# PACCAR

2016 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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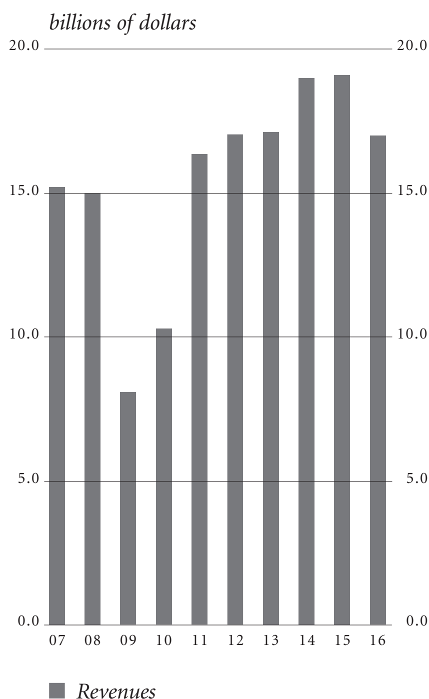
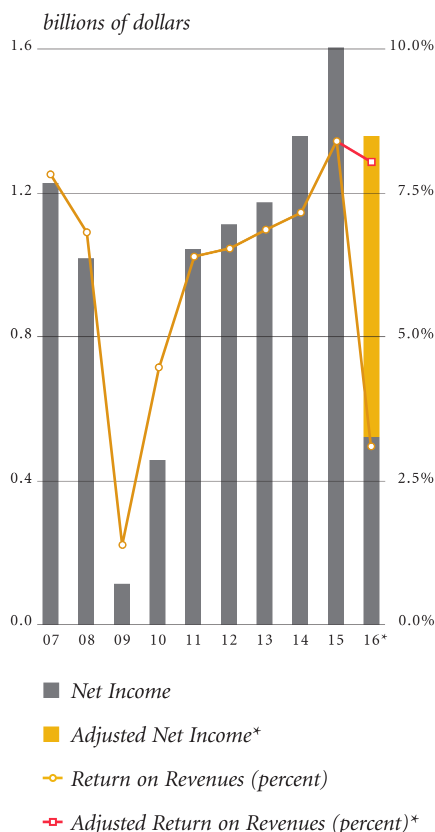
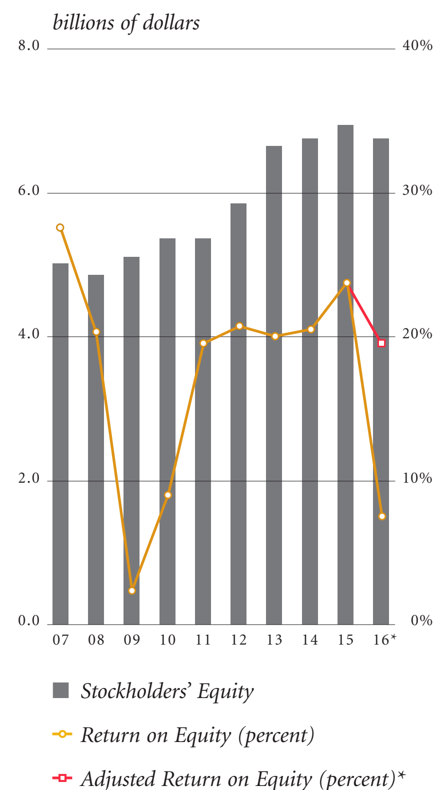
# FINANCIAL HIGHLIGHTS

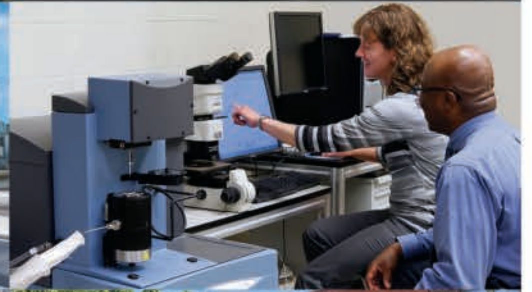
| | 2016 | 2015 |
|---|---|---|
| | *(millions, except per share data)* | |
| Truck, Parts and Other Net Sales and Revenues | **$ 15,846.6** | $ 17,942.8 |
| Financial Services Revenues | **1,186.7** | 1,172.3 |
| *Total Revenues* | **17,033.3** | 19,115.1 |
| *Net Income* | **521.7** | 1,604.0 |
| *Adjusted Net Income** | **1,354.7** | |
| *Total Assets:* | | |
| Truck, Parts and Other | **8,444.1** | 8,855.2 |
| Financial Services | **12,194.8** | 12,254.6 |
| *Financial Services Debt* | **8,475.2** | 8,591.5 |
| *Stockholders' Equity* | **6,777.6** | 6,940.4 |
| *Per Common Share:* | | |
| Net Income: | | |
| Basic | **$ 1.49** | $ 4.52 |
| Diluted | **1.48** | 4.51 |
| Adjusted Diluted* | **3.85** | |
| Cash Dividends Declared | **1.56** | 2.32 |




* See Reconciliation of GAAP to Non-GAAP Financial Measures for 2016 on page 46.

DAF


PacLease

PACCAR PARTS

PACCAR is celebrating 111 years of success and delivered very good revenue and net profits to its shareholders in 2016. The company's long-term prosperity has been achieved by 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 achieved excellent financial results by focusing on the premium quality segment of its industry – a notable record considering the cyclicality of the capital goods business. PACCAR has strived to be at the forefront of technology for over a century and the company's world class range of products and services reflect that dedicated resolve. PACCAR is one of the leading technology companies worldwide, and innovation is a cornerstone of its success. PACCAR continues to integrate new technology into its daily operations, including sophisticated mobile apps in truck manufacturing, parts distribution and sales of products and services. Connected architecture in PACCAR's vehicles profitably supports its business, as well as its dealers, customers and suppliers.

PACCAR had an excellent year in 2016 due to growing share in North American and European truck markets as well as generating good results in the financial services and aftermarket parts businesses. Customers renewed their fleets to take advantage of the reliability and operating efficiency of DAF, Kenworth and Peterbilt trucks and to meet strong freight demand. PACCAR's financial results benefited from global diversification. The company has realized excellent synergies globally in product development, financial services, purchasing and manufacturing.

DAF, in addition to most European truck competitors, reached a settlement with the European Commission regarding the review of the exchange of European commercial vehicle list prices. The company has reinforced its compliance program, including extensive employee training.

PACCAR and its employees are proud of the remarkable achievement of 78 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. Our shareholders have enjoyed excellent returns, with steady regular dividend growth and increased shareholder value over the years. 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.

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.

Mark Pigott

MARK C. PIGOTT
*Executive Chairman*
*February 17, 2017*

PACCAR had a very good year in 2016, achieving strong truck market share growth and industry-leading operating margins, as well as increasing investments in new products, technologies, manufacturing facilities and parts distribution centers. Revenues of $17.03 billion were the fifth highest in the company's history and net income was $521.7 million, an after-tax return on revenue (ROR) of 3.1%. The company has earned 78 consecutive years of net income. Excluding the $833.0 million non-recurring European Commission (EC) settlement, adjusted net income was $1.35 billion[1], an after-tax ROR of 8.0%[1].

PACCAR's financial results reflect the company's premium-quality products and services, a strong truck market in Europe and increased heavy-duty truck market share, complemented by good aftermarket parts and financial services results worldwide. Last year's achievements reflect the efforts of PACCAR's 23,000 outstanding employees delivering industry-leading product quality and innovation, and outstanding operating efficiency. PACCAR's superior financial strength enabled the company to invest $649.9 million in capital projects and research and development in 2016 to enhance its manufacturing capability, expand its range of vehicles and engines and strengthen its aftermarket capabilities. PACCAR delivered 140,900 trucks to its customers and sold $3.01 billion of aftermarket parts. PACCAR's excellent credit rating of A+/A1 supported PACCAR Financial Services' new loans and leases of $4.22 billion. Stockholders' equity was a strong $6.78 billion.

Class 8 truck industry retail sales in North America, including Mexico, were 243,000 vehicles in 2016 compared to 301,000 the prior year. The European 16+ tonne market in 2016 increased to 303,000 vehicles compared to 269,000 in 2015. Customers in North America and Europe are generating good profits due to strong freight tonnage, low fuel prices and the superior operating efficiency of Kenworth, Peterbilt and DAF trucks.

PACCAR's very good financial performance in 2016 benefited from PACCAR Parts' strong pre-tax profits of $543.8 million and PACCAR Financial Services' achieving pre-tax profits greater than $300 million for the fifth year in a row. After-tax return on beginning stockholders' equity (ROE) was 7.5% in 2016. Excluding the EC settlement, ROE was 19.5%[1]. PACCAR's long-term financial performance has enabled the company to distribute $5.3 billion in dividends during the last 10 years. PACCAR's average annual total stockholder return over the last fifteen years was 14.7%, versus 6.7% 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 $6.1 billion in the last decade in world-class facilities, innovative products and new technologies. Productivity and efficiency improvements of 5-7% annually and capacity expansions in the last five years have enhanced the capability of the company's manufacturing and parts facilities.

In 2016, capital investments were $402.7 million and research and development expenses were $247.2 million. PACCAR expanded its vehicle product range, invested in truck and engine technologies that increase vehicle fuel efficiency and reliability and enhanced its manufacturing and parts distribution facilities during the year. The new Kenworth T680 52-inch integral sleeper, Peterbilt Model 579 EPIQ day cab and the DAF *Connect* online fleet management system provide customers transportation solutions that deliver the lowest total cost of operation. PACCAR's engine factories produced a record number of PACCAR MX-13 and MX-11 engines in 2016 and invested in additional engine manufacturing capacity. Kenworth and Peterbilt have installed over 130,000 PACCAR engines since the Mississippi engine factory began production in 2010. To meet the growing demand for PACCAR

[1] See page 46 for a reconciliation of GAAP to non-GAAP financial measures.

vehicles and engines, investments in additional capacity are being made, including the $110 million DAF cab paint facility in Westerlo, Belgium and the 100,000 square-foot Peterbilt truck test facility in Denton, Texas.



The PACCAR Technical Center in Pune, India provided increasing support to PACCAR's global product and technology initiatives and certified many world-class automotive suppliers. In China, PACCAR expanded its purchasing activities and continued to examine opportunities to increase participation in the world's largest truck market.

**SIX SIGMA** — Six Sigma is integrated into all business activities at PACCAR and has been adopted at hundreds 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. Six Sigma and other product and process enhancement capabilities are benefiting from advanced data analytics and artificial intelligence tools. Since 1997, Six Sigma has delivered billions of dollars in savings in all facets of the company. The majority of PACCAR's employees have been trained in Six Sigma and over 36,000 projects have been implemented. Six Sigma, in conjunction with PACCAR Supplier Quality, has been vital to improving logistics performance and component quality from company suppliers.

**INFORMATION TECHNOLOGY** — PACCAR's Information Technology Division (ITD) and its 780 innovative employees are an important competitive asset for the company. ITD collaborates closely with all company businesses to develop and integrate software and hardware that enhances the quality and efficiency of all products and operations throughout the company. ITD's leadership role is integral to the ongoing development of DAF *Connect*, Peterbilt *SmartLINQ*, and Kenworth *TruckTech+* innovative truck connectivity solutions. The ITD team works closely with the truck divisions and suppliers to accelerate adoption of Advanced Driver Assistance Systems (ADAS) in PACCAR vehicles globally. DAF, Peterbilt and Kenworth are leaders in demonstrating truck platooning and autonomous driving technologies.

**TRUCKS** — U.S. and Canadian Class 8 industry retail sales in 2016 were 216,000 units and the Mexican market totaled 27,000 units. The European Union (EU) industry 16+ tonne registrations were 303,000 units.

PACCAR's Class 8 retail sales in the U.S. and Canada achieved a market share of 28.5% in 2016, up from 27.4% in 2015. Kenworth achieved record Class 8 market share of 15.1% in 2016 and Peterbilt had a strong gain in share as well. DAF achieved a 15.5% share in the 16+ tonne truck market in Europe in 2016 compared to 14.6% the prior year. Industry Class 6 and 7 truck registrations in the U.S. and Canada were 85,000 units, up 6% from the previous year. In the EU, the 6 to 16-tonne market was 53,000 units, up 8% compared to 2015. PACCAR's market share in the U.S. and Canada medium-duty truck segment was 16.2%. DAF's share of the medium truck market in Europe was 10.1%.

