck inventory financing loans to dealers that are collateralized by trucks and other collateral. The wholesale segment generally has less risk than the retail segment. Wholesale receivables generally are shorter in duration than retail receivables, and the Company requires monthly reporting of the wholesale dealer's financial condition, conducts periodic audits of the trucks being financed and in many cases, obtains personal guarantees or other security such as dealership assets. In determining the allowance for credit losses, retail loans and finance leases are evaluated together since they relate to a similar customer base, their contractual terms require regular payment of principal and interest, generally over 36 to 60 months, and they are secured by the same type of collateral. The allowance for credit losses consists of both specific and general reserves.

The Company individually evaluates certain finance receivables for impairment. Finance receivables that are evaluated individually for impairment consist of all wholesale accounts and certain large retail accounts with past due balances or otherwise determined to be at a higher risk of loss. A finance receivable is impaired if it is considered probable the Company will be unable to collect all contractual interest and principal payments as scheduled. In addition, all retail loans and leases which have been classified as TDRs and all customer accounts over 90 days past due are considered impaired. Generally, impaired accounts are on non-accrual status. Impaired accounts classified as TDRs which have been performing for 90 consecutive days are placed on accrual status if it is deemed probable that the Company will collect all principal and interest payments.

Impaired receivables are generally considered collateral dependent. Large balance retail and all wholesale impaired receivables are individually evaluated to determine the appropriate reserve for losses. The determination of reserves for large balance impaired receivables considers the fair value of the associated collateral. When the underlying collateral fair value exceeds the Company's recorded investment, no reserve is recorded. Small balance impaired receivables with similar risk characteristics are evaluated as a separate pool to determine the appropriate reserve for losses using the historical loss information discussed below.

For finance receivables that are not individually impaired, the Company collectively evaluates and determines the general allowance for credit losses for both retail and wholesale receivables based on historical loss information, using past due account data and current market conditions. Information used includes assumptions regarding the likelihood of collecting current and past due accounts, repossession rates, the recovery rate on the underlying collateral based on used truck values and other pledged collateral or recourse. The Company has developed a range of loss estimates for each of its country portfolios 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. After determining the appropriate level of the allowance for credit losses, a provision for losses on finance receivables is charged to income as necessary to reflect management's estimate of incurred credit losses, net of recoveries, inherent in the portfolio.

The adequacy of the allowance is evaluated quarterly based on the most recent past due account information and current market conditions. As accounts become past due, the likelihood that they will not be fully collected increases. The Company's experience indicates the probability of not fully collecting past due accounts ranges between 20% and 80%. Over the past three years, the Company's year-end 30+ days past due accounts have ranged between .5% and .6% of loan and lease receivables. Historically, a 100 basis point increase in the 30+ days past due percentage has resulted in an increase in credit losses of 5 to 30 basis points of receivables. Past dues were .5% at December 31, 2014. If past dues were 100 basis points higher or 1.5% as of December 31, 2014, the Company's estimate of credit losses would likely have increased by a range of $5 to $25 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

Product warranty is disclosed in Note H 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, warranty expense as a percentage of Truck, Parts and Other net sales and revenues has ranged between 1.2% and 1.6%. If the 2014 warranty expense had been .2% higher as a percentage of net sales and revenues in 2014, warranty expense would have increased by approximately $36 million.

Pension Benefits

Employee benefits are disclosed in Note L of the consolidated financial statements. 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%, 2014 net pension expense would increase to $76.2 million from $53.1 million and the projected benefit obligation would increase $219.6 million to $2.6 billion from $2.4 billion.

Income Taxes

Income taxes are disclosed in Note M of the consolidated financial statements. The Company calculates income tax expense on pre-tax 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 on all of these factors each quarter as well as new information on tax laws and differences between estimated taxes 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:

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements relating to future results of operations or financial position and any other statement that does not relate to any historical or current fact. Such statements are based on currently available operating, financial and other information and 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 or reduced market shares; changes affecting the profitability of truck owners and operators; price changes impacting truck sales prices 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, 2014.

CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31,	**2014**	2013	2012
		(millions, except per share data)	
TRUCK, PARTS AND OTHER:			
Net sales and revenues	**$ 17,792.8**	$ 15,948.9	$ 15,951.7
Cost of sales and revenues	**15,481.6**	13,900.7	13,908.3
Research and development	**215.6**	251.4	279.3
Selling, general and administrative	**465.2**	465.3	476.4
Interest and other expense (income), net	**5.5**	5.3	(.3)
	16,167.9	14,622.7	14,663.7
Truck, Parts and Other Income Before Income Taxes	**1,624.9**	1,326.2	1,288.0
FINANCIAL SERVICES:			
Interest and fees	**462.6**	462.8	453.7
Operating lease, rental and other revenues	**741.6**	712.1	645.1
Revenues	**1,204.2**	1,174.9	1,098.8
Interest and other borrowing expenses	**133.7**	155.9	158.4
Depreciation and other expense	**588.5**	571.7	517.4
Selling, general and administrative	**96.2**	94.2	95.2
Provision for losses on receivables	**15.4**	12.9	20.0
	833.8	834.7	791.0
Financial Services Income Before Income Taxes	**370.4**	340.2	307.8
Investment income	**22.3**	28.6	33.1
Total Income Before Income Taxes	**2,017.6**	1,695.0	1,628.9
Income taxes	**658.8**	523.7	517.3
Net Income	**$ 1,358.8**	$ 1,171.3	$ 1,111.6
Net Income Per Share			
Basic	**$ 3.83**	$ 3.31	$ 3.13
Diluted	**$ 3.82**	$ 3.30	$ 3.12
Weighted Average Number of Common Shares Outstanding			
Basic	**355.0**	354.2	355.1
Diluted	**356.1**	355.2	355.8

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31,	**2014**	2013	2012
		(millions)	
Net income	**$ 1,358.8**	$ 1,171.3	$ 1,111.6
Other comprehensive (loss) income:			
Unrealized gains (losses) on derivative contracts			
Gains (losses) arising during the period	**26.1**	53.2	(29.2)
Tax effect	**(6.1)**	(16.3)	9.1
Reclassification adjustment	**(23.5)**	(35.6)	22.7
Tax effect	**5.1**	10.8	(7.8)
	1.6	12.1	(5.2)
Unrealized gains (losses) on marketable debt securities			
Net holding gain (loss)	**5.5**	(8.3)	2.7
Tax effect	**(1.3)**	2.2	(.6)
Reclassification adjustment	**(.9)**	1.7	(2.9)
Tax effect	**.3**	(.5)	.8
	3.6	(4.9)	
Pension plans			
(Losses) gains arising during the period	**(291.1)**	324.9	(71.0)
Tax effect	**105.3**	(120.1)	22.4
Reclassification adjustment	**22.0**	45.3	45.4
Tax effect	**(7.1)**	(15.8)	(15.2)
	(170.9)	234.3	(18.4)
Foreign currency translation (losses) gains	**(422.8)**	(73.3)	83.1
Net other comprehensive (loss) income	**(588.5)**	168.2	59.5
Comprehensive Income	**$ 770.3**	$ 1,339.5	$ 1,171.1

See notes to consolidated financial statements.

ASSETS

December 31,	**2014**	2013
	(millions)	
TRUCK, PARTS AND OTHER:		
Current Assets		
Cash and cash equivalents	**$ 1,665.1**	$ 1,657.7
Trade and other receivables, net	**1,047.1**	1,019.6
Marketable debt securities	**1,272.0**	1,267.5
Inventories, net	**925.7**	813.6
Other current assets	**290.5**	308.1
Total Truck, Parts and Other Current Assets	**5,200.4**	5,066.5
Equipment on operating leases, net	**934.5**	1,038.3
Property, plant and equipment, net	**2,313.3**	2,513.3
Other noncurrent assets, net	**253.3**	477.3
Total Truck, Parts and Other Assets	**8,701.5**	9,095.4
FINANCIAL SERVICES:		
Cash and cash equivalents	**72.5**	92.4
Finance and other receivables, net	**9,042.6**	8,812.1
Equipment on operating leases, net	**2,306.0**	2,290.1
Other assets	**496.2**	435.5
Total Financial Services Assets	**11,917.3**	11,630.1
	$ 20,618.8	$ 20,725.5

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31,	**2014**	2013
	(millions)	
TRUCK, PARTS AND OTHER:		
Current Liabilities		
Accounts payable, accrued expenses and other	**$ 2,297.2**	$ 2,155.0
Dividend payable	**354.4**	318.8
Current portion of long-term debt		150.0
Total Truck, Parts and Other Current Liabilities	**2,651.6**	2,623.8
Residual value guarantees and deferred revenues	**970.9**	1,093.8
Other liabilities	**718.8**	734.4
Total Truck, Parts and Other Liabilities	**4,341.3**	4,452.0
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	**384.5**	391.7
Commercial paper and bank loans	**2,641.9**	2,508.9
Term notes	**5,588.7**	5,765.3
Deferred taxes and other liabilities	**909.2**	973.3
Total Financial Services Liabilities	**9,524.3**	9,639.2
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value – authorized 1.0 million shares, none issued		
Common stock, $1 par value – authorized 1.2 billion shares; issued 355.2 million and 354.3 million shares	**355.2**	354.3
Additional paid-in capital	**156.7**	106.2
Treasury stock, at cost – .7 million shares and nil shares	**(42.7)**	
Retained earnings	**6,863.8**	6,165.1
Accumulated other comprehensive (loss) income	**(579.8)**	8.7
Total Stockholders' Equity	**6,753.2**	6,634.3
	$ 20,618.8	$ 20,725.5

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,	**2014**	2013	2012
		(millions)	
OPERATING ACTIVITIES:			
Net Income	**$ 1,358.8**	$ 1,171.3	$ 1,111.6
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization:			
Property, plant and equipment	**285.2**	210.7	188.8
Equipment on operating leases and other	**632.5**	600.0	512.1
Provision for losses on financial services receivables	**15.4**	12.9	20.0
Deferred taxes	**(98.0)**	97.3	151.7
Other, net	**40.4**	36.6	34.0
Pension contributions	**(81.1)**	(26.2)	(190.8)
Change in operating assets and liabilities:			
(Increase) decrease in assets other than cash and cash equivalents:			
Receivables:			
Trade and other receivables	**(71.3)**	(115.0)	75.2
Wholesale receivables on new trucks	**(232.8)**	(82.5)	(6.5)
Sales-type finance leases and dealer direct loans on new trucks	**(133.1)**	(101.9)	(186.6)
Inventories	**(189.5)**	(39.6)	(61.5)
Other assets, net	**(72.0)**	(86.9)	(120.7)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	**252.3**	240.8	(303.6)
Residual value guarantees and deferred revenues	**123.1**	261.8	204.4
Other liabilities, net	**293.7**	196.4	90.9
Net Cash Provided by Operating Activities	**2,123.6**	2,375.7	1,519.0
INVESTING ACTIVITIES:			
Originations of retail loans and direct financing leases	**(3,114.2)**	(2,992.8)	(3,235.5)
Collections on retail loans and direct financing leases	**2,847.6**	2,469.2	2,404.3
Net decrease (increase) in wholesale receivables on used equipment	**1.1**	6.5	(5.7)
Purchases of marketable securities	**(1,122.5)**	(990.1)	(1,048.9)
Proceeds from sales and maturities of marketable securities	**997.9**	888.9	768.3
Payments for property, plant and equipment	**(298.2)**	(510.6)	(515.4)
Acquisitions of equipment for operating leases	**(1,239.1)**	(1,362.2)	(1,288.0)
Proceeds from asset disposals	**395.5**	340.1	330.2
Other, net			2.7
Net Cash Used in Investing Activities	**(1,531.9)**	(2,151.0)	(2,588.0)
FINANCING ACTIVITIES:			
Payments of cash dividends	**(623.8)**	(283.1)	(809.5)
Purchases of treasury stock	**(42.7)**		(162.1)
Proceeds from stock compensation transactions	**29.1**	31.0	13.9
Net increase (decrease) in commercial paper and short-term bank loans	**349.1**	(1,039.3)	(365.8)
Proceeds from long-term debt	**1,650.8**	2,134.1	2,201.1
Payments on long-term debt	**(1,883.0)**	(568.9)	(668.1)
Net Cash (Used in) Provided by Financing Activities	**(520.5)**	273.8	209.5
Effect of exchange rate changes on cash	**(83.7)**	(20.8)	25.2
Net (Decrease) Increase in Cash and Cash Equivalents	**(12.5)**	477.7	(834.3)
Cash and cash equivalents at beginning of year	**1,750.1**	1,272.4	2,106.7
Cash and cash equivalents at end of year	**$ 1,737.6**	$ 1,750.1	$ 1,272.4

See notes to consolidated financial statements.