A tremendous team effort by the company's engineering, purchasing, materials, production, accounting and field service employees achieved industry-leading truck, parts and other gross margins of 14.7%. A combination of new technology, process improvements, applied data analytics and collaboration with suppliers delivered reduced costs and established records for factory and distribution center efficiency and customer satisfaction.

PACCAR's product innovation and manufacturing expertise continued to be recognized as the industry leader in 2016. Peterbilt's truck factory in Denton, Texas and the PACCAR engine factory in Columbus, Mississippi earned Frost and Sullivan's "*Manufacturing Leadership*" awards for operational excellence and incorporation of the "Internet of Things" into manufacturing processes. The DAF LF was awarded "*Best Urban Delivery Truck*" and the DAF CF was named "*Best Distribution Truck*" at the U.K.'s Commercial Fleet awards. The PACCAR MX-11 was named a Top 20 product by *Heavy Duty Trucking* magazine.

PACCAR Mexico continued its sales leadership, achieving a 35.7% Class 8 market share. PACCAR Mexico also expanded sales of its newest Kenworth T680 and T880 models equipped with PACCAR MX-13 engines.

PACCAR Australia achieved good results in 2016 with combined heavy-duty market share for Kenworth and DAF of 22.9%. PacLease Australia successfully completed its first full year of operations offering customers Kenworth and DAF rental, full-service lease and contract maintenance programs tailored to their specific needs. In the fourth quarter, Kenworth launched the new T610 model which combines state-of-the-art aerodynamics, a 12-inch wider cab and a luxurious interior to solidify Kenworth's position as the market leader.

DAF Brasil increased truck production and market share in 2016 and completed its first year of production of the PACCAR MX-13 engine. DAF was honored by *Fenabrave*, the Brasil national truck dealer association, as the most desired truck brand in Brasil.

**AFTERMARKET CUSTOMER SERVICES** — PACCAR Parts had its third year in a row of revenues over $3 billion and strong profits as dealers and customers accelerated adoption of innovative e-commerce platforms and global fleet service programs offering national pricing and centralized billing. 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. PACCAR dealers expanded TRP aftermarket parts retail stores to 77 locations in 25 countries. 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' construction of a new 160,000 square-foot distribution center in Renton, Washington was completed in the second quarter of 2016 to support increased parts demand in the northwest region of the U.S. and Western Canada. PACCAR Parts will begin construction of a new 160,000 square-foot distribution center in Toronto, Canada in 2017.

**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 pre-tax profits of $306 million in 2016. PACCAR issued $1.94 billion in medium-term notes at attractive rates during the year. PFS has operations covering 23 countries on four continents. The global breadth of PFS and its rigorous credit application process support a portfolio of 178,000 trucks and trailers, with total assets of $12.2 billion. PACCAR Financial Corp. is the preferred funding source in North America for Peterbilt and Kenworth trucks, financing 22.2% of dealer Class 8 sales in the U.S. and Canada in 2016. Strategically located used truck centers, interactive webcasts and targeted marketing enabled PFS to sell over 8,100 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 16 European countries, and in 2016 financed 23.9% of DAF's 6+ tonne vehicle sales.

PACCAR Leasing (PacLease) represents one of the largest full-service truck rental and leasing operations in North America, Germany and Australia. PacLease placed nearly 5,000 new PACCAR vehicles in service, and its fleet totaled 38,000 vehicles. PacLease Mexico, the country's largest full-service lease provider, celebrated its 20th anniversary.

**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 is a member of the CDP (formerly known as the Carbon Disclosure Project), which aligns corporate environmental goals with global, national and local "green" initiatives. PACCAR earned an excellent score of A-, placing it in the top 10% of the thousands of CDP reporting companies from around the world.

**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 2017 is good in North America as the economy is expected to generate growth of 2-3%. The European economy is expected to grow 1-2%.

The North American truck market in 2017 is expected to be comparable to 2016, and the European truck market is forecast to be strong again in 2017 as anticipated economic growth will support heavy-duty truck demand. Current estimates for the 2017 Class 8 truck industry in the U.S. and Canada indicate that truck sales could range from 190,000-220,000 units. Registrations for Class 6-7 trucks are expected to be between 80,000-90,000 vehicles. The European 16+ tonne truck market in 2017 is estimated to be in the range of 260,000-290,000 trucks, while demand for medium-duty trucks should range from 50,000-55,000 units.

PACCAR Parts' industry-leading services and strong freight demand in North America and Europe should provide increased parts deliveries in the company's aftermarket parts business. The PACCAR Financial portfolio is expected to continue to perform well due to growing economies in North America and Europe.

PACCAR's industry-leading 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 17, 2017*

**PACCAR Executive Operating Committee**
First Row Left to Right: Bob Christensen, Ron Armstrong, Gary Moore; Back Row Left to Right: Bob Bengston, Kyle Quinn, Jim Clack, Jack LeVier, Preston Feight, Marco Davila, Darrin Siver, Michael Barkley, Harrie Schippers, Mike Dozier

**Kenworth achieved a record market share of 15.1 percent in 2016 and expanded its on-highway T680 and vocational T880 models, further enhancing its industry leadership in fuel economy and payload efficiency. Kenworth's Chillicothe, Ohio manufacturing facility celebrated the production of its 500,000th truck.**

Kenworth, "The World's Best", introduced the T680 *Advantage* day cab model, as well as a new 52-inch integral sleeper and a 76-inch mid-roof sleeper. The T680 *Advantage* designed with the PACCAR MX-13 engine improves fuel economy up to six percent in pickup and delivery and regional haul applications, and up to eight percent in long haul applications.

Kenworth introduced the PACCAR MX-11 engine for vocational and regional haul customers. The PACCAR MX-11 engine is 400 pounds lighter and provides the power and torque suited to regional haul, tanker, bulk haul, construction and refuse applications.

Kenworth's vocational leadership was further enhanced with the introduction of the T880S for concrete mixer, dump and mobile crane applications. The truck's set-forward front axle optimizes weight distribution for maximized payload, and delivers excellent maneuverability and visibility.

Kenworth's proprietary *TruckTech+* remote diagnostics system has been installed in more than 30,000 Kenworth trucks equipped with the PACCAR MX-11 and MX-13 engines. The *TruckTech+* service management system improves customer fleet performance through enhanced diagnostics and service scheduling at Kenworth dealers.

The Kenworth assembly plant in Chillicothe, Ohio produced its 500,000th truck, a T680 *Advantage* equipped with a PACCAR MX-13 engine. The factory completed construction of a 25,000 square-foot automated storage and delivery system for painted cabs, hoods and sleepers. Kenworth's Renton plant earned King County's *"Best Workplace for Waste Prevention and Recycling Award"* for the eighth consecutive year, and King County's *"Gold Award"* for exemplary wastewater discharge practices for the second year in a row. The PACCAR Ste.-Thérèse plant enhanced its environmental leadership by developing robotic paint technology that reduces paint usage and emissions.

The Kenworth dealer network invested $155 million in new and expanded facilities. Kenworth dealers added 20 new dealerships, growing the network to 382 locations across the U.S. and Canada.

The Kenworth T680 establishes an unsurpassed standard of industry excellence with exceptional styling, superior fuel efficiency, outstanding performance and extraordinary comfort. The *Advantage* package offers the latest aerodynamic innovations, further enhancing fuel economy 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's Denton, Texas manufacturing facility completed its 100,000 square-foot expansion and produced its 500,000th truck in 2016. Peterbilt introduced new on-highway and vocational truck models, the PACCAR MX-11 engine and its *SmartLINQ* truck technology.**

Peterbilt Denton completed a facility expansion including a new 100,000 square-foot vehicle test building, an automated component storage and retrieval system, and additional shipping and receiving docks. Peterbilt's Denton, Texas assembly facility produced its 500,000th truck, a Model 579 equipped with a PACCAR MX-13 engine.

Peterbilt began installation of the fuel-efficient PACCAR MX-11 engine designed for regional transportation and vocational applications. The MX-11 offers 430 horsepower and 1,550 lb.-ft. of torque, combined with excellent fuel economy.

Peterbilt launched the aerodynamic and fuel-efficient Model 579 EPIQ day cab which provides up to 14 percent improved fuel economy and is ideal for regional, tanker and bulk haul applications. It is available with customizable aerodynamic packages, including a proprietary, innovative three-piece roof fairing.

The new Peterbilt low-cab forward Model 520 can be configured with right- and left-hand steering for enhanced productivity in refuse collection. The Model 520 has new grille styling, high-performance xenon headlights and enhanced visibility. Peterbilt is expanding the Model 520's versatility with new configurations designed for concrete pumpers, highway paint application and construction building sites.

The Model 567 Heritage offers traditional interior and exterior features made exclusively for this truck. The Heritage provides the proven productivity, efficiency and prestige of the Model 567, with styling that reflects the 80-year heritage of Peterbilt.

*SmartLINQ* connected truck technology is standard on all Class 8 Peterbilts with the PACCAR MX-13 engine. The system delivers customers real-time diagnostics for enhanced vehicle performance. *SmartLINQ* employs reasoning logic that analyzes diagnostic information for fast and accurate service.

Peterbilt earned two "*Operational Excellence Leadership*" awards and one "*High Achiever*" award from Frost & Sullivan's Manufacturing Leadership Council.

Peterbilt added 25 dealerships, growing its North American dealer network to a record 352 sales and service locations.

The Peterbilt 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.

DAF
XF

**DAF Trucks N.V. celebrated its 20th anniversary as a PACCAR company, strengthened its position as a global commercial vehicle manufacturer, increased its European market share in the 16+ tonne segment to 15.5 percent and further expanded into emerging markets.**

DAF Trucks celebrated its 20-year anniversary as a PACCAR company in 2016 and continues to enhance its reputation as the industry leader in truck and powertrain design, manufacturing, sales and customer support. At the 2016 international IAA truck show in Hannover, Germany, DAF launched *Connect*, its innovative online fleet management system. DAF *Connect* offers operators real-time information on vehicle and driver performance in order to maximize efficiency. With this innovative system, DAF is able to assist customers to achieve increased profitability per kilometer.

DAF's flagship XF model was voted *"Fleet Truck of the Year 2016"* at the prestigious "Motor Transport Awards" in London, its sixth win in the last nine years. In Poland, the DAF XF Super Space Cab earned the distinguished *"Master Truck of the Year 2016"* award for its overall efficiency and driver comfort. The versatile DAF CF model with the PACCAR PX-7 engine was named *"Irish Truck of the Year"* in the "Ireland Distribution – Heavy Duty Rigid" category.

DAF's Westerlo Belgium factory celebrated its 50th anniversary and is finalizing construction of a new €100 million state-of-the-art cab paint facility. The new facility will be operational in the first half of 2017 and will increase cab paint capacity, enhance product quality and contribute to environmental leadership.

DAF participated in the European Truck Platooning Challenge with its EcoTwin concept. DAF demonstrated global technical leadership by designing an application to allow a second vehicle to automatically follow a lead vehicle during a highway trip between Belgium and the Netherlands. The EcoTwin platooning concept provides fuel savings and CO2 emission reductions of up to 10 percent.

PACCAR Parts' market-leading TRP all-makes aftermarket parts program has expanded to 120,000 truck, bus and trailer parts and is supported by DAF's excellent dealer network. DAF's dealers opened 19 new TRP retail parts stores in Europe and Africa, bringing the total number of stores to more than 40. DAF sold 3,900 PACCAR engines to independent bus, coach and vocational vehicle manufacturers.

DAF strengthened its presence in new markets as it established a company-owned subsidiary in Turkey and introduced DAF trucks in the United Arab Emirates. DAF's independent dealer network added 43 locations to 1,100 dealerships worldwide, including expansions in Europe, Russia, Africa, the Middle East and South America.

The DAF XF Euro 6 is a global leader in transport efficiency, with advanced technologies, low operational costs and best-in-class performance. DAF's range of Euro 6 vehicles equipped with state-of-the-art PACCAR MX-11 and MX-13 engines offer superior quality, ergonomics, comfort and operating efficiency for a variety of applications.