December 31,	**2014**	2013	2012
		(millions, except per share data)	
COMMON STOCK, $1 PAR VALUE:			
Balance at beginning of year	**$ 354.3**	$ 353.4	$ 356.8
Treasury stock retirement			(4.2)
Stock compensation	**.9**	.9	.8
Balance at end of year	**355.2**	354.3	353.4
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	**106.2**	56.6	52.1
Treasury stock retirement			(28.0)
Stock compensation and tax benefit	**50.5**	49.6	32.5
Balance at end of year	**156.7**	106.2	56.6
TREASURY STOCK, AT COST:			
Balance at beginning of year			
Purchases, shares: 2014 - .7; 2013 - nil; 2012 - 4.2	**(42.7)**		(162.1)
Retirements			162.1
Balance at end of year	**(42.7)**		
RETAINED EARNINGS:			
Balance at beginning of year	**6,165.1**	5,596.4	5,174.5
Net income	**1,358.8**	1,171.3	1,111.6
Cash dividends declared on common stock, per share: 2014 - $1.86; 2013 - $1.70; 2012 - $1.58	**(660.1)**	(602.6)	(559.8)
Treasury stock retirement			(129.9)
Balance at end of year	**6,863.8**	6,165.1	5,596.4
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME:			
Balance at beginning of year	**8.7**	(159.5)	(219.0)
Other comprehensive (loss) income	**(588.5)**	168.2	59.5
Balance at end of year	**(579.8)**	8.7	(159.5)
Total Stockholders' Equity	**$ 6,753.2**	$ 6,634.3	$ 5,846.9

See notes to consolidated financial statements.

December 31, 2014, 2013 and 2012 (currencies in millions)

A. SIGNIFICANT ACCOUNTING POLICIES

Description of Operations: PACCAR Inc (the Company or PACCAR) is a multinational company operating in three principal segments: (1) the Truck segment includes the design and manufacture of high-quality, light-, medium- and heavy-duty commercial trucks; (2) the Parts segment includes the distribution of aftermarket parts for trucks and related commercial vehicles; and (3) the Financial Services segment (PFS) derives its earnings primarily from financing or leasing PACCAR products in the U.S., Canada, Mexico, Europe and Australia. PACCAR's sales and revenues are derived primarily from North America and Europe. The Company also operates in Australia and Brasil and sells trucks and parts to customers in Asia, Africa, Middle East 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 U.S. generally accepted accounting principles 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.

Revenue Recognition:
Truck, Parts and Other: 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 generally recognized on a straight-line basis over the guarantee period (see Note E). At the time certain truck and parts sales to a dealer are recognized, the Company records an estimate of any future sales incentive costs related to such sales. The estimate is based on historical data and announced incentive programs. In the Truck and Parts segments, the Company grants extended payment terms on selected receivables. Interest is charged for the period beyond standard payment terms. Interest income is recorded as earned.

Financial Services: 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 36 to 60 months, 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. Rental revenues for the years ended December 31, 2014, 2013 and 2012 were $681.5, $631.7 and $551.5, respectively. Depreciation and related leased unit operating expenses were $544.0, $503.5 and $434.9 for the years ended December 31, 2014, 2013 and 2012, respectively.

Recognition of interest income and rental revenue is suspended (put on non-accrual status) when the receivable becomes more than 90 days past the contractual due date or earlier if some other event causes the Company to determine that collection is not probable. Accordingly, no finance receivables more than 90 days past due were accruing interest at December 31, 2014 or December 31, 2013. Recognition is resumed if the receivable becomes current by the payment of all amounts due under the terms of the existing contract and collection of remaining amounts is considered probable (if not contractually modified) or if the customer makes scheduled payments for three months and collection of remaining amounts is considered probable (if contractually modified). Payments received while the finance receivable is on non-accrual status are applied to interest and principal in accordance with the contractual terms.

Cash and Cash Equivalents: Cash equivalents consist of liquid investments with a maturity at date of purchase of 90 days or less.

Marketable Debt Securities: The Company's investments in marketable debt 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 (loss) income (AOCI).

The Company utilizes third-party pricing services for all of its marketable debt security valuations. The Company reviews the pricing methodology used by the third-party pricing services, including the manner employed to collect market information. On a quarterly basis, the Company also performs review and validation procedures on the

pricing information received from the third-party providers. These procedures help ensure that the fair value information used by the Company is determined in accordance with applicable accounting guidance.

The Company evaluates its investment in marketable debt securities at the end of each reporting period to determine if a decline in fair value is other than temporary. Realized losses are recognized upon management's determination that a decline in fair value is other than temporary. The determination of other-than-temporary impairment is a subjective process, requiring the use of judgments and assumptions regarding the amount and timing of recovery. The Company reviews and evaluates its investments at least quarterly to identify investments that have indications of other-than-temporary impairments. It is reasonably possible that a change in estimate could occur in the near term relating to other-than-temporary impairment. Accordingly, the Company considers several factors when evaluating debt securities for other-than-temporary impairment, including whether the decline in fair value of the security is due to increased default risk for the specific issuer or market interest rate risk.

In assessing default risk, the Company considers the collectability of principal and interest payments by monitoring changes to issuers' credit ratings, specific credit events associated with individual issuers as well as the credit ratings of any financial guarantor, and the extent and duration to which amortized cost exceeds fair value.

In assessing market interest rate risk, including benchmark interest rates and credit spreads, the Company considers its intent for selling the securities and whether it is more likely than not the Company will be able to hold these securities until the recovery of any unrealized losses.

Receivables:
Trade and Other Receivables: The Company's trade and other receivables are recorded at cost, net of allowances. At December 31, 2014 and 2013, respectively, trade and other receivables include trade receivables from dealers and customers of $882.2 and $847.6 and other receivables of $165.0 and $172.0 relating primarily to value added tax receivables and supplier allowances and rebates.

Finance and Other Receivables:
Loans – Loans represent fixed or floating-rate loans to customers collateralized by the vehicles purchased and are recorded at amortized cost.

Finance leases – Finance leases are retail direct financing leases and sales-type finance leases, which lease equipment to retail customers and dealers. 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 which is shown separately.

Dealer wholesale financing – Dealer wholesale financing is floating-rate wholesale loans to PACCAR dealers for new and used trucks and are recorded at amortized cost. The loans are collateralized by the trucks being financed.

Operating lease and other trade receivables – Operating lease and other trade receivables are monthly rentals due on operating leases, interest on loans and other amounts due within one year in the normal course of business.

Allowance for Credit Losses:
Truck, Parts and Other: The Company historically has not experienced significant losses or past due amounts on trade and other receivables in its Truck, Parts and Other businesses. The Company's Truck, Parts and Other trade receivable past dues are determined based on contractual payment terms. Accounts are considered past due once the unpaid balance is over 30 days outstanding. Accounts are charged-off against the allowance for credit losses when, in the judgment of management, they are considered to be uncollectible. The allowance for credit losses for Truck, Parts and Other was $1.9 and $2.4 for the years ended December 31, 2014 and 2013, respectively. Net charge-offs were $.2, $.2 and $.3 for the years ended December 31, 2014, 2013 and 2012, respectively.

Financial Services: The Company continuously monitors the payment performance of its finance receivables. For large retail finance customers and dealers with wholesale financing, the Company regularly reviews their financial statements and makes site visits and phone contact as appropriate. If the Company becomes aware of circumstances that could cause those customers or dealers to face financial difficulty, whether or not they are past due, the customers are placed on a watch list.

The Company modifies loans and finance leases as a normal part of its Financial Services operations. The Company may modify loans and finance leases for commercial reasons or for credit reasons. Modifications for commercial reasons are changes to contract terms for customers that are not considered to be in financial difficulty. Insignificant delays are modifications extending terms up to three months for customers experiencing some short-term financial stress, but not considered to be in financial difficulty. Modifications for credit reasons are changes to contract terms for customers considered to be in financial difficulty. The Company's modifications typically result in granting more time to pay the contractual amounts owed and charging a fee and interest for the term of the modification.

On average, modifications extended contractual terms by approximately five months in 2014 and six months in 2013 and did not have a significant effect on the weighted average term or interest rate of the total portfolio at December 31, 2014 and December 31, 2013.

When considering whether to modify customer accounts for credit reasons, the Company evaluates the creditworthiness of the customers and modifies those accounts that the Company considers likely to perform under the modified terms. When the Company modifies loans and finance leases for credit reasons and grants a concession, the modifications are classified as troubled debt restructurings (TDR). The Company does not typically grant credit modifications for customers that do not meet minimum underwriting standards since the Company normally repossesses the financed equipment in these circumstances. When such modifications do occur, they are considered TDRs.

The Company has developed a systematic methodology for determining the allowance for credit losses for its two portfolio segments, retail and wholesale. The retail segment consists of retail loans and direct and sales-type finance leases, net of unearned interest. The wholesale segment consists of truck inventory financing loans to dealers that are collateralized by trucks and other collateral. The wholesale segment generally has less risk than the retail segment. Wholesale receivables generally are shorter in duration than retail receivables, and the Company requires monthly reporting of the wholesale dealer's financial condition, conducts periodic audits of the trucks being financed and in many cases, obtains personal guarantees or other security such as dealership assets. In determining the allowance for credit losses, retail loans and finance leases are evaluated together since they relate to a similar customer base, their contractual terms require regular payment of principal and interest, generally over 36 to 60 months, and they are secured by the same type of collateral. The allowance for credit losses consists of both specific and general reserves.

The Company individually evaluates certain finance receivables for impairment. Finance receivables that are evaluated individually for impairment consist of all wholesale accounts and certain large retail accounts with past due balances or otherwise determined to be at a higher risk of loss. A finance receivable is impaired if it is considered probable the Company will be unable to collect all contractual interest and principal payments as scheduled. In addition, all retail loans and leases which have been classified as TDRs and all customer accounts over 90 days past due are considered impaired. Generally, impaired accounts are on non-accrual status. Impaired accounts classified as TDRs which have been performing for 90 consecutive days are placed on accrual status if it is deemed probable that the Company will collect all principal and interest payments.

Impaired receivables are generally considered collateral dependent. Large balance retail and all wholesale impaired receivables are individually evaluated to determine the appropriate reserve for losses. The determination of reserves for large balance impaired receivables considers the fair value of the associated collateral. When the underlying collateral fair value exceeds the Company's recorded investment, no reserve is recorded. Small balance impaired receivables with similar risk characteristics are evaluated as a separate pool to determine the appropriate reserve for losses using the historical loss information discussed below.

For finance receivables that are not individually impaired, the Company collectively evaluates and determines the general allowance for credit losses for both retail and wholesale receivables based on historical loss information, using past due account data and current market conditions. Information used includes assumptions regarding the likelihood of collecting current and past due accounts, repossession rates, the recovery rate on the underlying collateral based on used truck values and other pledged collateral or recourse. The Company has developed a range of loss estimates for each of its country portfolios 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. After determining the appropriate level of the allowance for credit losses, a provision for losses on finance receivables is charged to income as necessary to reflect management's estimate of incurred credit losses, net of recoveries, inherent in the portfolio.

In determining the fair value of the collateral, the Company uses a pricing matrix and categorizes the fair value as Level 2 in the hierarchy of fair value measurement. The pricing matrix is reviewed quarterly and updated as appropriate. The pricing matrix considers the make, model and year of the equipment as well as recent sales prices of comparable equipment through wholesale channels to the Company's dealers (principal market). The fair value of the collateral also considers the overall condition of the equipment.

Accounts are charged-off against the allowance for credit losses when, in the judgment of management, they are considered uncollectible (generally upon repossession of the collateral). Typically the timing between the repossession and charge-off is not significant. In cases where repossession is delayed (e.g., for legal proceedings), the Company records partial charge-offs. The charge-off is determined by comparing the fair value of the collateral, less cost to sell, to the recorded investment.

Inventories: Inventories are stated at the lower of cost or market. Cost of inventories in the U.S. 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. Cost of sales and revenues include shipping and handling costs incurred to deliver products to dealers and customers.

Equipment on Operating Leases: The Company's Financial Services segment leases equipment under operating leases to its customers. In addition, in the Truck segment, equipment sold to customers in Europe subject to a residual value guarantee (RVG) by the Company is generally accounted for as an operating lease. 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 five years. Estimated useful lives of the equipment range from four to nine years. The Company reviews residual values of equipment on operating leases periodically to determine that recorded amounts are appropriate.

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.