**PACCAR Australia achieved a 22.9 percent share in the Australian heavy-duty truck market. Celebrating its 45th year of manufacturing in Australia, PACCAR has delivered over 58,000 Kenworth and DAF vehicles operating in one of the world's most demanding environments.**

PACCAR Australia's market leadership was enhanced by the launch of the Kenworth T610. The new Kenworth T610 combines state-of–the-art aerodynamics, a luxurious interior and industry-leading ergonomics designed specifically for Australian conditions and applications. The Kenworth T610 features include a 12-inch wider cab, enhanced electronic connectivity and 10 percent greater storage space. PACCAR Australia customers are supported by 55 dealer locations.

The DAF CF85 was launched in 2016 with the industry-leading PACCAR MX-13 engine rated at 510 horsepower, making Australia's top-selling DAF model attractive for demanding jobs in high productivity applications due to its excellent versatility, increased performance and fuel efficiency.

PacLease Australia offers Kenworth and DAF vehicles with rental, full-service lease and contract maintenance programs tailored to customers' specific needs. PACCAR Parts achieved record sales in 2016, expanded its Fleet Services program, providing fleets with network pricing and centralized billing, and achieved 37 percent growth in its TRP all-makes parts brand for trucks and trailers.

Kenworth and DAF trucks are renowned in Australia for their reliability under the most challenging operating conditions. Kenworth's new T610 builds on this heritage, providing a superior driver environment and low vehicle operating costs.

**PACCAR Mexico (KENMEX) achieved a 35.7 percent share of the Class 8 market in Mexico in 2016, expanded production capacity and has manufactured over 264,000 vehicles since its founding in 1959.**



PACCAR Mexico produces a broad range of Kenworth and Peterbilt Class 5-8 vehicles for Mexico, Central America and Andean countries in its state-of-the-art 590,000 square-foot production facilities in Mexicali, Mexico. In order to meet production demand, KENMEX expanded its cab paint, chassis assembly and logistics warehouse capacity. The factory was recognized for its environmental stewardship by the state of Baja California. In 2016, KENMEX built 13,600 vehicles, including eight different Kenworth and Peterbilt models, many with PACCAR engines.

KENMEX produced 700 medium-duty cab-over-engine trucks for pick-up and delivery applications and a record number of Peterbilt Model 520s for refuse applications.

KENMEX added 22 new dealer locations to its 217 dealer network in Mexico and Latin America. A strong dealer network, in partnership with the world-class PACCAR Parts Distribution Centers (PDC) in San Luis Potosi, Mexico and Santiago, Chile, offers unsurpassed customer support.

The Kenworth T680, equipped with the PACCAR MX-13 engine, offers customers advanced aerodynamics, lower operating costs and premium styling and comfort.

**Leyland Trucks, the United Kingdom's leading truck manufacturer, celebrated 120 years of production in 2016 and delivered 15,800 DAF vehicles to customers in Europe, Asia, Australia, the Middle East, Russia and the Americas.**

Leyland builds the complete DAF product range of LF, CF and XF models for right- and left-hand drive markets worldwide. Leyland, one of the UK's leading automotive manufacturing companies, celebrated its 120-year anniversary in 2016. Leyland's highly efficient 710,000 square-foot manufacturing facility features a technologically advanced production system which incorporates electronic work instructions to deliver engineering designs and build instructions to employees. The production facility also includes a robotic chassis paint system and a new state-of-the-art final assembly production test facility.

The new DAF LF 2017 Edition equipped with the PACCAR PX-5 and PX-7 engines increases power and torque by up to 12 percent and fuel efficiency by up to four percent while optimizing driver comfort.

DAF Trucks earned the "*Truck Fleet Manufacturer of the Year*" at the United Kingdom's Commercial Fleet Awards 2016, with the DAF LF earning the "*Best Urban Delivery Truck*" and the DAF CF recognized as the "*Best Distribution Truck*".

Leyland celebrated 120 years of manufacturing in 2016. Leyland manufactures the full DAF product range of LF, CF and XF models for right- and left-hand drive markets, offering superior operating efficiency, technology and productivity. The DAF CF is the ideal truck for a variety of vocational applications.

**PACCAR sells DAF, Kenworth and Peterbilt trucks and parts to customers in 100 countries on six continents. In 2016, PACCAR expanded its geographic diversification in South America, Eastern Europe and ASEAN.**

The DAF Brasil assembly plant in Ponta Grossa, Brasil doubled its production of the versatile DAF CF and the long haul DAF XF trucks, making DAF one of the fastest growing truck brands in Brasil. Both DAF models are powered by the PACCAR MX-13 engine, which is now produced in Brasil. The PACCAR MX engine is a leader in reliability, durability and fuel efficiency.

DAF Brasil earned the prestigious "*Truck Brand of the Year*" by the Brasilian Industry Truck Dealer Association. DAF Brasil expanded its dealer network by adding three full-service dealer locations and seven independent service providers to offer customers excellent sales and service support.

DAF enhanced its presence in Ecuador, Peru, Chile and Colombia by appointing four new dealers. DAF opened a subsidiary in Turkey and a new dealership in Dubai, UAE. DAF dealers in Eastern Europe, Africa and ASEAN countries invested significantly in new locations.

In Taiwan, DAF is the market leader in the heavy tractor segment. DAF celebrated the 10th anniversary of its modern Taiwan production facilities as it assembled its 5,000th locally produced truck.

The DAF assembly facility in Taiwan builds the full range of DAF XF, CF and LF models. DAF Brasil's expanding dealer network offers premium facilities and support. PACCAR engineering teams in India support the PACCAR truck divisions around the world. PACCAR engines power buses throughout Europe and Asia.

**PACCAR Parts achieved excellent pre-tax profit of $544 million and worldwide revenue of $3 billion in 2016, delivering 1.5 million parts shipments to over 2,100 DAF, Kenworth and Peterbilt dealer locations.**

PACCAR Parts expanded its global Fleet Services program by offering national pricing and centralized billing to over 880 commercial vehicle fleets with nearly 700,000 vehicles. PACCAR Parts' advanced eCommerce program allows customers 24/7 online ordering access to more than 1.5 million aftermarket products. eCommerce also provides online benefits offered by the Kenworth *Privileges*, Peterbilt *Preferred*, DAF *MAX* and TRP *Performance* loyalty programs.

PACCAR Parts operates 17 Parts Distribution Centers worldwide with 2.4 million square-feet of warehouse space. In 2016, PACCAR Parts opened the new 160,000 square-foot Parts Distribution Center in Renton, Washington, featuring state-of-the art distribution technologies and more than double the stocking capacity to support dealers and customers in the Western U.S. and Canada.

PACCAR Parts' successful TRP aftermarket brand for trucks, trailers, buses and engines offers 120,000 part numbers. PACCAR dealers expanded TRP aftermarket parts retail stores to 77 locations in 25 countries. TRP offers customers cost-effective choices for quality parts for vehicle and trailer repair and maintenance.

PACCAR Parts' new Renton distribution center expands customer support in North America. TRP branded stores sell quality TRP aftermarket parts for all makes of trucks, trailers and buses. The interactive PACCAR Parts Experience showcases PACCAR's products and innovative technology. The PACCAR Parts Global eCommerce Program supports over 15,000 customers every month in over 30 countries.

**PACCAR engines were installed in 47 percent of Kenworth and Peterbilt heavy-duty vehicles in the United States and Canada in 2016, and in all DAF vehicles. PACCAR MX engines deliver superior reliability, excellent fuel economy and low 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. Frost & Sullivan recognized the PACCAR Engine Company with its prestigious "*Manufacturing Leadership*" awards in 2016. PACCAR operates two world-class engine research and development centers, with 46 sophisticated engine test cells and a climatic chassis dyno to enhance its engine and powertrain design and manufacturing capabilities. With 60 years of engine design and manufacturing expertise, PACCAR has delivered 1.4 million engines. The Columbus facility has delivered 130,000 engines since its opening in 2010. The company introduced the PACCAR tandem axle for installation in Kenworth and Peterbilt vehicles in 2017.

The PACCAR MX-11 engine, with power ratings up to 430 horsepower and 1,550 lb.-ft. of torque, began U.S. production for Kenworth and Peterbilt trucks in 2016, and was named a Top 20 product by the editors of *Heavy Duty Trucking* magazine.

PACCAR engine and axle factories represent technology leadership in commercial vehicle production. PACCAR engines and axles are standard in DAF, Kenworth and Peterbilt 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 26.7 percent and earned pre-tax profits of $306 million in 2016.**

The PFS portfolio is comprised of 178,000 trucks and trailers, with total assets of $12.2 billion. PACCAR's excellent balance sheet, complemented by its A+/A1 credit rating, enabled PFS to issue $1.9 billion in three-, four- and five-year medium term notes in 2016. Ongoing access to the capital markets at low interest rates allowed PFS to support the sale of Kenworth, Peterbilt and DAF trucks in 23 countries on four continents. PFS sold 8,100 pre-owned PACCAR trucks worldwide in 2016 and opened new sales locations in Chicago, Illinois and Warsaw, Poland.

For over 50 years, PACCAR Financial Corp. (PFC) has facilitated the sale of premium Kenworth and Peterbilt trucks in the U.S. and Canada. PFC financed 66 percent of dealer inventories and 22.2 percent of new Kenworth and Peterbilt Class 8 trucks sold or leased. PFC introduced a mobile sales and credit system, which allows customers and dealers to complete a loan application, receive an expedited credit decision and electronically sign a contract on a mobile device.

PACCAR Financial Europe (PFE) has $2.8 billion in assets and provides financial services to DAF dealers and customers in 16 European countries. PFE achieved a 23.9 percent retail market share of 6+ tonne vehicles in 2016.

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 achieved its 27th consecutive year of profitability with a worldwide fleet of 38,000 Kenworth, Peterbilt and DAF vehicles.**



PacLease offers premium-quality Kenworth, Peterbilt and DAF vehicles for full-service lease and rental operation, and is a leasing industry leader in introducing new technologies and providing fleet customers with transportation solutions. In 2016, PacLease delivered nearly 5,000 Kenworth, Peterbilt and DAF vehicles to customers in North America, Europe and Australia through its network of 560 locations.

PacLease offers customized transportation solutions such as *PacTrainer*, an online suite of compliance courses to improve operator driving performance; *PacTrac*, vehicle fleet telematics to improve productivity; *PacTax*, fuel tax filing and reporting; and *PacFuel*, nationwide fuel discounts.

PacLease delivered its 11,000th vehicle equipped with the fuel-efficient and reliable PACCAR MX-13 and PACCAR MX-11 engines. PacLease Mexico celebrated its 20th anniversary with continued growth and has a record fleet of 8,000 trucks and trailers, making it the largest full-service lease provider in Mexico. PacLease Europe operates a fleet of over 2,500 DAF trucks and trailers.

PACCAR Leasing expanded its global presence in the Australian full-service truck leasing and rental market with its flagship location in Melbourne in 2016. Additional locations throughout Australia will open in 2017.

PacLease provides its customers with innovative transportation solutions and premium-quality Kenworth, Peterbilt and DAF vehicles. In the United States, Mexico and Australia, PacLease expanded its locations and market presence.

**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. Proprietary road simulators enhance product validation by replicating millions of road miles in weeks instead of years. The climatic wind tunnel enables year-round testing of trucks under all operating temperature and altitude conditions to improve reliability and efficiency. Sophisticated computer simulations and advanced analysis of engine, powertrain and vehicle control systems operate on powerful computers to optimize vehicle efficiency.

PACCAR's Technical Centers partner with government agencies and academic institutions to evaluate future technologies, including autonomous vehicles. 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 2016, the Technical Centers contributed to the development of the new PACCAR tandem axle.