Long-lived Assets and Goodwill: The Company evaluates the carrying value of property, plant and equipment when events and circumstances warrant a review. Goodwill is tested for impairment at least on an annual basis. There were no impairment charges for the three years ended December 31, 2014. Goodwill was $128.6 and $144.6 at December 31, 2014 and 2013, respectively. The decrease in value is due to currency translation.

Product Support Liabilities: Product support liabilities are estimated future payments related to product warranties, 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. For vehicles equipped with engines manufactured by PACCAR, the Company generally offers two year warranties on the engine. 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. The Company periodically assesses the adequacy of its recorded liabilities and adjusts them as appropriate to reflect actual experience. Revenue from extended warranty and R&M contracts is deferred and recognized to income generally on a straight-line basis over the contract period. Warranty and R&M costs on these contracts are recognized as incurred.

Derivative Financial Instruments: As part of its risk management strategy, the Company enters into derivative contracts to hedge against interest rates and foreign currency risk. 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 the inception of each hedge relationship, the Company documents its risk management objectives, procedures and accounting treatment. All of the Company's interest-rate and certain foreign exchange contracts are transacted under International Swaps and Derivatives Association (ISDA) master agreements. Each agreement permits the net settlement of amounts owed in the event of default and certain other termination events. For derivative financial instruments, the Company has elected not to offset derivative positions in the balance sheet with the same counterparty under the same agreements and is not required to post or receive collateral. 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, 2014.

The Company uses regression analysis to assess effectiveness of interest-rate contracts on a quarterly basis. For foreign-exchange contracts, the Company performs quarterly assessments to ensure that critical terms continue to match. All components of the derivative instrument's gain or loss are included in the assessment of hedge effectiveness. Gains or losses on the ineffective portion of cash flow hedges are recognized currently in earnings. Hedge accounting is discontinued prospectively when the Company determines that a derivative financial instrument has ceased to be a highly effective hedge.

Foreign Currency Translation: For most of the Company'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 (loss) income. The Company uses the U.S. dollar as the functional currency for all but one of its Mexican subsidiaries, which uses the local currency. For the U.S. functional currency entities in Mexico, 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 common 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.

New Accounting Pronouncements: In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-12, *Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period.* The amendment in this ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation costs should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has been rendered. This ASU is effective for annual periods and interim periods beginning after December 15, 2015 and early adoption is permitted. This amendment may be applied (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company does not expect the adoption of the ASU to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers.* This ASU amends the existing accounting standards for revenue recognition. Under the new revenue recognition model, a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The amendment may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently evaluating the transition alternatives and impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* This ASU requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the consolidated financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if available under the applicable tax jurisdiction. The ASU was effective for annual periods beginning after December 15, 2013 and interim periods within those annual periods. The Company adopted ASU 2013-11 in the first quarter of 2014; the implementation of this amendment did not have a material impact on the Company's consolidated financial statements.

B. INVESTMENTS IN MARKETABLE DEBT SECURITIES

Marketable debt securities consisted of the following at December 31:

2014	**AMORTIZED COST**	**UNREALIZED GAINS**	**UNREALIZED LOSSES**	**FAIR VALUE**
U.S. tax-exempt securities	**$ 362.9**	**$ .8**	**$ .3**	**$ 363.4**
U.S. corporate securities	**80.9**	**.6**		**81.5**
U.S. government and agency securities	**8.0**			**8.0**
Non-U.S. corporate securities	**528.1**	**3.9**		**532.0**
Non-U.S. government securities	**192.1**	**2.0**		**194.1**
Other debt securities	**92.8**	**.3**	**.1**	**93.0**
	$ 1,264.8	**$ 7.6**	**$ .4**	**$ 1,272.0**

2013	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
U.S. tax-exempt securities	$ 214.9	$ 1.2		$ 216.1
U.S. corporate securities	78.2	.1	$ .1	78.2
U.S. government and agency securities	5.5			5.5
Non-U.S. corporate securities	608.5	1.2	.4	609.3
Non-U.S. government securities	217.3	.7	.5	217.5
Other debt securities	140.5	.4		140.9
	$ 1,264.9	$ 3.6	$ 1.0	$ 1,267.5

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. Gross realized gains were $1.2, $2.0 and $3.8, and gross realized losses were $.1, $.7 and $.3 for the years ended December 31, 2014, 2013 and 2012, respectively.

Marketable debt securities with continuous unrealized losses and their related fair values were as follows:

At December 31,	**2014**		2013	
	LESS THAN TWELVE MONTHS	**TWELVE MONTHS OR GREATER**	LESS THAN TWELVE MONTHS	TWELVE MONTHS OR GREATER
Fair value	**$ 249.6**		$ 388.3	$ 28.4
Unrealized losses	**.4**		.9	.1

For the investment securities in gross unrealized loss positions identified above, the Company does not intend to sell the investment securities. It is more likely than not that the Company will not be required to sell the investment securities before recovery of the unrealized losses, and the Company expects that the contractual principal and interest will be received on the investment securities. As a result, the Company recognized no other-than-temporary impairments during the periods presented.

Contractual maturities at December 31, 2014 were as follows:

Maturities:	AMORTIZED COST	FAIR VALUE
Within one year	**$ 423.6**	**$ 424.1**
One to five years	**841.2**	**847.9**
	$ 1,264.8	**$ 1,272.0**

Marketable debt securities included nil and $.4 of variable rate demand obligations (VRDOs) at December 31, 2014 and 2013, respectively. VRDOs are debt instruments with long-term scheduled maturities which have interest rates that reset periodically.

C. INVENTORIES

Inventories include the following:

At December 31,	**2014**	2013
Finished products	**$ 512.3**	$ 440.6
Work in process and raw materials	**587.7**	545.2
	1,100.0	985.8
Less LIFO reserve	**(174.3)**	(172.2)
	$ 925.7	$ 813.6

Inventories valued using the LIFO method comprised 47% of consolidated inventories before deducting the LIFO reserve at both December 31, 2014 and 2013.

D. FINANCE AND OTHER RECEIVABLES

Finance and other receivables include the following:

At December 31,	**2014**	2013
Loans	**$ 3,968.5**	$ 3,977.4
Direct financing leases	**2,752.8**	2,680.8
Sales-type finance leases	**972.8**	921.1
Dealer wholesale financing	**1,755.8**	1,616.5
Operating lease and other trade receivables	**99.5**	121.3
Unearned interest: Finance leases	**(384.8)**	(375.7)
	$ 9,164.6	$ 8,941.4
Less allowance for losses:		
Loans and leases	**(105.5)**	(110.9)
Dealer wholesale financing	**(9.0)**	(10.4)
Operating lease and other trade receivables	**(7.5)**	(8.0)
	$ 9,042.6	$ 8,812.1

The net activity of sales-type finance leases, dealer direct loans and dealer wholesale financing on new trucks is shown in the operating section of the Consolidated Statements of Cash Flows since those receivables finance the sale of Company inventory.

Annual minimum payments due on finance receivables are as follows:

Beginning January 1, 2015	LOANS	FINANCE LEASES
2015	$ 1,251.2	$ 1,066.9
2016	1,032.1	905.7
2017	815.3	691.6
2018	523.8	448.0
2019	296.2	265.7
Thereafter	49.9	143.7
	$ 3,968.5	$ 3,521.6

Estimated residual values included with finance leases amounted to $204.0 in 2014 and $229.6 in 2013. Experience indicates substantially all of dealer wholesale financing will be repaid within one year. In addition, repayment experience indicates that some loans, leases and other finance receivables will be paid prior to contract maturity, while others may be extended or modified.

For the following credit quality disclosures, finance receivables are classified into two portfolio segments, wholesale and retail. The retail portfolio is further segmented into dealer retail and customer retail. The dealer wholesale segment consists of truck inventory financing to PACCAR dealers. The dealer retail segment consists of loans and leases to participating dealers and franchises that use the proceeds to fund customers' acquisition of commercial vehicles and related equipment. The customer retail segment consists of loans and leases directly to customers for the acquisition of commercial vehicles and related equipment. Customer retail receivables are further segregated between fleet and owner/operator classes. The fleet class consists of customer retail accounts operating more than five trucks. All other customer retail accounts are considered owner/operator. These two classes have similar measurement attributes, risk characteristics and common methods to monitor and assess credit risk.

Allowance for Credit Losses: The allowance for credit losses is summarized as follows:

	2014				
	DEALER		**CUSTOMER**		
	WHOLESALE	**RETAIL**	**RETAIL**	**OTHER***	**TOTAL**
Balance at January 1	**$ 10.4**	**$ 13.4**	**$ 97.5**	**$ 8.0**	**$ 129.3**
Provision for losses	**.3**	**(1.4)**	**14.8**	**1.7**	**15.4**
Charge-offs	**(.9)**		**(18.2)**	**(2.2)**	**(21.3)**
Recoveries			**4.6**	**.7**	**5.3**
Currency translation and other	**(.8)**	**(.1)**	**(5.1)**	**(.7)**	**(6.7)**
Balance at December 31	**$ 9.0**	**$ 11.9**	**$ 93.6**	**$ 7.5**	**$ 122.0**

	2013				
	DEALER		CUSTOMER		
	WHOLESALE	RETAIL	RETAIL	OTHER*	TOTAL
Balance at January 1	$ 11.8	$ 13.4	$ 99.2	$ 5.6	$ 130.0
Provision for losses	(.9)	.2	9.8	3.8	12.9
Charge-offs	(.5)		(21.2)	(2.8)	(24.5)
Recoveries			9.9	1.0	10.9
Currency translation and other		(.2)	(.2)	.4	
Balance at December 31	$ 10.4	$ 13.4	$ 97.5	$ 8.0	$ 129.3

* Operating lease and other trade receivables.

December 31, 2014, 2013 and 2012 (currencies in millions)

	2012				
	DEALER		CUSTOMER		
	WHOLESALE	RETAIL	RETAIL	OTHER*	TOTAL
Balance at January 1	$ 11.7	$ 12.0	$ 106.5	$ 8.8	$ 139.0
Provision for losses	1.8	1.4	13.1	3.7	20.0
Charge-offs			(32.1)	(6.6)	(38.7)
Recoveries			7.0	.4	7.4
Currency translation and other	(1.7)		4.7	(.7)	2.3
Balance at December 31	$ 11.8	$ 13.4	$ 99.2	$ 5.6	$ 130.0

* Operating lease and other trade receivables.

Information regarding finance receivables evaluated and determined individually and collectively is as follows:

	DEALER		**CUSTOMER**	
At December 31, 2014	**WHOLESALE**	**RETAIL**	**RETAIL**	**TOTAL**
Recorded investment for impaired finance receivables evaluated individually	**$ 4.9**		**$ 43.7**	**$ 48.6**
Allowance for impaired finance receivables determined individually	**.5**		**4.6**	**5.1**
Recorded investment for finance receivables evaluated collectively	**1,750.9**	**$ 1,606.5**	**5,659.1**	**9,016.5**
Allowance for finance receivables determined collectively	**8.5**	**11.9**	**89.0**	**109.4**

	DEALER		CUSTOMER	
At December 31, 2013	WHOLESALE	RETAIL	RETAIL	TOTAL
Recorded investment for impaired finance receivables evaluated individually	$ 8.5		$ 42.1	$ 50.6
Allowance for impaired finance receivables determined individually	1.4		5.9	7.3
Recorded investment for finance receivables evaluated collectively	1,608.0	$ 1,525.6	5,635.9	8,769.5
Allowance for finance receivables determined collectively	9.0	13.4	91.6	114.0

The recorded investment for finance receivables that are on non-accrual status is as follows:

At December 31,	**2014**	2013
Dealer:		
Wholesale	**$ 4.9**	$ 8.0
Customer retail:		
Fleet	**34.4**	30.5
Owner/operator	**8.9**	8.6
	$ 48.2	$ 47.1

December 31, 2014, 2013 and 2012 (currencies in millions)

Impaired Loans: Impaired loans with no specific reserves were $16.7 and $10.7 at December 31, 2014 and 2013, respectively. Impaired loans with a specific reserve are summarized below. The impaired loans with specific reserve represent the unpaid principal balance. The recorded investment of impaired loans as of December 31, 2014 and 2013 was not significantly different than the unpaid principal balance.

	DEALER		CUSTOMER RETAIL		
At December 31, 2014	**WHOLESALE**	**RETAIL**	**FLEET**	**OWNER/ OPERATOR**	**TOTAL**
Impaired loans with a specific reserve	**$ .5**		**$ 12.7**	**$ 2.6**	**$ 15.8**
Associated allowance	**(.5)**		**(1.5)**	**(.5)**	**(2.5)**
Net carrying amount of impaired loans			**$ 11.2**	**$ 2.1**	**$ 13.3**
Average recorded investment	**$ 8.8**		**$ 22.5**	**$ 2.8**	**$ 34.1**

	DEALER		CUSTOMER RETAIL		
At December 31, 2013	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	TOTAL
Impaired loans with a specific reserve	$ 8.5		$ 10.8	$ 3.1	$ 22.4
Associated allowance	(1.4)		(2.1)	(.6)	(4.1)
Net carrying amount of impaired loans	$ 7.1		$ 8.7	$ 2.5	$ 18.3
Average recorded investment	$ 5.8		$ 28.9	$ 5.0	$ 39.7

During the period the loans above were considered impaired, interest income recognized on a cash basis is as follows:

	2014	2013	2012
Interest income recognized:			
Dealer wholesale	**$ .1**	$ .1	$ .1
Customer retail - fleet	**1.2**	2.9	1.2
Customer retail - owner/operator	**.4**	.9	.8
	$ 1.7	$ 3.9	$ 2.1

Credit Quality: The Company's customers are principally concentrated in the transportation industry in North America, Europe and Australia. The Company's portfolio assets are diversified over a large number of customers and dealers with no single customer or dealer balances representing over 5% of the total portfolio assets. The Company retains as collateral a security interest in the related equipment.

At the inception of each contract, the Company considers the credit risk based on a variety of credit quality factors including prior payment experience, customer financial information, credit-rating agency ratings, loan-to-value ratios and other internal metrics. On an ongoing basis, the Company monitors credit quality based on past due status and collection experience as there is a meaningful correlation between the past due status of customers and the risk of loss.

The Company has three credit quality indicators: performing, watch and at-risk. Performing accounts pay in accordance with the contractual terms and are not considered high-risk. Watch accounts include accounts 31 to 90 days past due and large accounts that are performing but are considered to be high-risk. Watch accounts are not impaired. At-risk accounts are accounts that are impaired, including TDRs, accounts over 90 days past due and other accounts on non-accrual status. The tables below summarize the Company's finance receivables by credit quality indicator and portfolio class.

	DEALER		CUSTOMER RETAIL		
At December 31, 2014	**WHOLESALE**	**RETAIL**	**FLEET**	**OWNER/ OPERATOR**	**TOTAL**
Performing	**$ 1,739.5**	**$ 1,606.4**	**$ 4,430.9**	**$ 1,193.9**	**$ 8,970.7**
Watch	**11.4**	**.1**	**21.8**	**12.5**	**45.8**
At-risk	**4.9**		**34.8**	**8.9**	**48.6**
	$ 1,755.8	**$ 1,606.5**	**$ 4,487.5**	**$ 1,215.3**	**$ 9,065.1**

	DEALER		CUSTOMER RETAIL		
At December 31, 2013	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	TOTAL
Performing	$ 1,576.9	$ 1,520.1	$ 4,396.5	$ 1,219.5	$ 8,713.0
Watch	31.1	5.5	12.7	7.2	56.5
At-risk	8.5		33.3	8.8	50.6
	$ 1,616.5	$ 1,525.6	$ 4,442.5	$ 1,235.5	$ 8,820.1

The tables below summarize the Company's finance receivables by aging category. In determining past due status, the Company considers the entire contractual account balance past due when any installment is over 30 days past due. Substantially all customer accounts that were greater than 30 days past due prior to credit modification became current upon modification for aging purposes.

	DEALER		CUSTOMER RETAIL		
At December 31, 2014	**WHOLESALE**	**RETAIL**	**FLEET**	**OWNER/ OPERATOR**	**TOTAL**
Current and up to 30 days past due	**$ 1,752.9**	**$ 1,606.5**	**$ 4,464.4**	**$ 1,200.0**	**$ 9,023.8**
31 - 60 days past due	**.6**		**10.6**	**6.9**	**18.1**
Greater than 60 days past due	**2.3**		**12.5**	**8.4**	**23.2**
	$ 1,755.8	**$ 1,606.5**	**$ 4,487.5**	**$ 1,215.3**	**$ 9,065.1**

	DEALER		CUSTOMER RETAIL		
At December 31, 2013	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	TOTAL
Current and up to 30 days past due	$ 1,611.7	$ 1,525.6	$ 4,417.5	$ 1,221.4	$ 8,776.2
31 - 60 days past due	1.7		9.2	6.3	17.2
Greater than 60 days past due	3.1		15.8	7.8	26.7
	$ 1,616.5	$ 1,525.6	$ 4,442.5	$ 1,235.5	$ 8,820.1

Troubled Debt Restructurings: The balance of TDRs was $36.0 and $27.6 at December 31, 2014 and 2013, respectively. At modification date, the pre-modification and post-modification recorded investment balances for finance receivables modified during the period by portfolio class are as follows:

	2014		2013	
	RECORDED INVESTMENT		RECORDED INVESTMENT	
	PRE-MODIFICATION	**POST-MODIFICATION**	PRE-MODIFICATION	POST-MODIFICATION
Fleet	**$ 24.4**	**$ 24.1**	$ 11.4	$ 11.2
Owner/operator	**2.3**	**2.3**	2.4	2.4
	$ 26.7	**$ 26.4**	$ 13.8	$ 13.6

The effect on the allowance for credit losses from such modifications was not significant at December 31, 2014 and 2013.

TDRs modified during the previous twelve months that subsequently defaulted (i.e., became more than 30 days past due) in the year ended by portfolio class are as follows:

	2014	2013
Fleet	**$ .7**	$ 4.6
Owner/operator	**.2**	.7
	$ .9	$ 5.3

The TDRs that subsequently defaulted did not significantly impact the Company's allowance for credit losses at December 31, 2014 and 2013.

Repossessions: When the Company determines a customer is not likely to meet its contractual commitments, the Company repossesses the vehicles which serve as collateral for the loans, finance leases and equipment under operating lease. The Company records the vehicles as used truck inventory included in Financial Services other assets on the Consolidated Balance Sheets. The balance of repossessed inventory at December 31, 2014 and 2013 was $19.0 and $13.7, respectively. Proceeds from the sales of repossessed assets were $58.5, $63.2 and $62.2 for the years ended December 31, 2014, 2013 and 2012, respectively. These amounts are included in proceeds from asset disposals in the Consolidated Statements of Cash Flows. Write-downs of repossessed equipment on operating leases are recorded as impairments and included in Financial Services depreciation and other expense on the Consolidated Statements of Income.

E. EQUIPMENT ON OPERATING LEASES

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

	TRUCK, PARTS AND OTHER		FINANCIAL SERVICES	
At December 31,	**2014**	2013	**2014**	2013
Equipment on operating leases	**$ 1,222.9**	$ 1,357.8	**$ 3,269.0**	$ 3,212.2
Less allowance for depreciation	**(288.4)**	(319.5)	**(963.0)**	(922.1)
	$ 934.5	$ 1,038.3	**$ 2,306.0**	$ 2,290.1

Annual minimum lease payments due on Financial Services operating leases beginning January 1, 2015 are $527.7, $377.2, $243.4, $118.1, $37.0 and $6.8 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:

	TRUCK, PARTS AND OTHER	
At December 31,	**2014**	2013
Residual value guarantees	**$ 629.1**	$ 653.9
Deferred lease revenues	**341.8**	439.9
	$ 970.9	$ 1,093.8

The deferred lease revenue is amortized on a straight-line basis over the RVG contract period. At December 31, 2014, the annual amortization of deferred revenues beginning January 1, 2015 is $139.5, $100.5, $58.2, $33.3, $10.2 and $.1 thereafter. Annual maturities of the RVGs beginning January 1, 2015 are $228.9, $169.1, $110.8, $64.4, $40.5 and $15.4 thereafter.

F. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include the following:

At December 31,	USEFUL LIVES	**2014**	2013
Land		**$ 239.0**	$ 238.5
Buildings and improvements	10 - 40 years	**1,082.8**	1,024.9
Machinery, equipment and production tooling	3 - 12 years	**3,316.7**	3,345.8
Construction in progress		**175.8**	321.2
		4,814.3	4,930.4
Less allowance for depreciation		**(2,501.0)**	(2,417.1)
		$ 2,313.3	$ 2,513.3

G. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER

Accounts payable, accrued expenses and other include the following:

At December 31,	**2014**	2013
Truck, Parts and Other:		
Accounts payable	**$ 1,167.6**	$ 1,005.6
Product support reserves	**355.3**	291.7
Accrued expenses	**213.5**	234.3
Accrued capital expenditures	**63.9**	139.9
Salaries and wages	**224.9**	223.9
Other	**272.0**	259.6
	$ 2,297.2	$ 2,155.0

H. PRODUCT SUPPORT LIABILITIES

Changes in product support liabilities are summarized as follows:

	2014	2013	2012
Balance at January 1	**$ 630.5**	$ 540.7	$ 448.7
Cost accruals and revenue deferrals	**642.4**	479.6	437.4
Payments and revenue recognized	**(456.6)**	(399.8)	(351.7)
Currency translation	**(43.5)**	10.0	6.3
Balance at December 31	**$ 772.8**	$ 630.5	$ 540.7

In prior periods, cost accruals and revenue deferrals for the R&M contracts were netted against payments and revenue recognized instead of showing these amounts gross. The netting of these amounts affected only the disclosure in Note H; there was no effect on the Consolidated Statements of Comprehensive Income, the Consolidated Balance Sheets or the Condensed Consolidated Statements of Cash Flows. The table below presents "Cost accruals and revenue deferrals" and "Payments and revenue recognized" as previously reported in Note H and as revised:

	2013		2012	
	PREVIOUSLY REPORTED	REVISED	PREVIOUSLY REPORTED	REVISED
Cost accrual and revenue deferrals	$ 340.4	$ 479.6	$ 305.4	$ 437.4
Payments and revenue recognized	(260.6)	(399.8)	(219.7)	(351.7)

Product support liabilities are included in the accompanying Consolidated Balance Sheets as follows:

At December 31,	**2014**	2013
Truck, Parts and Other:		
Accounts payable, accrued expenses and other	**$ 355.3**	$ 291.7
Other liabilities	**406.2**	327.5
Financial Services:		
Deferred taxes and other liabilities	**11.3**	11.3
	$ 772.8	$ 630.5

I. BORROWINGS AND CREDIT ARRANGEMENTS

Truck, Parts and Other long-term debt at December 31, 2013 consisted of $150.0 of notes with an effective interest rate of 6.9% which was repaid upon maturity in February 2014.

Financial Services borrowings include the following:

	2014		2013	
At December 31,	**EFFECTIVE RATE**	**BORROWINGS**	EFFECTIVE RATE	BORROWINGS
Commercial paper	**.8%**	**$ 2,506.0**	1.2%	$ 2,266.8
Medium-term bank loans	**5.0%**	**135.9**	5.0%	242.1
		2,641.9		2,508.9
Term notes	**1.5%**	**5,588.7**	1.8%	5,765.3
	1.3%	**$ 8,230.6**	1.7%	$ 8,274.2

The commercial paper and term notes of $8,094.7 and $8,032.1 at December 31, 2014 and 2013 include a net effect of fair value hedges and unamortized discounts of $(1.0) and $1.5, respectively. The effective rate is the weighted average rate as of December 31, 2014 and 2013 and includes the effects of interest-rate contracts.

The annual maturities of the Financial Services borrowings are as follows:

Beginning January 1, 2015	COMMERCIAL PAPER	BANK LOANS	TERM NOTES	TOTAL
2015	$ 2,506.9	$ 20.4	$ 1,601.9	$ 4,129.2
2016		34.0	1,612.9	1,646.9
2017		23.7	1,793.8	1,817.5
2018		37.4	280.2	317.6
2019		20.4	300.0	320.4
	$ 2,506.9	$ 135.9	$ 5,588.8	$ 8,231.6

Interest paid on borrowings was $136.3, $149.3 and $149.9 in 2014, 2013 and 2012, respectively. For the years ended December 31, 2014, 2013 and 2012, the Company capitalized interest on borrowings of $1.3, $10.3 and $10.3, respectively, in Truck, Parts and Other.

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 medium-term notes are issued by PACCAR Inc, PACCAR Financial Corp. (PFC), PACCAR Financial Europe and PACCAR Financial Mexico.

In December 2011, PACCAR Inc filed a shelf registration under the Securities Act of 1933; the registration expired in the fourth quarter of 2014. Upon maturity in February 2014, $500.0 million of medium-term notes, of which $150.0 million was manufacturing debt, were repaid in full.