**PACCAR's Information Technology Division (ITD) is an industry leader in innovative digital technologies which enhance the quality of all PACCAR businesses and products and systematically connect customers, dealers and suppliers.**

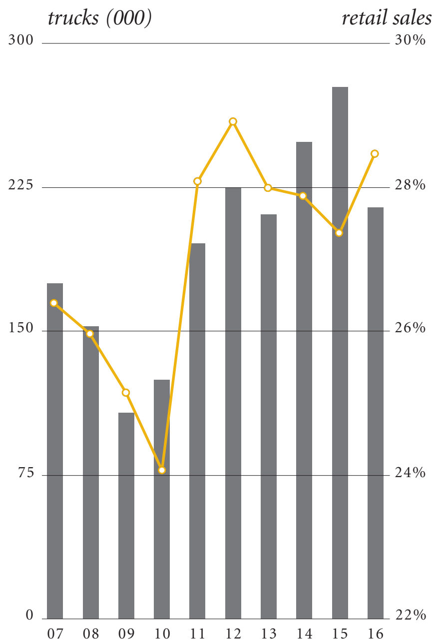
ITD partnered with Microsoft to develop a Hololens augmented reality software application that accelerates product styling development for vehicle concepts. Hololens displays design alternatives as well as aerodynamic simulations at full scale to provide a powerful visualization of new designs.

DAF and ITD introduced connected truck solutions in Europe. The new DAF *Connect* fleet management system optimizes fleet performance and enhances operational efficiency. Logistic information such as mapping, fuel consumption and vehicle utilization are presented in a digital dashboard, which can be tailored to customer requirements. ITD partnered with PACCAR Financial to design and deliver contracts on mobile devices to enhance the sales process, including the ability to execute the documents with secure digital signatures.

ITD continued to build on its digital capabilities in 2016 with the launch of a state-of-the-art platform for deploying mobile applications, machine learning algorithms to evaluate vehicle performance and leveraging connected trucks to demonstrate the ability to update engine software via wireless technology for vehicles operating in the field.

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

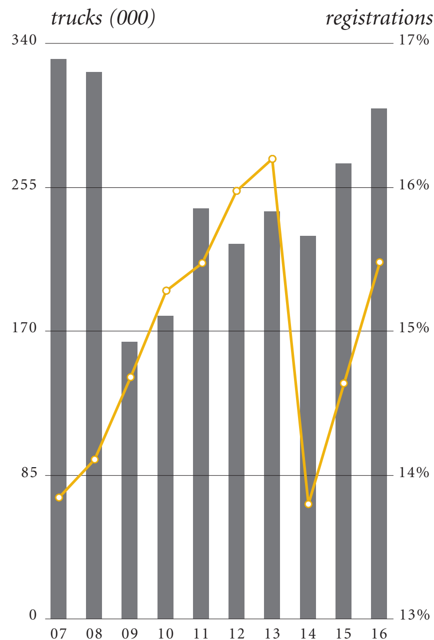
## U.S. AND CANADA CLASS 8 MARKET SHARE




*Total U.S. and Canada Class 8 Units*

*PACCAR Market Share (percent)*

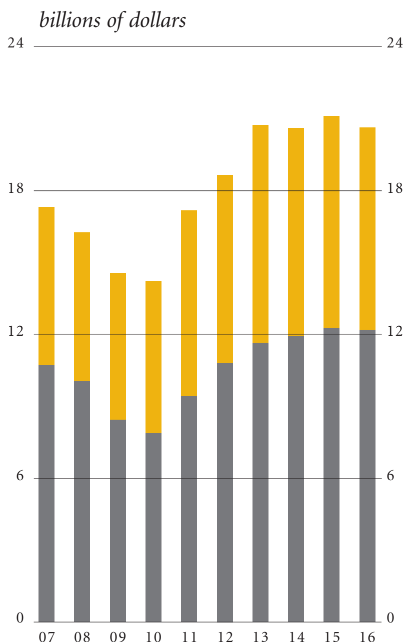
## WESTERN AND CENTRAL EUROPE 16+ TONNE MARKET SHARE




*Total Western and Central Europe 16+ Tonne Units*

*PACCAR Market Share (percent)*

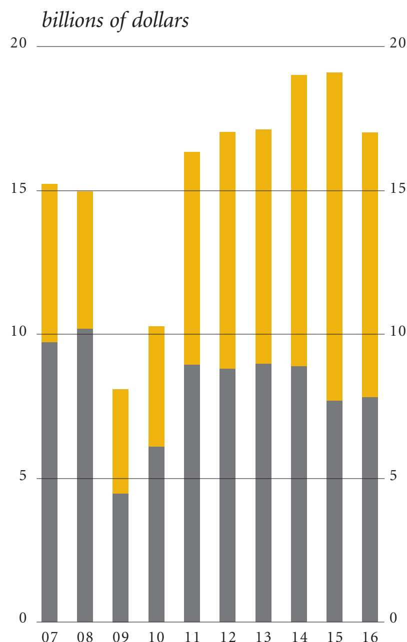
## TOTAL ASSETS




*Truck, Parts and Other*

*Financial Services*

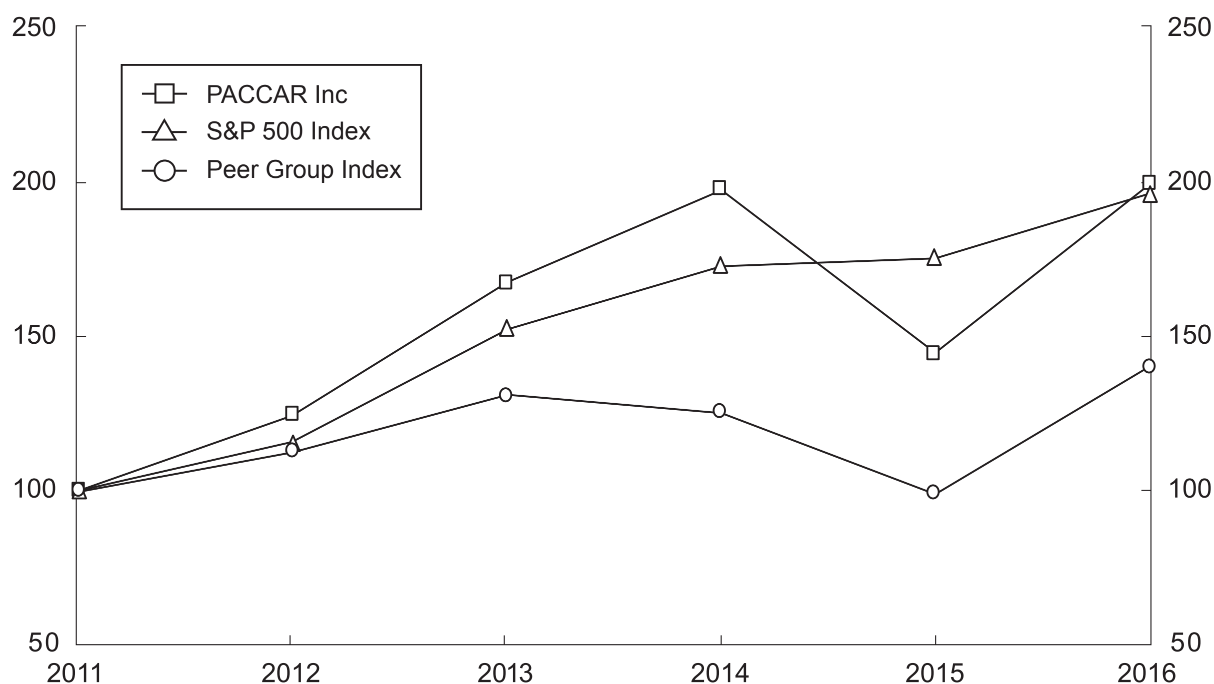
## GEOGRAPHIC REVENUE




*United States*

*Rest of World*

The following line graph compares the yearly percentage change in the cumulative total stockholder return on the Company's common stock, to the cumulative total return of the Standard & Poor's Composite 500 Stock Index and the return of the industry peer groups of companies identified in the graph (the "Peer Group Index") for the last five fiscal years ended December 31, 2016. 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, AB Volvo and CNH Industrial N.V. CNH Industrial N.V. is included from September 30, 2013, when it began trading on the New York Stock Exchange. The comparison assumes that $100 was invested December 31, 2011, in the Company's common stock and in the stated indices and assumes reinvestment of dividends.




| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| PACCAR Inc | 100 | 125.12 | 168.78 | 199.47 | 145.37 | 201.17 |
| S&P 500 Index | 100 | 116.00 | 153.57 | 174.60 | 177.01 | 198.18 |
| Peer Group Index | 100 | 112.85 | 131.30 | 125.95 | 98.83 | 140.99 |

**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 includes the manufacturing and marketing of industrial winches.

***2016 Financial Highlights***

- Worldwide net sales and revenues were $17.03 billion in 2016 compared to $19.12 billion in 2015.
- Truck sales were $12.77 billion in 2016 compared to $14.78 billion in 2015, reflecting lower industry truck sales in the U.S. and Canada, partially offset by higher truck sales in Europe.
- Parts sales were $3.01 billion in 2016 compared to $3.06 billion in 2015, reflecting lower demand in North America and the effect of translating weaker foreign currencies into the U.S. dollar.
- Financial Services revenues were $1.19 billion in 2016 compared to $1.17 billion in 2015, primarily due to higher average earning assets, partially offset by currency translation effects.
- In 2016, PACCAR earned net income for the 78th consecutive year. Net income was $521.7 million ($1.48 per diluted share) in 2016. On July 19, 2016, the European Commission (EC) concluded its investigation of all major European truck manufacturers and reached a settlement with DAF. Excluding the $833.0 million non-recurring, non-tax-deductible EC charge recorded in the first half of 2016, the Company earned adjusted net income (non-GAAP) of $1.35 billion ($3.85 per diluted share) in 2016 compared to net income of $1.60 billion ($4.51 per diluted share) in 2015. The operating results reflect lower truck and parts sales in the U.S., partially offset by increased truck sales in Europe. See Reconciliation of GAAP to Non-GAAP Financial Measures on page 46.
- Capital investments were $402.7 million in 2016 compared to $308.4 million in 2015, reflecting additional investments for the construction of a new DAF cab paint facility in Europe, the Peterbilt plant expansion in Denton, Texas and a new parts distribution center (PDC) in Renton, Washington.
- After-tax return on beginning equity (ROE) was 7.5%. Excluding the EC charge, adjusted ROE (non-GAAP) was 19.5%. See Reconciliation of GAAP to Non-GAAP Financial Measures on page 46.
- Research and development (R&D) expenses were $247.2 million in 2016 compared to $239.8 million in 2015.

In April 2016, the Company opened its new 160,000 square-foot PDC in Renton, Washington. The new PDC provides enhanced aftermarket support for dealers and customers in the Pacific Northwest and Western Canada. In addition, the Company will begin construction of a new 160,000 square-foot distribution center in Toronto, Canada in 2017.

The Company launched its DAF Connect telematics system in Europe, which provides customers with fleet management data to enhance vehicle and driver performance. Customers can access information through a secure online service, enabling them to optimize vehicle utilization and uptime, reduce operational expenses and enhance logistical efficiency.

Peterbilt constructed a 102,000 square-foot expansion to its truck manufacturing facility in Denton, Texas. The expansion is Peterbilt's largest facility investment since the construction of the Denton plant in 1980 and will enhance manufacturing efficiency and provide additional production capacity.

The Company launched a new proprietary tandem axle in North America that reduces vehicle weight by up to 150 pounds and improves fuel economy. The axle became available to customers in January 2017. In addition, the Company is enhancing its range of MX engines for 2017. The updated PACCAR engines will deliver increased power and fuel efficiency and reduce operating costs for customers.

PACCAR Australia launched the Kenworth T610 truck in the fourth quarter of 2016. The Kenworth T610 represents the largest production investment in PACCAR Australia's 45-year history. The T610 was designed specifically for Australia's demanding road transport market and delivers industry-leading durability, reliability and fuel efficiency. The new 2.1 meter-wide cab features more driver space, enhanced visibility and excellent ergonomics.

DAF is constructing a new $110 million environmentally friendly, robotic cab paint facility at its factory in Westerlo, Belgium, which will increase capacity and efficiency, and minimize emissions and energy consumption. The facility is expected to open in mid-2017. This strategic investment will support DAF's market share growth and reflects DAF's leadership in producing high quality vehicles.

PACCAR Financial Services (PFS) has operations covering four continents and 23 countries. PFS, with its global breadth and its rigorous credit application process, supports a portfolio of loans and leases with total assets of $12.19 billion that earned pre-tax profit of $306.5 million. PFS issued $1.94 billion in medium term notes during 2016 to support portfolio growth and repay maturing debt.