In November 2012, the Company's U.S. finance subsidiary, PFC, filed a shelf registration under the Securities Act of 1933 effective for a three year period. The total amount of medium-term notes outstanding for PFC as of December 31, 2014 was $4,150.0. The registration expires in November 2015 and does not limit the principal amount of debt securities that may be issued during that period.

At December 31, 2014, the Company's European finance subsidiary, PACCAR Financial Europe, had €366.9 available for issuance under a €1,500.0 medium-term note program registered with the London Stock Exchange. The program was renewed in the second quarter of 2014 and is renewable annually through the filing of a new prospectus.

In April 2011, PACCAR Financial Mexico registered a 10,000.0 peso medium-term note and commercial paper program with the Comision Nacional Bancaria y de Valores. The registration expires in 2016 and limits the amount of commercial paper (up to one year) to 5,000.0 pesos. At December 31, 2014, 8,000.0 pesos remained available for issuance.

The Company has line of credit arrangements of $3,503.9, of which $3,368.0 were unused at December 31, 2014. Included in these arrangements are $3,000.0 of syndicated bank facilities, of which $1,000.0 matures in June 2015, $1,000.0 matures in June 2018 and $1,000.0 matures in June 2019. 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 facilities for the year ended December 31, 2014.

J. LEASES

The Company leases certain facilities and computer equipment under operating leases. Leases expire at various dates through the year 2023. At January 1, 2015, annual minimum rent payments under non-cancelable operating leases having initial or remaining terms in excess of one year are $19.5, $14.2, $9.7, $6.6, $2.9 and $2.2 thereafter. For the years ended December 31, 2014, 2013 and 2012, total rental expenses under all leases amounted to $34.5, $34.1 and $29.1, respectively.

K. 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 undiscounted 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 for the years ended December 31, 2014, 2013 and 2012 were $1.2, $2.3 and $1.7, 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, 2014, PACCAR had standby letters of credit of $19.0, which guarantee various insurance and financing activities. At December 31, 2014, PACCAR's financial services companies, in the normal course of business, had outstanding commitments to fund new loan and lease transactions amounting to $769.6. The commitments generally expire in 90 days. The Company had other commitments, primarily to purchase production inventory, equipment and energy amounting to $262.8, $76.1, $70.6, $5.2 and nil for 2015, 2016, 2017, 2018 and 2019, respectively.

In January 2011, the European Commission (EC) commenced an investigation of all major European commercial vehicle manufacturers, including subsidiaries of the Company, concerning whether such companies participated in agreements or concerted practices to coordinate their commercial policy in the European Union. On November 20, 2014, the EC issued a Statement of Objections to the manufacturers, including DAF Trucks N.V., its subsidiary DAF Trucks Deutschland GmbH and PACCAR Inc as their parent. The Statement of Objections is a procedural step in which the EC expressed its preliminary view that the manufacturers had participated in anticompetitive practices in the European Union. The EC indicated that it will seek to impose significant fines on the manufacturers. DAF is studying the Statement of Objections and will prepare a response. The EC will review the manufacturers' responses before issuing a decision. Any decision would be subject to appeal. The Company is unable to estimate the potential fine at this time and accordingly, no accrual for any potential fine has been made as of December 31, 2014.

PACCAR is a defendant in various legal proceedings and, in addition, there are various other contingent liabilities arising in the normal course of business. Except for the EC matter noted above, 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.

L. EMPLOYEE BENEFITS

Severance Costs: The Company incurred severance expense in 2014, 2013 and 2012 of $1.8, $3.5 and $4.8, respectively.

Defined Benefit Pension 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. For its U.S. plans, the Company adopted the revised mortality tables published in October 2014 by the U.S. Society of Actuaries. As a result of this change in actuarial assumption, the Company's projected benefit obligation increased by $96.4.

The expected return on plan assets is determined by using a market-related value of assets, which is calculated based on an average of the previous five years of asset gains and losses.

Generally, accumulated unrecognized actuarial gains and losses are amortized using the 10% corridor approach. The corridor is defined as the greater of either 10% of the projected benefit obligation or the market-related value of plan assets. The amortization amount is the excess beyond the corridor divided by the average remaining estimated service life of participants on a straight-line basis.

The Company funds its pensions in accordance with applicable employee benefit and tax laws. The Company contributed $81.1 to its pension plans in 2014 and $26.2 in 2013. The Company expects to contribute in the range of $50.0 to $100.0 to its pension plans in 2015, of which $7.7 is estimated to satisfy minimum funding requirements. Annual benefits expected to be paid beginning January 1, 2015 are $72.7, $76.6, $84.0, $88.6, $94.3 and for the five years thereafter, a total of $555.8.

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 fair value of mutual funds, common stocks and U.S. treasuries is determined using the market approach and is based on the quoted prices in active markets. These securities are categorized as Level 1. The fair value of commingled trust funds is determined using the market approach and is based on the unadjusted net asset value per unit as determined by the sponsor of the fund based on the fair values of underlying investments. These securities are categorized as Level 2. The fair value of debt securities is determined using the market approach and is based on the quoted market prices of the securities or other observable inputs. These securities are categorized as Level 2.

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

At December 31, 2014	**TARGET**	**LEVEL 1**	**LEVEL 2**	**TOTAL**
Equities:				
U.S. equities			**$ 666.4**	**$ 666.4**
Global equities			**691.3**	**691.3**
Total equities	**50 - 70%**		**1,357.7**	**1,357.7**
Fixed income:				
U.S. fixed income		**$ 269.4**	**339.2**	**608.6**
Non-U.S. fixed income			**286.5**	**286.5**
Total fixed income	**30 - 50%**	**269.4**	**625.7**	**895.1**
Cash and other		**7.7**	**48.9**	**56.6**
Total plan assets		**$ 277.1**	**$ 2,032.3**	**$ 2,309.4**

At December 31, 2013	TARGET	LEVEL 1	LEVEL 2	TOTAL
Equities:				
U.S. equities			$ 585.5	$ 585.5
Global equities			661.7	661.7
Total equities	50 - 70%		1,247.2	1,247.2
Fixed income:				
U.S. fixed income		$ 252.5	299.6	552.1
Non-U.S. fixed income			260.3	260.3
Total fixed income	30 - 50%	252.5	559.9	812.4
Cash and other		1.2	47.6	48.8
Total plan assets		$ 253.7	$ 1,854.7	$ 2,108.4

The following additional data relates to all pension plans of the Company:

At December 31,	**2014**	2013
Weighted average assumptions:		
Discount rate	**3.8%**	4.7%
Rate of increase in future compensation levels	**3.8%**	3.9%
Assumed long-term rate of return on plan assets	**6.5%**	6.6%

The components of the change in projected benefit obligation and change in plan assets are as follows:

	2014	2013
Change in projected benefit obligation:		
Benefit obligation at January 1	**$ 1,961.6**	$ 2,068.0
Service cost	**67.3**	73.5
Interest cost	**91.8**	81.0
Benefits paid	**(72.5)**	(68.4)
Actuarial loss (gain)	**412.8**	(199.2)
Currency translation and other	**(47.6)**	3.2
Participant contributions	**4.0**	3.5
Projected benefit obligation at December 31	**$ 2,417.4**	$ 1,961.6
Change in plan assets:		
Fair value of plan assets at January 1	**$ 2,108.4**	$ 1,901.0
Employer contributions	**81.1**	26.2
Actual return on plan assets	**235.8**	242.5
Benefits paid	**(72.5)**	(68.4)
Currency translation and other	**(47.4)**	3.6
Participant contributions	**4.0**	3.5
Fair value of plan assets at December 31	**$ 2,309.4**	$ 2,108.4
Funded status at December 31	**$ (108.0)**	$ 146.8

	2014	2013
Amounts recorded on balance sheet:		
Other noncurrent assets	**$ 15.0**	$ 217.7
Other liabilities	**123.0**	70.9
Accumulated other comprehensive (loss) income:		
Actuarial loss	**428.9**	257.0
Prior service cost	**3.9**	4.9
Net initial transition amount	**.3**	.3

Of the December 31, 2014 amounts in accumulated other comprehensive (loss) income, $40.8 of unrecognized actuarial loss and $1.3 of unrecognized prior service cost are expected to be amortized into net pension expense in 2015.

The accumulated benefit obligation for all pension plans of the Company was $2,113.7 and $1,742.2 at December 31, 2014 and 2013, respectively.

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

At December 31,	2014	2013
Projected benefit obligation	**$ 224.2**	$ 78.6
Accumulated benefit obligation	**212.1**	63.4
Fair value of plan assets	**139.1**	9.2

The components of pension expense are as follows:

Year Ended December 31,	**2014**	2013	2012
Service cost	**$ 67.3**	$ 73.5	$ 64.1
Interest on projected benefit obligation	**91.8**	81.0	81.4
Expected return on assets	**(128.0)**	(119.4)	(110.8)
Amortization of prior service costs	**1.2**	1.3	1.4
Recognized actuarial loss	**20.8**	44.0	39.2
Curtailment gain		(.3)	
Settlement loss			4.8
Net pension expense	**$ 53.1**	$ 80.1	$ 80.1

Multi-employer Plans: The Company participates in multi-employer plans in the U.S. and Europe. These are typically under collective bargaining agreements and cover its union-represented employees. The Company's participation in the following multi-employer plans for the years ended December 31 are as follows:

PENSION PLAN	EIN	PENSION PLAN NUMBER	COMPANY CONTRIBUTIONS **2014**	2013	2012
Metal and Electrical Engineering Industry Pension Fund		135668	**$ 27.1**	$ 24.5	$ 22.0
Western Metal Industry Pension Plan	91-6033499	001	**2.0**	1.5	1.6
Other plans			**1.0**	.9	1.0
			$ 30.1	$ 26.9	$ 24.6

The Company contributions shown in the table above approximates the multi-employer pension expense for each of the years ended December 31, 2014, 2013 and 2012, respectively.

Metal and Electrical Engineering Industry Pension Fund is a multi-employer union plan incorporating all DAF employees in the Netherlands and is covered by a collective bargaining agreement that will expire on April 30, 2015. The Company's contributions were less than 5% of the total contributions to the plan for the last two reporting periods ending December 2014. The plan is required by law (the Netherlands Pension Act) to have a coverage ratio in excess of 104.3%. Because the coverage ratio of the plan was 104.1% at December 31, 2014, a funding improvement plan is in place.

The Western Metal Industry Pension Plan is located in the U.S. and is covered by a collective bargaining agreement that will expire on November 1, 2015. In accordance with the U.S. Pension Protection Act of 2006, the plan was certified as critical (red) status and a funding improvement plan was implemented requiring additional contributions through 2022 as long as the plan remains in critical status. For the last two reporting periods ending December 2014, contributions by the Company were greater than 5% and less than 12% of the total contributions to the plan.

Other plans are principally located in the U.S. For the last two reporting periods, none were under funding improvement plans and Company contributions to these plans are less than 5% of each plan's total contributions.

There were no significant changes for the multi-employer plans in the periods presented that affected comparability between periods.

Defined Contribution Plans: The Company maintains several defined contribution benefit plans whereby it contributes designated amounts on behalf of participant employees. The largest plan is for U.S. salaried employees where the Company matches a percentage of employee contributions up to an annual limit. The match was 5% of eligible pay in 2014, 2013 and 2012. Other plans are located in Australia, Brasil, Canada, the Netherlands, Belgium and Germany. Expenses for these plans were $36.3, $34.0 and $33.6 in 2014, 2013 and 2012, respectively.

M. INCOME TAXES

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 certain 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,	**2014**	2013	2012
Domestic	**$ 1,267.3**	$ 827.0	$ 786.6
Foreign	**750.3**	868.0	842.3
	$ 2,017.6	$ 1,695.0	$ 1,628.9

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

Year Ended December 31,	**2014**	2013	2012
Current provision:			
Federal	**$ 482.4**	$ 191.4	$ 126.2
State	**59.0**	20.9	31.5
Foreign	**215.4**	214.1	207.9
	756.8	426.4	365.6
Deferred (benefit) provision:			
Federal	**(88.3)**	68.8	134.4
State	**.3**	18.4	9.5
Foreign	**(10.0)**	10.1	7.8
	(98.0)	97.3	151.7
	$ 658.8	$ 523.7	$ 517.3

Tax benefits recognized for net operating loss carryforwards were $16.0, $4.5 and $3.2 for the years ended 2014, 2013 and 2012, respectively.