***Truck Outlook***

Truck industry retail sales in the U.S. and Canada in 2017 are expected to be 190,000 to 220,000 units compared to 215,700 in 2016. In Europe, the 2017 truck industry registrations for over 16-tonne vehicles are expected to be 260,000 to 290,000 units compared to 302,500 in 2016. In South America, heavy-duty truck industry sales were 59,000 units in 2016 and in 2017 are estimated to be in a range of 60,000 to 70,000 units.

***Parts Outlook***

In 2017, PACCAR Parts sales in North America are expected to grow 2-4% compared to 2016 sales. In 2017, Europe aftermarket sales are expected to increase 1-3%.

***Financial Services Outlook***

Based on the truck market outlook, average earning assets in 2017 are expected to be comparable to 2016. Current good 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 and new business volume would likely decline.

***Capital Spending and R&D Outlook***

Capital investments in 2017 are expected to be $375 to $425 million, and R&D is expected to be $250 to $280 million. The Company is investing for future growth in PACCAR's integrated powertrain, advanced driver assistance and truck connectivity technologies, and additional capacity and operating efficiency of the Company's manufacturing and parts distribution facilities. DAF's new $110 million cab paint facility is on schedule to open in mid-2017.

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)<br>*Year Ended December 31,* | **2016** | 2015 | 2014 |
|---|---|---|---|
| Net sales and revenues: | | | |
| Truck | **$ 12,767.3** | $ 14,782.5 | $ 14,594.0 |
| Parts | **3,005.7** | 3,060.1 | 3,077.5 |
| Other | **73.6** | 100.2 | 121.3 |
| Truck, Parts and Other | **15,846.6** | 17,942.8 | 17,792.8 |
| Financial Services | **1,186.7** | 1,172.3 | 1,204.2 |
| | **$ 17,033.3** | $ 19,115.1 | $ 18,997.0 |
| Income (loss) before income taxes: | | | |
| Truck | **$ 1,125.8** | $ 1,440.3 | $ 1,160.1 |
| Parts | **543.8** | 555.6 | 496.7 |
| Other* | **(873.3)** | (43.2) | (31.9) |
| Truck, Parts and Other | **796.3** | 1,952.7 | 1,624.9 |
| Financial Services | **306.5** | 362.6 | 370.4 |
| Investment income | **27.6** | 21.8 | 22.3 |
| Income taxes | **(608.7)** | (733.1) | (658.8) |
| Net Income | **$ 521.7** | $ 1,604.0 | $ 1,358.8 |
| Diluted earnings per share | **$ 1.48** | $ 4.51 | $ 3.82 |
| After-tax return on revenues | **3.1%** | 8.4% | 7.2% |
| After-tax adjusted return on revenues (non-GAAP)** | **8.0%** | | |

* In 2016, Other includes the EC charge of $833.0.

** See Reconciliation of GAAP to Non-GAAP Financial Measures for 2016 on page 46.

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.

**2016 Compared to 2015:**

***Truck***

The Company's Truck segment accounted for 75% of revenue in 2016 compared to 77% in 2015.

The Company's new truck deliveries are summarized below:

| *Year Ended December 31,* | **2016** | 2015 | % CHANGE |
|---|---|---|---|
| U.S. and Canada | **71,500** | 91,300 | (22) |
| Europe | **53,000** | 47,400 | 12 |
| Mexico, South America, Australia and other | **16,400** | 16,000 | 3 |
| Total units | **140,900** | 154,700 | (9) |

In 2016, industry retail sales in the heavy-duty market in the U.S. and Canada decreased to 215,700 units from 278,400 units in 2015. The Company's heavy-duty truck retail market share increased to 28.5% in 2016 from 27.4% in 2015. The medium-duty market was 85,200 units in 2016 compared to 80,200 units in 2015. The Company's medium-duty market share was 16.2% in 2016 compared to 17.0% in 2015.

The over 16-tonne truck market in Europe in 2016 increased to 302,500 units from 269,100 units in 2015, and DAF's market share increased to 15.5% in 2016 from 14.6% in 2015. The 6 to 16-tonne market in 2016 increased to 52,900 units from 49,000 units in 2015. DAF market share in the 6 to 16-tonne market in 2016 increased to 10.1% from 9.0% in 2015.

The Company's worldwide truck net sales and revenues are summarized below:

| ($ in millions)<br>*Year Ended December 31,* | **2016** | 2015 | % CHANGE |
|---|---|---|---|
| Truck net sales and revenues: | | | |
| U.S. and Canada | **$ 7,363.5** | $ 9,774.3 | (25) |
| Europe | **3,863.0** | 3,472.1 | 11 |
| Mexico, South America, Australia and other | **1,540.8** | 1,536.1 | |
| | **$ 12,767.3** | $ 14,782.5 | (14) |
| Truck income before income taxes | **$ 1,125.8** | $ 1,440.3 | (22) |
| Pre-tax return on revenues | **8.8%** | 9.7% | |

The Company's worldwide truck net sales and revenues decreased to $12.77 billion in 2016 from $14.78 billion in 2015, primarily due to lower truck deliveries in the U.S. and Canada, partially offset by higher truck deliveries in Europe. Truck segment income before income taxes and pre-tax return on revenues decreased in 2016, reflecting the lower truck unit deliveries and lower margins.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between 2016 and 2015 for the Truck segment are as follows:

| **($ in millions)** | **NET SALES AND REVENUES** | **COST OF SALES AND REVENUES** | **GROSS MARGIN** |
|---|---|---|---|
| **2015** | **$ 14,782.5** | **$ 12,978.3** | **$ 1,804.2** |
| **Increase (decrease)** | | | |
| **Truck delivery volume** | **(1,815.9)** | **(1,581.2)** | **(234.7)** |
| **Average truck sales prices** | **(147.8)** | | **(147.8)** |
| **Average per truck material, labor and other direct costs** | | **(110.5)** | **110.5** |
| **Factory overhead and other indirect costs** | | **(35.6)** | **35.6** |
| **Operating leases** | **88.7** | **87.4** | **1.3** |
| **Currency translation** | **(140.2)** | **(81.6)** | **(58.6)** |
| **Total decrease** | **(2,015.2)** | **(1,721.5)** | **(293.7)** |
| **2016** | **$ 12,767.3** | **$ 11,256.8** | **$ 1,510.5** |

- Truck delivery volume reflects lower truck deliveries in the U.S. and Canada, which resulted in lower sales ($2,276.0 million) and cost of sales ($1,954.1 million), partially offset by higher truck deliveries in Europe which resulted in higher sales ($413.3 million) and cost of sales ($320.5 million).
- Average truck sales prices decreased sales by $147.8 million, primarily due to lower price realization in the U.S. and Canada ($108.9 million) and Europe ($26.3 million).
- Average cost per truck decreased cost of sales by $110.5 million, primarily due to lower material costs.
- Factory overhead and other indirect costs decreased $35.6 million, primarily due to lower salaries and related expense ($24.7 million) and lower maintenance costs ($18.3 million), partially offset by higher depreciation expense ($8.3 million).
- Operating lease revenues increased by $88.7 million and cost of sales increased by $87.4 million due to higher average asset balances.
- The currency translation effect on sales and cost of sales reflects a decline in the value of foreign currencies relative to the U.S. dollar, primarily the British pound and the Canadian dollar.
- Truck gross margins decreased to 11.8% in 2016 from 12.2% in 2015 due to the factors noted above.

Truck selling, general and administrative expenses (SG&A) for 2016 increased to $202.5 million from $192.6 million in 2015. The increase was primarily due to higher salaries and related expenses. As a percentage of sales, Truck SG&A increased to 1.6% in 2016 compared to 1.3% in 2015, reflecting the lower sales volume.

***Parts***

The Company's Parts segment accounted for 18% of revenues in 2016 compared to 16% in 2015.

| ($ in millions)<br>*Year Ended December 31,* | **2016** | 2015 | % CHANGE |
|---|---|---|---|
| Parts net sales and revenues: | | | |
| U.S. and Canada | **$ 1,932.7** | $ 1,969.4 | (2) |
| Europe | **761.8** | 773.9 | (2) |
| Mexico, South America, Australia and other | **311.2** | 316.8 | (2) |
| | **$ 3,005.7** | $ 3,060.1 | (2) |
| Parts income before income taxes | **$ 543.8** | $ 555.6 | (2) |
| Pre-tax return on revenues | **18.1%** | 18.2% | |

The Company's worldwide parts net sales and revenues decreased to $3.01 billion in 2016 from $3.06 billion in 2015, primarily due to lower aftermarket demand in North America and the effect of translating weaker foreign currencies into the U.S. dollar. The decrease in Parts segment income before income taxes and pre-tax return on revenues in 2016 was primarily due to lower sales volume and margins in North America and the effect of translating weaker foreign currencies into the U.S. dollar.

The major factors for the changes in net sales, cost of sales and gross margin between 2016 and 2015 for the Parts segment are as follows:

| **($ in millions)** | **NET SALES** | **COST OF SALES** | **GROSS MARGIN** |
|---|---|---|---|
| **2015** | **$ 3,060.1** | **$ 2,232.4** | **$ 827.7** |
| **Increase (decrease)** | | | |
| **Aftermarket parts volume** | **(43.0)** | **(28.9)** | **(14.1)** |
| **Average aftermarket parts sales prices** | **22.5** | | **22.5** |
| **Average aftermarket parts direct costs** | | **(4.1)** | **4.1** |
| **Warehouse and other indirect costs** | | **8.5** | **(8.5)** |
| **Currency translation** | **(33.9)** | **(12.2)** | **(21.7)** |
| **Total decrease** | **(54.4)** | **(36.7)** | **(17.7)** |
| **2016** | **$ 3,005.7** | **$ 2,195.7** | **$ 810.0** |

- Aftermarket parts sales volume decreased by $43.0 million and related cost of sales decreased by $28.9 million, primarily due to lower market demand in North America.
- Average aftermarket parts sales prices increased sales by $22.5 million reflecting higher price realization in Europe.
- Average aftermarket parts direct costs decreased $4.1 million due to lower material costs.
- Warehouse and other indirect costs increased $8.5 million primarily due to start-up costs and higher depreciation expense for the new parts distribution center in Renton, Washington, and higher maintenance expense.
- The currency translation effect on sales and cost of sales reflects a decline in the value of foreign currencies relative to the U.S. dollar, primarily the British pound.
- Parts gross margins decreased to 26.9% in 2016 from 27.0% in 2015 due to the factors noted above.

Parts SG&A expense for 2016 was $191.7 million compared to $194.7 million in 2015. As a percentage of sales, Parts SG&A was 6.4% in 2016 and 2015, reflecting lower sales offset by ongoing cost control.

***Financial Services***



The Company's Financial Services segment accounted for 7% of revenues in 2016 compared to 6% in 2015.

| ($ in millions)<br>*Year Ended December 31,* | **2016** | 2015 | % CHANGE |
|---|---|---|---|
| New loan and lease volume: | | | |
| U.S. and Canada | **$ 2,474.9** | $ 2,758.7 | (10) |
| Europe | **1,104.8** | 1,039.0 | 6 |
| Mexico and Australia | **643.7** | 639.5 | 1 |
| | **$ 4,223.4** | $ 4,437.2 | (5) |
| New loan and lease volume by product: | | | |
| Loans and finance leases | **$ 3,016.4** | $ 3,383.0 | (11) |
| Equipment on operating lease | **1,207.0** | 1,054.2 | 14 |
| | **$ 4,223.4** | $ 4,437.2 | (5) |
| New loan and lease unit volume: | | | |
| Loans and finance leases | **31,000** | 33,300 | (7) |
| Equipment on operating lease | **12,000** | 10,700 | 12 |
| | **43,000** | 44,000 | (2) |
| Average earning assets: | | | |
| U.S. and Canada | **$ 7,454.0** | $ 7,458.3 | |
| Europe | **2,673.2** | 2,512.9 | 6 |
| Mexico and Australia | **1,465.5** | 1,536.1 | (5) |
| | **$ 11,592.7** | $ 11,507.3 | 1 |
| Average earning assets by product: | | | |
| Loans and finance leases | **$ 7,287.2** | $ 7,239.9 | 1 |
| Dealer wholesale financing | **1,643.4** | 1,775.2 | (7) |
| Equipment on lease and other | **2,662.1** | 2,492.2 | 7 |
| | **$ 11,592.7** | $ 11,507.3 | 1 |
| Revenues: | | | |
| U.S. and Canada | **$ 690.3** | $ 675.5 | 2 |
| Europe | **287.1** | 278.6 | 3 |
| Mexico and Australia | **209.3** | 218.2 | (4) |
| | **$ 1,186.7** | $ 1,172.3 | 1 |
| Revenue by product: | | | |
| Loans and finance leases | **$ 369.9** | $ 384.7 | (4) |
| Dealer wholesale financing | **56.3** | 59.1 | (5) |
| Equipment on lease and other | **760.5** | 728.5 | 4 |
| | **$ 1,186.7** | $ 1,172.3 | 1 |
| Income before income taxes | **$ 306.5** | $ 362.6 | (15) |

New loan and lease volume was $4.22 billion in 2016 compared to $4.44 billion in 2015, primarily due to lower truck deliveries in the U.S. and Canada. PFS finance market share on new PACCAR truck sales was 26.7% in 2016 compared to 25.9% in 2015.