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

	2014	2013	2012
Statutory rate	**35.0%**	35.0%	35.0%
Effect of:			
State	**2.0**	1.3	1.4
Federal domestic production deduction	**(1.8)**	(.9)	(.9)
Tax on foreign earnings	**(1.6)**	(3.8)	(3.1)
Other, net	**(.9)**	(.7)	(.6)
	32.7%	30.9%	31.8%

The Company has not provided a deferred tax liability for the temporary differences of approximately $4,100.0 related to the investments in foreign subsidiaries that are considered to be indefinitely reinvested. The amount of the deferred tax liability would be approximately $400.0 as of December 31, 2014.

Included in domestic taxable income for 2014, 2013 and 2012 are $249.0, $241.7 and $256.0 of foreign earnings, respectively, which are not indefinitely reinvested, for which domestic taxes of $18.6, $19.5 and $22.1, respectively, were provided to account for the difference between the domestic and foreign tax rate on those earnings.

At December 31, 2014, the Company had net operating loss carryforwards of $460.4, of which $206.2 related to foreign subsidiaries and $254.2 related to states in the U.S. The related deferred tax asset was $65.8. The carryforward periods range from five years to indefinite, subject to certain limitations under applicable laws. The future tax benefits of net operating loss carryforwards are evaluated on a regular basis, including a review of historical and projected operating results.

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

At December 31,	**2014**	2013
Assets:		
Accrued expenses	**$ 215.9**	$ 188.4
Net operating loss and tax credit carryforwards	**67.2**	78.2
Postretirement benefit plans	**43.3**	
Allowance for losses on receivables	**43.0**	47.0
Other	**112.1**	88.4
	481.5	402.0
Valuation allowance	**(30.3)**	(43.9)
	451.2	358.1
Liabilities:		
Financial Services leasing depreciation	**(817.2)**	(851.8)
Depreciation and amortization	**(289.2)**	(296.1)
Postretirement benefit plans		(51.3)
Other	**(33.5)**	(5.4)
	(1,139.9)	(1,204.6)
Net deferred tax liability	**$ (688.7)**	$ (846.5)

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

At December 31,	**2014**	2013
Truck, Parts and Other:		
Other current assets	**$ 134.8**	$ 122.2
Other noncurrent assets, net	**16.0**	33.1
Accounts payable, accrued expenses and other	**(.9)**	(.6)
Other liabilities	**(87.2)**	(218.7)
Financial Services:		
Other assets	**75.0**	77.2
Deferred taxes and other liabilities	**(826.4)**	(859.7)
Net deferred tax liability	**$ (688.7)**	$ (846.5)

Cash paid for income taxes was $689.9, $434.0 and $448.2 in 2014, 2013 and 2012, respectively.

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

	2014	2013	2012
Balance at January 1	**$ 13.1**	$ 23.4	$ 18.3
Additions for tax positions related to the current year	**.9**	1.0	1.0
Additions for tax positions related to prior years	**.1**	.3	9.9
Reductions for tax positions related to prior years	**(.9)**	(.7)	(5.2)
Reductions related to settlements		(9.7)	(.3)
Lapse of statute of limitations	**(1.2)**	(1.2)	(.3)
Balance at December 31	**$ 12.0**	$ 13.1	$ 23.4

The Company had $12.0, $13.1 and $23.4 of unrecognized tax benefits, of which $1.1, $1.5 and $1.9 would impact the effective tax rate, if recognized, as of December 31, 2014, 2013 and 2012, respectively.

The Company recognized $.8 of income, $1.1 of income and $1.0 of expense related to interest and penalties in 2014, 2013 and 2012, respectively. Accrued interest expense and penalties were $4.7, $5.5 and $6.7 as of December 31, 2014, 2013 and 2012, respectively. Interest and penalties are classified as income taxes in the Consolidated Statements of Income.

The Company believes it is reasonably possible that approximately $7 to $8 of unrecognized tax benefits, resulting primarily from intercompany transactions, will be resolved within the next twelve months from Competent Authority negotiations between tax authorities of two jurisdictions; the Company does not expect the net impact of these negotiations will be material to its effective tax rate. As of December 31, 2014, the United States Internal Revenue Service has completed examinations of the Company's tax returns for all years through 2010. The Company's tax returns for other major jurisdictions remain subject to examination for the years ranging from 2004 through 2014.

N. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive (Loss) Income: The components of accumulated other comprehensive (loss) income as of December 31, 2014 and 2013 and the changes in AOCI, net of tax, included in the Consolidated Balance Sheets, consisted of the following:

	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
Balance at December 31, 2013	**$ (15.1)**	**$ 1.7**	**$ (262.2)**	**$ 284.3**	**$ 8.7**
Recorded into AOCI	**20.0**	**4.2**	**(185.8)**	**(422.8)**	**(584.4)**
Reclassified out of AOCI	**(18.4)**	**(.6)**	**14.9**		**(4.1)**
Net other comprehensive (loss) income	**1.6**	**3.6**	**(170.9)**	**(422.8)**	**(588.5)**
Balance at December 31, 2014	**$ (13.5)**	**$ 5.3**	**$ (433.1)**	**$ (138.5)**	**$ (579.8)**

The components of AOCI as of December 31, 2013 and 2012 and the changes in AOCI, net of tax, included in the Consolidated Balance Sheets, consisted of the following:

	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
Balance at December 31, 2012	$ (27.2)	$ 6.6	$ (496.5)	$ 357.6	$ (159.5)
Recorded into AOCI	36.9	(6.1)	204.8	(71.3)	164.3
Reclassified out of AOCI	(24.8)	1.2	29.5	(2.0)	3.9
Net other comprehensive (loss) income	12.1	(4.9)	234.3	(73.3)	168.2
Balance at December 31, 2013	$ (15.1)	$ 1.7	$ (262.2)	$ 284.3	$ 8.7

December 31, 2014, 2013 and 2012 (currencies in millions)

Reclassifications out of AOCI during the year ended December 31, 2014 are as follows:

AOCI COMPONENTS	LINE ITEM IN THE CONSOLIDATED STATEMENTS OF INCOME	AMOUNT RECLASSIFIED OUT OF AOCI
Unrealized (gains) and losses on derivative contracts:		
Truck, Parts and Other		
Foreign-exchange contracts	Cost of sales and revenues	$ .3
	Interest and other expense (income), net	(2.1)
Financial Services		
Interest-rate contracts	Interest and other borrowing expenses	(21.7)
	Pre-tax expense reduction	(23.5)
	Tax expense	5.1
	After-tax expense reduction	(18.4)
Unrealized (gains) and losses on marketable debt securities:		
Marketable debt securities	Investment income	(.9)
	Tax expense	.3
	After-tax income increase	(.6)
Pension plans:		
Truck, Parts and Other		
Actuarial loss	Cost of sales and revenues $11.1, SG&A $9.0	20.1
Prior service costs	Cost of sales and revenues $1.0, SG&A $.2	1.2
Financial Services		
Actuarial loss	SG&A	.7
	Pre-tax expense increase	22.0
	Tax benefit	(7.1)
	After-tax expense increase	14.9
Total reclassifications out of AOCI		$ (4.1)

Reclassifications out of AOCI during the year ended December 31, 2013 are as follows:

AOCI COMPONENTS	LINE ITEM IN THE CONSOLIDATED STATEMENTS OF INCOME	AMOUNT RECLASSIFIED OUT OF AOCI
Unrealized (gains) and losses on derivative contracts:		
Truck, Parts and Other		
Foreign-exchange contracts	Cost of sales and revenues	$ 1.0
	Interest and other expense (income), net	(.6)
Financial Services		
Interest-rate contracts	Interest and other borrowing expenses	(36.0)
	Pre-tax expense reduction	(35.6)
	Tax expense	10.8
	After-tax expense reduction	(24.8)
Unrealized (gains) and losses on marketable debt securities:		
Marketable debt securities	Investment income	1.7
	Tax benefit	(.5)
	After-tax income decrease	1.2
Pension plans:		
Truck, Parts and Other		
Actuarial loss	Cost of sales and revenues $21.4, SG&A $20.3	41.7
Prior service costs	Cost of sales and revenues $.4, SG&A $.6, R&D $.3	1.3
Financial Services		
Actuarial loss	SG&A	2.3
	Pre-tax expense increase	45.3
	Tax benefit	(15.8)
	After-tax expense increase	29.5
Foreign currency translation:		
Truck, Parts and Other	Interest and other expense (income), net	(1.1)
Financial Services	Interest and other borrowing expenses	(.9)
	Expense reduction	(2.0)
Total reclassifications out of AOCI		$ 3.9

Other Capital Stock Changes: In 2014, the Company purchased .7 million treasury shares. In 2013, there were no purchases or retirements of treasury shares. In 2012, the Company purchased and retired 4.2 million treasury shares.

O. DERIVATIVE FINANCIAL INSTRUMENTS

As part of its risk management strategy, the Company enters into derivative contracts to hedge against interest rate and foreign currency risk.

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. The Company is exposed to interest-rate and exchange-rate risk caused by market volatility as a result of its borrowing activities. The objective of these contracts is to mitigate the fluctuations on earnings, cash flows and fair value of borrowings. Net amounts paid or received are reflected as adjustments to interest expense.

At December 31, 2014, the notional amount of the Company's interest-rate contracts was $3,733.9. Notional maturities for all interest-rate contracts are $1,226.8 for 2015, $1,341.4 for 2016, $633.0 for 2017, $379.9 for 2018, $81.8 for 2019 and $71.0 thereafter. 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, the Brazilian real and the Mexican peso. The objective is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates. At December 31, 2014, the notional amount of the outstanding foreign-exchange contracts was $199.5. Foreign-exchange contracts mature within one year.

The following table presents the balance sheet classification, fair value, gross and pro-forma net amounts of derivative financial instruments:

At December 31,	**2014**		2013	
	ASSETS	**LIABILITIES**	ASSETS	LIABILITIES
Derivatives designated under hedge accounting:				
Interest-rate contracts:				
Financial Services:				
Other assets	**$ 82.7**		$ 46.3	
Deferred taxes and other liabilities		**$ 45.7**		$ 67.7
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**1.2**			
Accounts payable, accrued expenses and other		**1.9**		.6
Total	**$ 83.9**	**$ 47.6**	$ 46.3	$ 68.3
Economic hedges:				
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**$ 1.9**		$ .6	
Accounts payable, accrued expenses and other		**$ .9**		$ .2
Financial Services:				
Other assets	**3.4**		1.1	
Deferred taxes and other liabilities				.1
Total	**$ 5.3**	**$ .9**	$ 1.7	$ .3
Gross amounts recognized in Balance Sheet	**$ 89.2**	**$ 48.5**	$ 48.0	$ 68.6
Less amounts not offset in financial instruments:				
Truck, Parts and Other:				
Foreign-exchange contracts	**(.9)**	**(.9)**	(.2)	(.2)
Financial Services:				
Interest-rate contracts	**(3.9)**	**(3.9)**	(16.1)	(16.1)
Pro-forma net amount	**$ 84.4**	**$ 43.7**	$ 31.7	$ 52.3

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. The (income) or expense recognized in earnings related to fair value hedges was included in interest and other borrowing expenses in the Financial Services segment of the Consolidated Statements of Income as follows:

Year Ended December 31,	**2014**	2013	2012
Interest-rate swaps	**$ .1**	$ .7	$ (3.8)
Term notes	**(2.6)**	(5.1)	4.5

Cash Flow Hedges: Substantially all of the Company's interest-rate contracts and some foreign-exchange contracts have been designated as cash flow hedges. Changes in the fair value of derivatives designated as cash flow hedges are recorded in AOCI to the extent such hedges are considered effective. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is 6.2 years.

Amounts in AOCI 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. For the periods ended December 31, 2014, 2013 and 2012, the Company recognized gains on the ineffective portion of nil, $.1 and $.5, respectively.

The following table presents the pre-tax effects of derivative instruments recognized in other comprehensive (loss) income (OCI):

Year Ended December 31,	**2014**		2013		2012	
	INTEREST-RATE CONTRACTS	**FOREIGN-EXCHANGE CONTRACTS**	INTEREST-RATE CONTRACTS	FOREIGN-EXCHANGE CONTRACTS	INTEREST-RATE CONTRACTS	FOREIGN-EXCHANGE CONTRACTS
Gain (loss) recognized in OCI:						
Truck, Parts and Other		**$ 1.7**		$ (1.2)		$ (1.3)
Financial Services	**$ 24.4**		$ 54.4		$ (27.9)	
Total	**$ 24.4**	**$ 1.7**	$ 54.4	$ (1.2)	$ (27.9)	$ (1.3)
Expense (income) reclassified out of AOCI into income:						
Truck, Parts and Other:						
Cost of sales and revenues		**$ .3**		$ 1.0		$ 3.2
Interest and other expense (income), net		**(2.1)**		(.6)		.2
Financial Services:						
Interest and other borrowing expenses	**$ (21.7)**		$ (36.0)		$ 19.3	
Total	**$ (21.7)**	**$ (1.8)**	$ (36.0)	$ .4	$ 19.3	$ 3.4

The amount of loss recorded in AOCI at December 31, 2014 that is estimated to be reclassified to interest expense or cost of sales in the following 12 months if interest rates and exchange rates remain unchanged is approximately $19.4, net of taxes. 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.