PFS revenue increased to $1.19 billion in 2016 from $1.17 billion in 2015. The increase was primarily due to higher average earning asset balances, partially offset by the effects of translating weaker foreign currencies to the U.S. dollar. The effects of currency translation lowered PFS revenues by $27.1 million for 2016.

PFS income before income taxes decreased to $306.5 million in 2016 from $362.6 million in 2015, primarily due to lower results on returned lease assets, higher borrowing rates, the effects of translating weaker foreign currencies to the U.S. dollar and a higher provision for losses on receivables, partially offset by higher average earning asset balances. The effects of currency translation lowered PFS income before income taxes by $9.7 million for 2016.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between 2016 and 2015 are outlined below:

| ($ in millions) | INTEREST AND FEES | INTEREST AND OTHER BORROWING EXPENSES | FINANCE MARGIN |
|---|---|---|---|
| **2015** | **$ 443.8** | **$ 118.0** | **$ 325.8** |
| **(Decrease) increase** | | | |
| **Average finance receivables** | **(2.2)** | | **(2.2)** |
| **Average debt balances** | | **(.2)** | **.2** |
| **Yields** | **(1.0)** | | **(1.0)** |
| **Borrowing rates** | | **13.7** | **(13.7)** |
| **Currency translation** | **(14.4)** | **(4.3)** | **(10.1)** |
| **Total (decrease) increase** | **(17.6)** | **9.2** | **(26.8)** |
| **2016** | **$ 426.2** | **$ 127.2** | **$ 299.0** |

- Average finance receivables decreased $43.9 million (excluding foreign exchange effects) in 2016 as a result of lower dealer wholesale financing, partially offset by loans and finance leases and retail portfolio volume exceeding collections.
- Average debt balances decreased $9.0 million (excluding foreign exchange effects) in 2016. The lower average debt balances reflect lower funding requirements as the higher average earning asset portfolio (which includes loans, finance leases, wholesale and equipment on operating lease) was funded with retained equity.
- Lower portfolio yields (4.91% in 2016 compared to 4.92% in 2015) decreased interest and fees by $1.0 million. The lower portfolio yields reflect higher lending volumes in Europe at lower relative market rates.
- Higher borrowing rates (1.5% in 2016 compared to 1.4% in 2015) were primarily due to higher debt market rates in North America, partially offset by lower debt market rates in Europe.
- The currency translation effects reflect a decline in the value of foreign currencies relative to the U.S. dollar.

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

| ($ in millions)<br>*Year Ended December 31,* | **2016** | 2015 |
|---|---|---|
| Operating lease and rental revenues | **$ 720.5** | $ 691.6 |
| Used truck sales and other | **40.0** | 36.9 |
| Operating lease, rental and other revenues | **$ 760.5** | $ 728.5 |
| | | |
| Depreciation of operating lease equipment | **$ 509.1** | $ 466.6 |
| Vehicle operating expenses | **92.1** | 90.7 |
| Cost of used truck sales and other | **34.0** | 26.4 |
| Depreciation and other expenses | **$ 635.2** | $ 583.7 |

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between 2016 and 2015 are outlined below:

| ($ in millions) | OPERATING LEASE, RENTAL AND OTHER REVENUES | DEPRECIATION AND OTHER EXPENSES | LEASE MARGIN |
|---|---|---|---|
| **2015** | **$ 728.5** | **$ 583.7** | **$ 144.8** |
| **Increase (decrease)** | | | |
| **Used truck sales** | **3.2** | **5.2** | **(2.0)** |
| **Results on returned lease assets** | | **19.2** | **(19.2)** |
| **Average operating lease assets** | **29.2** | **24.0** | **5.2** |
| **Revenue and cost per asset** | **11.8** | **12.5** | **(.7)** |
| **Currency translation and other** | **(12.2)** | **(9.4)** | **(2.8)** |
| **Total increase (decrease)** | **32.0** | **51.5** | **(19.5)** |
| **2016** | **$ 760.5** | **$ 635.2** | **$ 125.3** |

- A higher volume of used truck sales increased operating lease, rental and other revenues by $3.2 million. Depreciation and other expenses increased by $5.2 million due to higher volume and impairments of used trucks reflecting lower used truck prices.
- Results on returned lease assets increased depreciation and other expenses by $19.2 million, primarily due to gains on sales of returned lease units in 2015 versus losses in 2016.
- Average operating lease assets increased $178.3 million in 2016 (excluding foreign exchange effects), which increased revenues by $29.2 million and related depreciation and other expenses by $24.0 million.
- Revenue per asset increased $11.8 million, primarily due to higher rental rates in Europe, partially offset by lower rental utilization and fuel surcharge revenue. Cost per asset increased $12.5 million, primarily due to higher depreciation expense in Europe.
- The currency translation effects reflect a decline in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso and British pound.

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

| ($ in millions) | **2016** | | 2015 | |
|---|---|---|---|---|
| | **PROVISION FOR LOSSES ON RECEIVABLES** | **NET CHARGE-OFFS** | PROVISION FOR LOSSES ON RECEIVABLES | NET CHARGE-OFFS |
| U.S. and Canada | **$ 14.0** | **$ 14.7** | $ 7.7 | $ 4.6 |
| Europe | **.4** | **1.2** | 1.9 | 3.9 |
| Mexico and Australia | **4.0** | **3.3** | 2.8 | 4.6 |
| | **$ 18.4** | **$ 19.2** | $ 12.4 | $ 13.1 |

The provision for losses on receivables was $18.4 million in 2016, an increase of $6.0 million compared to 2015, reflecting higher losses in the oil and gas sector in the U.S. and Canada, partially offset by improved portfolio performance in Europe.

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, 2016 and 2015 are summarized below:

| ($ in millions) | **2016** | | 2015 | |
|---|---|---|---|---|
| | **RECORDED INVESTMENT** | **% OF TOTAL PORTFOLIO*** | RECORDED INVESTMENT | % OF TOTAL PORTFOLIO* |
| Commercial | **$ 236.2** | **3.2%** | $ 166.8 | 2.3% |
| Insignificant delay | **90.3** | **1.3%** | 70.0 | 1.0% |
| Credit - no concession | **51.9** | **.7%** | 36.6 | .5% |
| Credit - TDR | **31.6** | **.4%** | 44.4 | .5% |
| | **$ 410.0** | **5.6%** | $ 317.8 | 4.3% |

* Recorded investment immediately after modification as a percentage of the year-end retail portfolio balance.

In 2016, total modification activity increased compared to 2015, primarily reflecting higher volume of refinancings for commercial reasons, including a contract modification for one large customer in the U.S. The increase in modifications for insignificant delay reflects more fleet customers requesting payment relief for up to three months. Credit – no concession modifications increased primarily due to extensions granted to one customer in Australia.

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

| *At December 31,* | **2016** | 2015 |
|---|---|---|
| Percentage of retail loan and lease accounts 30+ days past due: | | |
| U.S. and Canada | **.3%** | .3% |
| Europe | **.5%** | .7% |
| Mexico and Australia | **1.8%** | 1.3% |
| Worldwide | **.5%** | .5% |

Accounts 30+ days past due were .5% at December 31, 2016 and 2015, reflecting lower past dues in Europe offset by higher past dues in Mexico. 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 $2.6 million of accounts worldwide during the fourth quarter of 2016 and the fourth quarter of 2015 which 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,* | **2016** | 2015 |
|---|---|---|
| Pro forma percentage of retail loan and lease accounts 30+ days past due: | | |
| U.S. and Canada | **.3%** | .3% |
| Europe | **.5%** | .7% |
| Mexico and Australia | **2.0%** | 1.6% |
| 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, 2016 and 2015. The effect on the allowance for credit losses from such modifications was not significant at December 31, 2016 and 2015.

The Company's 2016 and 2015 annualized pre-tax return on average earning assets for Financial Services was 2.6% and 3.2%, respectively.

***Other***

Other includes the winch business as well as sales, income and expenses not attributable to a reportable segment, including the EC charge and a portion of corporate expense. Other sales represent less than 1% of consolidated net sales and revenues for 2016 and 2015. Other SG&A was $46.6 million in 2016 and $58.7 million in 2015. The decrease in SG&A was primarily due to lower salaries and related expenses and lower professional fees. Other income (loss) before tax was a loss of $873.3 million in 2016 compared to a loss of $43.2 million in 2015. The higher loss in 2016 was primarily due to the EC charge and lower pre-tax results from the winch business, which has been affected by lower oilfield related sales, partially offset by lower SG&A expense.

Investment income increased to $27.6 million in 2016 from $21.8 million in 2015, primarily due to higher yields on investments due to higher market interest rates and higher realized gains.

***Income Taxes***

In 2016, the effective tax rate increased to 53.8% from 31.4% in 2015, and substantially all of the difference in tax rates was due to the non-deductible expense of $833.0 million for the EC charge in 2016. Based on existing tax laws, with the exception of 2016, the Company believes that its historical effective tax rates will be indicative of the Company's future tax rates.

| ($ in millions)<br>*Year Ended December 31,* | **2016** | 2015 |
|---|---|---|
| Domestic income before taxes | **$ 1,190.7** | $ 1,581.6 |
| Foreign (loss) income before taxes | **(60.3)** | 755.5 |
| Total income before taxes | **$ 1,130.4** | $ 2,337.1 |
| | | |
| Domestic pre-tax return on revenues | **12.8%** | 13.7% |
| Foreign pre-tax return on revenues | **(.8)%** | 9.9% |
| Total pre-tax return on revenues | **6.6%** | 12.2% |

In 2016, the decline in income before income taxes and return on revenues for domestic operations was primarily due to lower revenues from truck operations. In 2016, the EC charge of $833.0 million resulted in a loss before income taxes and a negative return on revenues for foreign operations. Excluding the EC charge, foreign operations income before income taxes and return on revenues increased primarily due to higher revenues from European truck operations as a result of improved truck volumes and margins in Europe.

**2015 Compared to 2014:**

***Truck***

The Company's Truck segment accounted for 77% of total revenues for both 2015 and 2014.

The Company's new truck deliveries are summarized below:

| *Year Ended December 31,* | 2015 | 2014 | % CHANGE |
|---|---|---|---|
| U.S. and Canada | 91,300 | 84,800 | 8 |
| Europe | 47,400 | 39,500 | 20 |
| Mexico, South America, Australia and other | 16,000 | 18,600 | (14) |
| Total units | 154,700 | 142,900 | 8 |

In 2015, industry retail sales in the heavy-duty truck market in the U.S. and Canada increased to 278,400 units from 249,400 units in 2014. The Company's heavy-duty truck retail market share was 27.4% compared to 27.9% in 2014. The medium-duty market was 80,200 units in 2015 compared to 70,500 units in 2014. The Company's medium-duty market share was a record 17.0% in 2015 compared to 16.5% in 2014.

The over 16-tonne truck market in Western and Central Europe in 2015 was 269,100 units, a 19% increase from 226,300 units in 2014. DAF market share was 14.6% in 2015, an increase from 13.8% in 2014. The 6 to 16-tonne market in 2015 was 49,000 units compared to 46,500 units in 2014. DAF market share was 9.0% in 2015, an increase from 8.9% in 2014.