Economic Hedges: For other risk management purposes, the Company enters into derivative instruments that do not qualify for hedge accounting. These derivative instruments are used to mitigate the risk of market volatility arising from borrowings and foreign currency denominated transactions. Changes in the fair value of economic hedges are recorded in earnings in the period in which the change occurs.

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

Year Ended December 31,	**2014**		2013		2012	
	INTEREST-RATE CONTRACTS	**FOREIGN-EXCHANGE CONTRACTS**	INTEREST-RATE CONTRACTS	FOREIGN-EXCHANGE CONTRACTS	INTEREST-RATE CONTRACTS	FOREIGN-EXCHANGE CONTRACTS
Truck, Parts and Other:						
Cost of sales and revenues		**$ (5.3)**		$ (1.3)		$ (.3)
Interest and other expense (income), net		**3.8**		.3		(.5)
Financial Services:						
Interest and other borrowing expenses		**4.2**	$ (1.5)	(9.6)	$ 1.0	.6
Selling, general and administrative		**5.2**				
Total		**$ 7.9**	$ (1.5)	$ (10.6)	$ 1.0	$ (.2)

P. 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. Inputs to valuation techniques used to measure fair value are either observable or unobservable. These inputs have been categorized into the fair value hierarchy 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.

There were no transfers of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy during the year ended December 31, 2014. The Company's policy is to recognize transfers between levels at the end of the reporting period.

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, investment-grade corporate obligations, commercial paper, asset-backed securities and term deposits. The fair value of U.S. government obligations is determined using the market approach and is based on quoted prices in active markets and are categorized as Level 1.

The fair value of U.S. government agency obligations, non-U.S. government bonds, municipal bonds, corporate bonds, asset-backed securities, commercial paper, and term deposits is determined using the market approach and is primarily based on matrix pricing as a practical expedient which does not rely exclusively on quoted prices for a specific security. Significant inputs used to determine fair value include interest rates, yield curves, credit rating of the security and other observable market information and are categorized as Level 2.

Derivative Financial Instruments: The Company's derivative contracts consist of interest-rate swaps, cross currency swaps and foreign currency exchange contracts. These derivative contracts are traded over the counter and their fair value is determined using industry standard valuation models, which are based on the income approach (i.e., discounted cash flows). The significant observable inputs into the valuation models include interest rates, yield curves, currency exchange rates, credit default swap spreads and forward rates and are categorized as Level 2.

Assets and Liabilities Subject to Recurring Fair Value Measurement

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

At December 31, 2014	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		**$ 363.4**	**$ 363.4**
U.S. corporate securities		**81.5**	**81.5**
U.S. government and agency securities	**$ 7.7**	**.3**	**8.0**
Non-U.S. corporate securities		**532.0**	**532.0**
Non-U.S. government securities		**194.1**	**194.1**
Other debt securities		**93.0**	**93.0**
Total marketable debt securities	**$ 7.7**	**$ 1,264.3**	**$ 1,272.0**
Derivatives			
Cross currency swaps		**$ 81.7**	**$ 81.7**
Interest-rate swaps		**1.0**	**1.0**
Foreign-exchange contracts		**6.5**	**6.5**
Total derivative assets		**$ 89.2**	**$ 89.2**
Liabilities:			
Derivatives			
Cross currency swaps		**$ 31.1**	**$ 31.1**
Interest-rate swaps		**14.6**	**14.6**
Foreign-exchange contracts		**2.8**	**2.8**
Total derivative liabilities		**$ 48.5**	**$ 48.5**

At December 31, 2013	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		$ 216.1	$ 216.1
U.S. corporate securities		78.2	78.2
U.S. government and agency securities	$ 5.2	.3	5.5
Non-U.S. corporate securities		609.3	609.3
Non-U.S. government securities		217.5	217.5
Other debt securities		140.9	140.9
Total marketable debt securities	$ 5.2	$ 1,262.3	$ 1,267.5
Derivatives			
Cross currency swaps		$ 40.9	$ 40.9
Interest-rate swaps		5.4	5.4
Foreign-exchange contracts		1.7	1.7
Total derivative assets		$ 48.0	$ 48.0
Liabilities:			
Derivatives			
Cross currency swaps		$ 42.1	$ 42.1
Interest-rate swaps		25.6	25.6
Foreign-exchange contracts		.9	.9
Total derivative liabilities		$ 68.6	$ 68.6

Fair Value Disclosure of Other Financial Instruments

For financial instruments that are not recognized at fair value, the Company uses the following methods and assumptions to determine the fair value. These instruments are categorized as Level 2, except cash which is categorized as Level 1 and fixed rate loans which are categorized as Level 3.

Cash and Cash Equivalents: Carrying amounts approximate fair value.

Financial Services Net Receivables: For floating-rate loans, wholesale financings, and operating lease and other trade receivables, carrying values approximate fair values. For fixed rate loans, fair values are estimated using the income approach by discounting cash flows to their present value based on current rates for comparable loans. Finance lease receivables and related allowance for credit losses 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 the income approach by discounting cash flows to their present value based on current rates for comparable debt.

The Company's estimate of fair value for fixed rate loans and debt that are not carried at fair value was as follows:

At December 31,	**2014**		2013	
	CARRYING AMOUNT	**FAIR VALUE**	CARRYING AMOUNT	FAIR VALUE
Assets:				
Financial Services fixed rate loans	**$ 3,627.5**	**$ 3,683.3**	$ 3,592.7	$ 3,627.3
Liabilities:				
Truck, Parts and Other fixed rate debt			150.0	151.1
Financial Services fixed rate debt	**3,713.4**	**3,737.7**	4,039.1	4,087.0

Q. STOCK COMPENSATION PLANS

PACCAR has certain plans under which officers and key employees may be granted options to purchase shares of the Company's authorized but unissued common stock under plans approved by stockholders. Non-employee directors and certain officers may be granted restricted shares of the Company's common stock under plans approved by stockholders. 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 after three years. Restricted stock awards generally vest over three years or earlier upon meeting certain age and service requirements.

The Company recognizes compensation cost on these options and restricted stock awards on a straight-line basis over the requisite period the employee is required to render service. The maximum number of shares of the Company's common stock authorized for issuance under these plans is 46.7 million shares, and as of December 31, 2014, the maximum number of shares available for future grants was 16.1 million.

The estimated fair value of each option award is determined on the date of grant using the Black-Scholes-Merton option pricing model that uses assumptions noted in the following table. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on historical volatility. The dividend yield is based on an estimated future dividend yield using projected net income for the next five years, implied dividends and Company stock price. The expected term is based on the period of time that options granted are expected to be outstanding based on historical experience.

	2014	2013	2012
Risk-free interest rate	**1.51%**	.88%	.74%
Expected volatility	**34%**	44%	47%
Expected dividend yield	**3.4%**	3.3%	3.8%
Expected term	**5 years**	5 years	5 years
Weighted average grant date fair value of options per share	**$13.17**	$13.78	$12.67

The fair value of options granted was $8.6, $11.2 and $12.0 for the years ended December 31, 2014, 2013 and 2012, respectively. The fair value of options vested during the years ended December 31, 2014, 2013 and 2012 was $10.5, $8.8 and $8.9, respectively.

A summary of activity under the Company's stock plans is presented below:

	2014	2013	2012
Intrinsic value of options exercised	**$ 20.9**	$ 19.6	$ 15.4
Cash received from stock option exercises	**29.1**	31.0	13.9
Tax benefit related to stock award exercises	**4.4**	3.9	4.4
Stock based compensation	**16.2**	14.0	13.9
Tax benefit related to stock based compensation	**5.6**	4.9	4.8

December 31, 2014, 2013 and 2012 (currencies in millions, except per share data)

The summary of options as of December 31, 2014 and changes during the year then ended are presented below:

	NUMBER OF SHARES	PER SHARE EXERCISE PRICE*	REMAINING CONTRACTUAL LIFE IN YEARS*	AGGREGATE INTRINSIC VALUE
Options outstanding at January 1	**4,745,200**	**$41.11**		
Granted	**656,200**	**59.15**		
Exercised	**(780,700)**	**37.21**		
Cancelled	**(84,000)**	**48.46**		
Options outstanding at December 31	**4,536,700**	**$44.25**	**5.90**	**$107.8**
Vested and expected to vest	**4,414,300**	**$43.95**	**5.82**	**$106.2**
Exercisable	**2,335,800**	**$39.42**	**3.90**	**$ 66.8**

* **Weighted Average**

The fair value of restricted shares is determined based upon the stock price on the date of grant. The summary of nonvested restricted shares as of December 31, 2014 and changes during the year then ended is presented below:

NONVESTED SHARES	NUMBER OF SHARES	GRANT DATE FAIR VALUE*
Nonvested awards outstanding at January 1	**166,700**	**$46.32**
Granted	**112,500**	**59.06**
Vested	**(93,500)**	**51.17**
Nonvested awards outstanding at December 31	**185,700**	**$51.60**

* **Weighted Average**

As of December 31, 2014, there was $8.4 of total unrecognized compensation cost related to nonvested stock options, which is recognized over a remaining weighted average vesting period of 1.47 years. Unrecognized compensation cost related to nonvested restricted stock awards of $1.1 is expected to be recognized over a remaining weighted average vesting period of 1.30 years.

The dilutive and antidilutive options are shown separately in the table below:

Year Ended December 31,	**2014**	2013	2012
Additional shares	**1,120,500**	932,000	730,000
Antidilutive options	**673,700**	873,800	2,572,000

A total of 187,500 performance based restricted stock awards were granted in 2008 and 2007 at a weighted average fair value of $43.61. These awards were to vest after five years if the Company's earnings per share growth over the same five year period met or exceeded certain performance goals. All outstanding awards were forfeited in 2013 and 2012 as the performance goals were not achieved. No matching shares were granted under this program in 2014, 2013 or 2012.

December 31, 2014, 2013 and 2012 (currencies in millions)

R. SEGMENT AND RELATED INFORMATION

PACCAR operates in three principal segments: Truck, Parts and Financial Services. The Company evaluates the performance of its Truck and Parts segments based on operating profits, which excludes investment income, other income and expense and income taxes. The Financial Services segment's performance is evaluated based on income before income taxes. Geographic revenues from external customers are presented based on the country of the customer. The accounting policies of the reportable segments are the same as those applied in the consolidated financial statements as described in Note A.

Truck and Parts: The Truck segment includes the manufacture of trucks and the Parts segment includes the distribution of related aftermarket parts, both of which are sold through the same network of independent dealers. These segments derive a large proportion of their revenues and operating profits from operations in North America and Europe. The Truck segment incurs substantial costs to design, manufacture and sell trucks to its customers. The sale of new trucks provides the Parts segment with the basis for parts sales that may continue over the life of the truck, but are generally concentrated in the first five years after truck delivery. To reflect the benefit the Parts segment receives from costs incurred by the Truck segment, certain expenses are allocated from the Truck segment to the Parts segment. The expenses allocated are based on a percentage of the average annual expenses for factory overhead, engineering, research and development and SG&A expenses for the preceding five years. The allocation is based on the ratio of the average parts direct margin dollars (net sales less material and labor costs) to the total truck and parts direct margin dollars for the previous five years. The Company believes such expenses have been allocated on a reasonable basis. Truck segment assets related to the indirect expense allocation are not allocated to the Parts segment.

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

Other: Included in Other is the Company's industrial winch manufacturing business. Also within this category are other sales, income and expense not attributable to a reportable segment, including a portion of corporate expenses. Intercompany interest income on cash advances to the financial services companies is included in Other and was $.9, $.7 and $.9 for 2014, 2013 and 2012, respectively.