The Company's worldwide truck net sales and revenue are summarized below:

| ($ in millions)<br>*Year Ended December 31,* | 2015 | 2014 | % CHANGE |
|---|---|---|---|
| Truck net sales and revenues: | | | |
| U.S. and Canada | $ 9,774.3 | $ 8,974.5 | 9 |
| Europe | 3,472.1 | 3,657.6 | (5) |
| Mexico, South America, Australia and other | 1,536.1 | 1,961.9 | (22) |
| | $ 14,782.5 | $ 14,594.0 | 1 |
| Truck income before income taxes | $ 1,440.3 | $ 1,160.1 | 24 |
| Pre-tax return on revenues | 9.7% | 7.9% | |

The Company's worldwide truck net sales and revenues increased to $14.78 billion from $14.59 billion in 2014, primarily due to higher truck deliveries in the U.S. and Europe. The effects of translating weaker foreign currencies to the U.S. dollar, primarily the euro, reduced 2015 worldwide truck net sales and revenues by $940.0 million.

Truck segment income before income taxes and pre-tax return on revenues reflect higher truck unit deliveries and improved gross margins in the U.S. and Europe. The effects on income before income taxes of translating weaker foreign currencies to the U.S. dollar, primarily the euro, were largely offset by lower costs of North American MX engine components imported from Europe.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between 2015 and 2014 for the Truck segment are as follows:

| ($ in millions) | NET SALES AND REVENUES | COST OF SALES AND REVENUES | GROSS MARGIN |
|---|---|---|---|
| 2014 | $ 14,594.0 | $ 13,105.5 | $ 1,488.5 |
| Increase (decrease) | | | |
| Truck delivery volume | 1,131.1 | 884.1 | 247.0 |
| Average truck sales prices | 78.2 | | 78.2 |
| Average per truck material, labor and other direct costs | | (107.7) | 107.7 |
| Factory overhead and other indirect costs | | 29.6 | (29.6) |
| Operating leases | (80.8) | (75.6) | (5.2) |
| Currency translation | (940.0) | (857.6) | (82.4) |
| Total increase (decrease) | 188.5 | (127.2) | 315.7 |
| 2015 | $ 14,782.5 | $ 12,978.3 | $ 1,804.2 |

- Truck delivery volume reflects higher truck deliveries in the U.S. and Canada and Europe which resulted in higher sales ($1,413.2 million) and cost of sales ($1,113.6 million), partially offset by lower truck deliveries in Mexico and Australia which resulted in lower sales ($288.2 million) and cost of sales ($233.1 million).
- Average truck sales prices increased sales by $78.2 million, primarily due to improved price realization in Europe.
- Average cost per truck decreased cost of sales by $107.7 million, primarily due to lower material costs, reflecting lower commodity prices and lower costs of North American MX engine components imported from Europe which benefited from the decline in the value of the euro.
- Factory overhead and other indirect costs increased $29.6 million, primarily due to higher supplies and maintenance costs ($31.1 million).
- Operating lease revenues decreased by $80.8 million and cost of sales decreased by $75.6 million due to lower average asset balances.
- The currency translation effect on sales and cost of sales reflects a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro.
- Truck gross margins in 2015 of 12.2% increased from 10.2% in 2014 due to the factors noted above.

Truck SG&A for 2015 decreased to $192.6 million from $198.2 million in 2014. The decrease was primarily due to currency translation effect ($21.8 million), mostly related to a decline in the value of the euro relative to the U.S. dollar, partially offset by higher promotion and marketing costs ($11.6 million) and higher salaries and related expenses ($7.6 million). As a percentage of sales, SG&A decreased to 1.3% in 2015 compared to 1.4% in 2014, reflecting higher sales volume.

***Parts***

The Company's Parts segment accounted for 16% of total revenues for both 2015 and 2014.

| ($ in millions)<br>*Year Ended December 31,* | 2015 | 2014 | % CHANGE |
|---|---|---|---|
| Parts net sales and revenues: | | | |
| U.S. and Canada | $ 1,969.4 | $ 1,842.9 | 7 |
| Europe | 773.9 | 867.2 | (11) |
| Mexico, South America, Australia and other | 316.8 | 367.4 | (14) |
| | $ 3,060.1 | $ 3,077.5 | (1) |
| Parts income before income taxes | $ 555.6 | $ 496.7 | 12 |
| | | | |
| Pre-tax return on revenues | 18.2% | 16.1% | |

The Company's worldwide parts net sales and revenues were $3.06 billion in 2015 compared to $3.08 billion in 2014. Higher aftermarket demand in North America and Europe was offset by a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro, which reduced 2015 worldwide parts net sales and revenues by $193.3 million.

The increase in Parts segment income before income taxes and pre-tax return on revenues in 2015 was primarily due to higher sales and gross margins. This was partially offset by a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro, which reduced 2015 Parts segment income before income taxes by $34.1 million.

The major factors for the changes in net sales, cost of sales and gross margin between 2015 and 2014 for the Parts segment are as follows:

| ($ in millions) | NET SALES | COST OF SALES | GROSS MARGIN |
|---|---|---|---|
| 2014 | $ 3,077.5 | $ 2,281.7 | $ 795.8 |
| Increase (decrease) | | | |
| Aftermarket parts volume | 123.5 | 69.1 | 54.4 |
| Average aftermarket parts sales prices | 52.4 | | 52.4 |
| Average aftermarket parts direct costs | | 2.9 | (2.9) |
| Warehouse and other indirect costs | | 7.3 | (7.3) |
| Currency translation | (193.3) | (128.6) | (64.7) |
| Total (decrease) increase | (17.4) | (49.3) | 31.9 |
| 2015 | $ 3,060.1 | $ 2,232.4 | $ 827.7 |

- Higher market demand, primarily in the U.S. and Canada and Europe, resulted in increased aftermarket parts sales volume of $123.5 million and related cost of sales of $69.1 million.
- Average aftermarket parts sales prices increased sales by $52.4 million reflecting improved price realization in the U.S. and Canada ($31.1 million) and Europe ($21.3 million).
- Average aftermarket parts direct costs increased $2.9 million due to higher material costs.
- Warehouse and other indirect costs increased $7.3 million, primarily due to additional costs to support higher sales volume.
- The currency translation effect on sales and cost of sales reflects a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro.
- Parts gross margins in 2015 of 27.0% increased from 25.9% in 2014 due to the factors noted above.

Parts SG&A expense for 2015 decreased to $194.7 million from $207.5 million in 2014. The decrease was primarily due to the effects of currency translation ($21.7 million), mostly related to a decline in the value of the euro relative to the U.S. dollar, partially offset by higher salaries and related expenses ($10.3 million). As a percentage of sales, Parts SG&A decreased to 6.4% in 2015 from 6.7% in 2014.

***Financial Services***

The Company's Financial Services segment accounted for 6% of total revenues for both 2015 and 2014.

| ($ in millions)<br>*Year Ended December 31,* | 2015 | 2014 | % CHANGE |
|---|---|---|---|
| New loan and lease volume: | | | |
| U.S. and Canada | $ 2,758.7 | $ 2,798.3 | (1) |
| Europe | 1,039.0 | 988.1 | 5 |
| Mexico and Australia | 639.5 | 668.7 | (4) |
| | $ 4,437.2 | $ 4,455.1 | |
| New loan and lease volume by product: | | | |
| Loans and finance leases | $ 3,383.0 | $ 3,516.7 | (4) |
| Equipment on operating lease | 1,054.2 | 938.4 | 12 |
| | $ 4,437.2 | $ 4,455.1 | |
| New loan and lease unit volume: | | | |
| Loans and finance leases | 33,300 | 32,920 | 1 |
| Equipment on operating lease | 10,700 | 8,950 | 20 |
| | 44,000 | 41,870 | 5 |
| Average earning assets: | | | |
| U.S. and Canada | $ 7,458.3 | $ 6,779.0 | 10 |
| Europe | 2,512.9 | 2,683.8 | (6) |
| Mexico and Australia | 1,536.1 | 1,721.4 | (11) |
| | $ 11,507.3 | $ 11,184.2 | 3 |
| Average earning assets by product: | | | |
| Loans and finance leases | $ 7,239.9 | $ 7,269.3 | |
| Dealer wholesale financing | 1,775.2 | 1,462.0 | 21 |
| Equipment on lease and other | 2,492.2 | 2,452.9 | 2 |
| | $ 11,507.3 | $ 11,184.2 | 3 |
| Revenues: | | | |
| U.S. and Canada | $ 675.5 | $ 641.2 | 5 |
| Europe | 278.6 | 317.8 | (12) |
| Mexico and Australia | 218.2 | 245.2 | (11) |
| | $ 1,172.3 | $ 1,204.2 | (3) |
| Revenue by product: | | | |
| Loans and finance leases | $ 384.7 | $ 410.3 | (6) |
| Dealer wholesale financing | 59.1 | 52.3 | 13 |
| Equipment on lease and other | 728.5 | 741.6 | (2) |
| | $ 1,172.3 | $ 1,204.2 | (3) |
| Income before income taxes | $ 362.6 | $ 370.4 | (2) |

New loan and lease volume was $4.44 billion in 2015 compared to $4.46 billion in 2014. PFS finance market share on new PACCAR truck sales was 25.9% in 2015 compared to 27.7% in 2014 due to increased competition.

PFS revenue decreased to $1.17 billion in 2015 from $1.20 billion in 2014. The decrease was primarily due to the effects of translating weaker foreign currencies to the U.S. dollar and lower yields, partially offset by revenues on higher average earning asset balances. The effects of currency translation lowered PFS revenues by $79.3 million for 2015. PFS income before income taxes decreased to $362.6 million from $370.4 million in 2014, primarily due to the effects of translating weaker foreign currencies into the U.S. dollar and lower yields, partially offset by higher average earning asset balances and lower borrowing rates. The effects of currency translation lowered PFS income before income taxes by $21.9 million for 2015.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between 2015 and 2014 are outlined below:

| ($ in millions) | INTEREST AND FEES | INTEREST AND OTHER BORROWING EXPENSES | FINANCE MARGIN |
|---|---|---|---|
| 2014 | $ 462.6 | $ 133.7 | $ 328.9 |
| Increase (decrease) | | | |
| Average finance receivables | 42.8 | | 42.8 |
| Average debt balances | | 10.1 | (10.1) |
| Yields | (28.2) | | (28.2) |
| Borrowing rates | | (15.4) | 15.4 |
| Currency translation | (33.4) | (10.4) | (23.0) |
| Total decrease | (18.8) | (15.7) | (3.1) |
| 2015 | $ 443.8 | $ 118.0 | $ 325.8 |

- Average finance receivables increased $883.8 million (excluding foreign exchange effects) in 2015 as a result of retail portfolio new business volume exceeding collections.
- Average debt balances increased $713.8 million (excluding foreign exchange effects) in 2015. 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 (5.0% in 2015 compared to 5.3% in 2014) and lower borrowing rates (1.4% in 2015 compared to 1.6% in 2014).
- The currency translation effects reflect a decline in the value of foreign currencies relative to the U.S. dollar.

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

| ($ in millions)<br>*Year Ended December 31,* | 2015 | 2014 |
|---|---|---|
| Operating lease and rental revenues | $ 691.6 | $ 712.2 |
| Used truck sales and other | 36.9 | 29.4 |
| Operating lease, rental and other revenues | $ 728.5 | $ 741.6 |
| | | |
| Depreciation of operating lease equipment | $ 466.6 | $ 472.3 |
| Vehicle operating expenses | 90.7 | 100.6 |
| Cost of used truck sales and other | 26.4 | 15.6 |
| Depreciation and other expenses | $ 583.7 | $ 588.5 |

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between 2015 and 2014 are outlined below:

| ($ in millions) | OPERATING LEASE, RENTAL AND OTHER REVENUES | DEPRECIATION AND OTHER EXPENSES | LEASE MARGIN |
|---|---|---|---|
| 2014 | $ 741.6 | $ 588.5 | $ 153.1 |
| Increase (decrease) | | | |
| Used truck sales | 9.5 | 11.9 | (2.4) |
| Results on returned lease assets | | 7.7 | (7.7) |
| Average operating lease assets | 17.3 | 13.6 | 3.7 |
| Revenue and cost per asset | 8.1 | 4.6 | 3.5 |
| Currency translation and other | (48.0) | (42.6) | (5.4) |
| Total decrease | (13.1) | (4.8) | (8.3) |
| 2015 | $ 728.5 | $ 583.7 | $ 144.8 |

- A higher volume of used truck sales increased operating lease, rental and other revenues by $9.5 million and increased depreciation and other expenses by $11.9 million.
- Results on returned lease assets increased depreciation and other expenses by $7.7 million, primarily due to lower gains on sales of returned lease units.
- Average operating lease assets increased $188.2 million in 2015 (excluding foreign exchange effects), which increased revenues by $17.3 million and related depreciation and other expenses by $13.6 million.
- Revenue per asset increased $8.1 million primarily due to higher fee income and higher rental rates, partially offset by lower fuel revenue. Cost per asset increased $4.6 million, primarily due to higher depreciation expense, partially offset by lower fuel expense.
- The currency translation effects reflect a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro.