Geographic Area Data	**2014**	2013	2012
Revenues:			
United States	**$ 10,106.3**	$ 8,147.6	$ 8,234.8
Europe	**4,835.7**	4,967.2	4,282.3
Other	**4,055.0**	4,009.0	4,533.4
	$ 18,997.0	$ 17,123.8	$ 17,050.5
Property, plant and equipment, net:			
United States	**$ 1,132.0**	$ 1,183.1	$ 1,182.5
The Netherlands	**517.4**	620.0	529.7
Other	**663.9**	710.2	600.7
	$ 2,313.3	$ 2,513.3	$ 2,312.9
Equipment on operating leases, net:			
United States	**$ 1,226.6**	$ 1,153.8	$ 1,019.7
Germany	**347.0**	404.1	390.8
United Kingdom	**342.2**	414.9	425.3
Other	**1,324.7**	1,355.6	1,052.9
	$ 3,240.5	$ 3,328.4	$ 2,888.7

December 31, 2014, 2013 and 2012 (currencies in millions)

Business Segment Data	**2014**	2013	2012
Net sales and revenues:			
Truck	**$ 15,330.4**	$ 13,627.7	$ 13,797.1
Less intersegment	**(736.4)**	(624.8)	(665.6)
External customers	**14,594.0**	13,002.9	13,131.5
Parts	**3,125.9**	2,868.3	2,712.1
Less intersegment	**(48.4)**	(46.1)	(44.6)
External customers	**3,077.5**	2,822.2	2,667.5
Other	**121.3**	123.8	152.7
	17,792.8	15,948.9	15,951.7
Financial Services	**1,204.2**	1,174.9	1,098.8
	$ 18,997.0	$ 17,123.8	$ 17,050.5
Income before income taxes:			
Truck	**$ 1,160.1**	$ 936.7	$ 920.4
Parts	**496.7**	416.0	374.6
Other	**(31.9)**	(26.5)	(7.0)
	1,624.9	1,326.2	1,288.0
Financial Services	**370.4**	340.2	307.8
Investment income	**22.3**	28.6	33.1
	$ 2,017.6	$ 1,695.0	$ 1,628.9
Depreciation and amortization:			
Truck	**$ 415.0**	$ 352.9	$ 308.8
Parts	**5.9**	5.3	5.9
Other	**11.8**	10.2	10.6
	432.7	368.4	325.3
Financial Services	**485.0**	442.3	375.6
	$ 917.7	$ 810.7	$ 700.9
Expenditures for long-lived assets:			
Truck	**$ 504.9**	$ 812.9	$ 816.0
Parts	**9.9**	6.8	17.1
Other	**12.1**	20.8	22.8
	526.9	840.5	855.9
Financial Services	**935.3**	931.2	943.1
	$ 1,462.2	$ 1,771.7	$ 1,799.0
Segment assets:			
Truck	**$ 4,871.1**	$ 5,123.3	$ 4,530.2
Parts	**787.2**	748.4	707.8
Other	**106.1**	298.5	198.4
Cash and marketable securities	**2,937.1**	2,925.2	2,395.9
	8,701.5	9,095.4	7,832.3
Financial Services	**11,917.3**	11,630.1	10,795.5
	$ 20,618.8	$ 20,725.5	$ 18,627.8

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of PACCAR Inc (the Company) is responsible for establishing and maintaining adequate 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, 2014, 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 (2013 framework). Based on this assessment, we concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014.

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 91.

Ronald E. Armstrong
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, 2014 and 2013, 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, 2014. 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, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2015 expressed an unqualified opinion thereon.

Seattle, Washington
February 26, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE COMPANY'S INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders of PACCAR Inc

We have audited PACCAR Inc's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). 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, 2014, 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, 2014 and 2013, 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, 2014 and our report dated February 26, 2015 expressed an unqualified opinion thereon.

Seattle, Washington
February 26, 2015

Ernst & Young LLP

SELECTED FINANCIAL DATA

	2014	2013	2012	2011	2010
			(millions except per share data)		
Truck, Parts and Other Net Sales	**$ 17,792.8**	$ 15,948.9	$ 15,951.7	$ 15,325.9	$ 9,325.1
Financial Services Revenues	**1,204.2**	1,174.9	1,098.8	1,029.3	967.8
Total Revenues	**$ 18,997.0**	$ 17,123.8	$ 17,050.5	$ 16,355.2	$ 10,292.9
Net Income	**$ 1,358.8**	$ 1,171.3	$ 1,111.6	$ 1,042.3	$ 457.6
Net Income Per Share:					
Basic	**3.83**	3.31	3.13	2.87	1.25
Diluted	**3.82**	3.30	3.12	2.86	1.25
Cash Dividends Declared Per Share	**1.86**	1.70	1.58	1.30	.69
Total Assets:					
Truck, Parts and Other	**8,701.5**	9,095.4	7,832.3	7,771.3	6,355.9
Financial Services	**11,917.3**	11,630.1	10,795.5	9,401.4	7,878.2
Truck, Parts and Other Long-Term Debt		150.0	150.0	150.0	150.0
Financial Services Debt	**8,230.6**	8,274.2	7,730.1	6,505.4	5,102.5
Stockholders' Equity	**6,753.2**	6,634.3	5,846.9	5,364.4	5,357.8
Ratio of Earnings to Fixed Charges	**16.14x**	11.17x	10.69x	8.93x	3.89x

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 1,818 record holders of the common stock at December 31, 2014.

	2014			2013		
	DIVIDENDS	**STOCK PRICE**		DIVIDENDS	STOCK PRICE	
QUARTER	**DECLARED**	**HIGH**	**LOW**	DECLARED	HIGH	LOW
First	**$ .20**	**$68.81**	**$53.59**	$ .20	$51.38	$45.42
Second	**.22**	**68.38**	**60.21**	.20	55.05	47.12
Third	**.22**	**67.64**	**56.61**	.20	60.00	52.59
Fourth	**.22**	**71.15**	**55.34**	.20	59.35	53.67
Year-End Extra	**1.00**			.90		

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

QUARTERLY RESULTS (UNAUDITED)

	QUARTER			
	FIRST	SECOND	THIRD	FOURTH
	(millions except per share data)			
2014				
Truck, Parts and Other:				
Net sales and revenues	**$ 4,086.2**	**$ 4,267.0**	**$ 4,622.5**	**$ 4,817.1**
Cost of sales and revenues	**3,595.5**	**3,719.4**	**4,006.3**	**4,160.4**
Research and development	**52.7**	**49.9**	**50.5**	**62.5**
Financial Services:				
Revenues	**293.7**	**302.6**	**305.9**	**302.0**
Interest and other borrowing expenses	**36.6**	**33.7**	**32.6**	**30.8**
Depreciation and other expense	**144.3**	**148.4**	**147.3**	**148.5**
Net Income	**273.9**	**319.2**	**371.4**	**394.3**
Net Income Per Share *(a)*:				
Basic	**$ .77**	**$ .90**	**$ 1.05**	**$ 1.11**
Diluted	**.77**	**.90**	**1.04**	**1.11**
2013				
Truck, Parts and Other:				
Net sales and revenues	$ 3,631.2	$ 4,011.7	$ 4,006.6	$ 4,299.4
Cost of sales and revenues	3,189.3	3,494.6	3,491.1	3,725.7
Research and development	72.1	61.8	56.6	60.9
Financial Services:				
Revenues	293.1	288.8	293.5	299.5
Interest and other borrowing expenses	38.9	39.4	37.9	39.7
Depreciation and other expense	144.1	138.9	140.2	148.5
Net Income	236.1	291.6	309.4	334.2
Net Income Per Share *(a)*:				
Basic	$ .67	$ .82	$ .87	$ .94
Diluted	.67	.82	.87	.94

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

(currencies in millions)

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

Fair Value Gains (Losses)	**2014**	2013
CONSOLIDATED:		
Assets		
Cash equivalents and marketable debt securities	**$ (18.0)**	$ (16.6)
TRUCK, PARTS AND OTHER:		
Liabilities		
Fixed rate long-term debt		.3
FINANCIAL SERVICES:		
Assets		
Fixed rate loans	**(69.7)**	(68.4)
Liabilities		
Fixed rate term debt	**66.0**	71.0
Interest-rate swaps related to Financial Services debt	**36.8**	28.4
Total	**$ 15.1**	$ 14.7

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, the Australian dollar, the Brazilian real and the Mexican peso *(See Note O for additional information concerning these hedges).* Based on the Company's sensitivity analysis, the potential loss in fair value for such financial instruments from a 10% unfavorable change in quoted foreign currency exchange rates would be a loss of $36.2 related to contracts outstanding at December 31, 2014, compared to a loss of $27.7 at December 31, 2013. These amounts would be largely offset by changes in the values of the underlying hedged exposures.

OFFICERS

Mark C. Pigott
Executive Chairman

Ronald E. Armstrong
Chief Executive Officer

Robert J. Christensen
President and
Chief Financial Officer

Daniel D. Sobic
Executive Vice President

Robert A. Bengston
Senior Vice President

Gary L. Moore
Senior Vice President

T. Kyle Quinn
Senior Vice President and
Chief Information Officer

David C. Anderson
Vice President and
General Counsel

Michael T. Barkley
Vice President and Controller

Jack K. LeVier
Vice President

Samuel M. Means, III
Vice President

Harrie C.A.M. Schippers
Vice President

Richard E. Bangert, II
Vice President

D. Craig Brewster
Vice President

David J. Danforth
Vice President

Marco A. Davila
Vice President

R. Preston Feight
Vice President

Todd R. Hubbard
Vice President

William D. Jackson
Vice President

Elias B. Langholt
Vice President

Helene N. Mawyer
Vice President

Darrin C. Siver
Vice President

George E. West, Jr.
Vice President

Ulrich Kammholz
Treasurer

Michael K. Walton
Secretary

DIRECTORS

Mark C. Pigott
Executive Chairman
PACCAR Inc (3)

Ronald E. Armstrong
Chief Executive Officer
PACCAR Inc

Dame Alison J. Carnwath
Chairman
Land Securities Group PLC (2, 4)

John M. Fluke, Jr. (Retires 4/20/2015)
Chairman
Fluke Capital Management, L.P. (1, 3, 4)

Beth E. Ford (Effective 4/21/2015)
Executive Vice President
Land O'Lakes, Inc.

Kirk S. Hachigian
Chairman, President and CEO
JELD-WEN, inc. (2)

Luiz Kaufmann
Partner
L. Kaufmann Consultants (1)

Roderick C. McGeary
Former Vice Chairman
KPMG LLP (1, 2)

John M. Pigott
Partner
Beta Business Ventures LLC (3)

Mark A. Schulz
Retired President,
International Operations
Ford Motor Company (4)

Gregory M. E. Spierkel
Retired Chief Executive Officer
Ingram Micro Inc. (1, 2)

Charles R. Williamson (Lead Director)
Chairman
Weyerhaeuser Company and
Chairman
Talisman Energy Inc. (3, 4)

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, Canada

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 Caminhões Brasil Indústria Ltda.
Avenida Senador Flávio Carvalho Guimarães, 6000
Bairro Boa Vista
CEP 84072-190
Ponta Grossa PR
Brasil

Factory:
Cidade de Ponta Grossa, Brasil

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
Lancashire PR26 6LZ
United Kingdom

Factory:
Leyland, Lancashire, United Kingdom

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

Factory:
Mexicali, Baja California, Mexico

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

Factory:
Bayswater, Victoria, Australia

TRUCK PARTS AND SUPPLIES

PACCAR Engine Company
1000 PACCAR Drive
Columbus, Mississippi 39701

Factory:
Columbus, Mississippi

PACCAR Parts
Division Headquarters:
750 Houser Way N.
Renton, Washington 98057

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

Factories:
Algona, Washington
Louisville, Kentucky

WINCHES

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

Factories:
Broken Arrow, Oklahoma
Okmulgee, Oklahoma

PRODUCT TESTING, RESEARCH AND DEVELOPMENT

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

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

PACCAR FINANCIAL SERVICES GROUP

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

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

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

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

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

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

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

PACCAR GLOBAL SALES

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

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Shanghai, People's Republic of China
Jakarta, Indonesia
Manama, Bahrain
Moscow, Russia
Pune, India

Corporate Offices
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Bellevue, Washington
98004

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98009

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425.468.7400

Facsimile
425.468.8216

Website
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.shareowneronline.com

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 2014 Annual Report and the 2015 Proxy Statement are available on PACCAR's website at www.paccar.com/2015annualmeeting/

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.

DAF, Kenmex, Kenworth, Leyland, PACCAR, PACCAR MX-11, PACCAR MX-13, PACCAR PX, PacLease, Peterbilt, The World's Best and TRP are trademarks owned by PACCAR Inc and its subsidiaries.

Independent Auditors
Ernst & Young LLP
Seattle, Washington

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

Annual Stockholders' Meeting
April 21, 2015, 10:30 a.m.
Kenworth Truck Company's
Assembly Plant
500 Houser Way North
Renton, Washington
98057

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PACCAR Inc

PACCAR Inc