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

| ($ in millions) | 2015 | | 2014 | |
|---|---|---|---|---|
| | PROVISION FOR LOSSES ON RECEIVABLES | NET CHARGE-OFFS | PROVISION FOR LOSSES ON RECEIVABLES | NET CHARGE-OFFS |
| U.S. and Canada | $ 7.7 | $ 4.6 | $ 6.1 | $ 5.1 |
| Europe | 1.9 | 3.9 | 5.4 | 6.5 |
| Mexico and Australia | 2.8 | 4.6 | 3.9 | 4.4 |
| | $ 12.4 | $ 13.1 | $ 15.4 | $ 16.0 |

The provision for losses on receivables was $12.4 million in 2015, a decrease of $3.0 million compared to 2014, mainly due to improved portfolio performance in Europe and the effects of translating weaker foreign currencies to the U.S. dollar, partially offset by higher portfolio balances in Europe and the U.S. and Canada.

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 balances of accounts modified during the years ended December 31, 2015 and 2014 are summarized below:

| ($ in millions) | 2015 | | 2014 | |
|---|---|---|---|---|
| | RECORDED INVESTMENT | % OF TOTAL PORTFOLIO* | RECORDED INVESTMENT | % OF TOTAL PORTFOLIO* |
| Commercial | $ 166.8 | 2.3% | $ 181.6 | 2.5% |
| Insignificant delay | 70.0 | 1.0% | 64.1 | .9% |
| Credit - no concession | 36.6 | .5% | 31.5 | .4% |
| Credit - TDR | 44.4 | .5% | 26.4 | .4% |
| | $ 317.8 | 4.3% | $ 303.6 | 4.2% |

* Recorded investment immediately after modification as a percentage of the year-end retail portfolio balance.

In 2015, total modification activity increased compared to 2014, primarily due to higher modifications for credit - TDRs, partially offset by the effects of translating weaker foreign currencies to the U.S. dollar and lower commercial modifications. TDR modifications increased primarily due to contract modifications in Mexico. The decrease in commercial modifications reflects lower volumes of refinancing.

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

| *At December 31,* | 2015 | 2014 |
|---|---|---|
| Percentage of retail loan and lease accounts 30+ days past due: | | |
| U.S. and Canada | .3% | .1% |
| Europe | .7% | 1.1% |
| Mexico and Australia | 1.3% | 2.0% |
| Worldwide | .5% | .5% |

Accounts 30+ days past due were .5% at December 31, 2015 and 2014, as higher past due accounts in the U.S. and Canada were offset by lower past dues in all other markets. 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 $2.6 million of accounts worldwide during the fourth quarter of 2015 and $4.0 million during the fourth quarter of 2014 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,* | 2015 | 2014 |
|---|---|---|
| Pro forma percentage of retail loan and lease accounts 30+ days past due: | | |
| U.S. and Canada | .3% | .1% |
| Europe | .7% | 1.2% |
| Mexico and Australia | 1.6% | 2.3% |
| 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, 2015 and 2014. The effect on the allowance for credit losses from such modifications was not significant at December 31, 2015 and 2014.

The Company's 2015 and 2014 pre-tax return on average earning assets for Financial Services was 3.2% and 3.3%, 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 represents less than 1% of consolidated net sales and revenues for 2015 and 2014. Other SG&A was $58.7 million in 2015 and $59.5 million in 2014. The decrease in SG&A was primarily due to lower salaries and related expenses. Other income (loss) before tax was a loss of $43.2 million in

2015 compared to a loss of $31.9 million in 2014. The higher loss in 2015 was primarily due to lower income before tax from the winch business which has been affected by lower oilfield related business.

Investment income was $21.8 million in 2015 compared to $22.3 million in 2014. The lower investment income in 2015 was primarily due to the effects of translating weaker foreign currencies to the U.S. dollar, partially offset by higher realized gains and average portfolio balances.

***Income Taxes***

The 2015 effective income tax rate of 31.4% decreased from 32.7% in 2014. The decrease in the effective tax rate was primarily due to an increase in research tax credits in 2015.

| ($ in millions)<br>*Year Ended December 31,* | 2015 | 2014 |
|---|---|---|
| Domestic income before taxes | $ 1,581.6 | $ 1,267.3 |
| Foreign income before taxes | 755.5 | 750.3 |
| Total income before taxes | $ 2,337.1 | $ 2,017.6 |

| | | |
|---|---|---|
| Domestic pre-tax return on revenues | 13.7% | 12.4% |
| Foreign pre-tax return on revenues | 9.9% | 8.6% |
| Total pre-tax return on revenues | 12.2% | 10.6% |

The improvement in income before income taxes and return on revenues for domestic operations was primarily due to higher revenues from trucks and parts operations and higher truck and parts margins. The increase in foreign income before income taxes was primarily due to higher revenues from trucks and parts operations and higher truck and parts margins, partially offset by translating weaker foreign currencies to the U.S. dollar, primarily the euro. The improvement in return on revenues for foreign operations was primarily due to higher revenues and margins from European truck and parts operations.

**LIQUIDITY AND CAPITAL RESOURCES:**

| ($ in millions)<br>*At December 31,* | **2016** | 2015 | 2014 |
|---|---|---|---|
| Cash and cash equivalents | **$ 1,915.7** | $ 2,016.4 | $ 1,737.6 |
| Marketable debt securities | **1,140.9** | 1,448.1 | 1,272.0 |
| | **$ 3,056.6** | $ 3,464.5 | $ 3,009.6 |

The Company's total cash and marketable debt securities at December 31, 2016 decreased $407.9 million from the balances at December 31, 2015, mainly due to a decrease in marketable debt securities.

The change in cash and cash equivalents is summarized below:

| ($ in millions)<br>*Year Ended December 31,* | **2016** | 2015 | 2014 |
|---|---|---|---|
| Operating activities: | | | |
| Net income | **$ 521.7** | $ 1,604.0 | $ 1,358.8 |
| Net income items not affecting cash | **1,072.7** | 910.9 | 875.5 |
| Pension contributions | **(185.7)** | (62.9) | (81.1) |
| Changes in operating assets and liabilities, net | **892.1** | 104.0 | (29.6) |
| Net cash provided by operating activities | **2,300.8** | 2,556.0 | 2,123.6 |
| Net cash used in investing activities | **(1,564.3)** | (1,974.9) | (1,531.9) |
| Net cash used in financing activities | **(823.5)** | (196.5) | (520.5) |
| Effect of exchange rate changes on cash | **(13.7)** | (105.8) | (83.7) |
| Net (decrease) increase in cash and cash equivalents | **(100.7)** | 278.8 | (12.5) |
| Cash and cash equivalents at beginning of the year | **2,016.4** | 1,737.6 | 1,750.1 |
| Cash and cash equivalents at end of the year | **$ 1,915.7** | $ 2,016.4 | $ 1,737.6 |

**2016 Compared to 2015:**

*Operating activities:* Cash provided by operations decreased by $255.2 million to $2.30 billion in 2016. Lower operating cash flows reflect lower net income of $521.7 million in 2016, which includes payment of the $833.0 million EC charge, and higher pension contributions of $122.8 million. This was partially offset by $675.0 million from Financial Services segment wholesale receivables, whereby cash receipts exceeded originations in 2016 ($401.6 million) compared to originations exceeding cash receipts in 2015 ($273.4 million). In addition, there was a lower cash outflow for payment of income taxes of $281.4 million.

*Investing activities:* Cash used in investing activities decreased by $410.6 million to $1.56 billion in 2016 from $1.97 billion in 2015. Lower net cash used in investing activities reflects $567.2 million from marketable debt securities as there was $272.9 million in net proceeds from sales of marketable debt securities in 2016 versus $294.3 million in net purchases of marketable debt securities in 2015 and higher net originations of retail loans and direct financing leases of $100.7 million. This was partially offset by higher cash used in the acquisitions of equipment for operating leases of $151.2 million and higher payments for property, plant and equipment of $88.5 million.

*Financing activities:* Cash used in financing activities was $823.5 million in 2016 compared to cash used in financing activities of $196.5 million in 2015. The Company paid $829.3 million in dividends in 2016 compared to $680.5 million in 2015; the increase of $148.8 million was primarily due to an increase for the 2015 special dividend paid in January 2016. In 2016, the Company issued $1.99 billion of term debt, repaid term debt of $1.63 billion and reduced its outstanding commercial paper and short-term bank loans by $322.8 million. In 2015, the Company issued $1.99 billion of term debt, increased its outstanding commercial paper and short-term bank loans by $250.7 million and repaid term debt of $1.58 billion. This resulted in cash provided by borrowing activities of $46.9 million in 2016, $616.9 million lower than the cash provided by borrowing activities of $663.8 million in 2015. The Company repurchased 1.4 million shares of common stock for $70.5 million in 2016 compared to 3.8 million shares for $201.6 million in 2015, a decline of $131.1 million.

**2015 Compared to 2014:**

*Operating activities:* Cash provided by operations increased $432.4 million to $2.56 billion in 2015 compared to $2.12 billion in 2014. Higher operating cash flow reflects $245.2 million of higher net income and $253.8 million from inventory as there was $64.3 million in net inventory reductions in 2015 vs. $189.5 million in net inventory purchases in 2014. In addition, higher cash inflows reflects $176.6 million from accounts receivables as collections exceeded sales in 2015 ($105.3 million) compared to sales exceeding collections in 2014 ($71.3 million). A lower increase in Financial Services sales-type finance leases and dealer direct loans on new trucks also contributed $126.5 million. These cash inflows were partially offset by cash outflows of $414.9 million from accounts payable and accrued expenses, where payments from goods and services exceeded purchases in 2015 ($162.6 million) compared to purchases exceeding payments in 2014 ($252.3 million).

*Investing activities:* Cash used in investing activities of $1.97 billion in 2015 increased $443.0 million from the $1.53 billion used in 2014, primarily due to higher cash used in the acquisitions of equipment for operating leases of $199.4 million, $169.7 million higher net purchases of marketable securities and $116.0 million in higher net originations of retail loans and direct financing leases in 2015. These outflows were partially offset by higher proceeds from asset disposals of $53.3 million.

*Financing activities:* Cash used in financing activities was $196.5 million in 2015 compared to $520.5 million in 2014. The Company paid $680.5 million of dividends in 2015 compared to $623.8 million paid in 2014, an increase of $56.7 million. In addition, the Company repurchased 3.8 million shares of common stock for $201.6 million in 2015 compared to .7 million shares for $42.7 million in 2014. In 2015, the Company issued $1.99 billion of term debt and $250.7 million of commercial paper and short-term bank loans and repaid maturing term debt of $1.58 billion. In 2014, the Company issued $1.65 billion of term debt and $349.1 million of commercial paper and short-term bank loans and repaid maturing term debt of $1.88 billion. This resulted in cash provided by borrowing activities of $663.8 million in 2015, $546.9 million higher than cash provided by borrowing activities of $116.9 million in 2014.

**Credit Lines and Other:**

The Company has line of credit arrangements of $3.43 billion, of which $3.22 billion were unused at December 31, 2016. Included in these arrangements are $3.0 billion of syndicated bank facilities, of which $1.0 billion expires in June 2017, $1.0 billion expires in June 2020 and $1.0 billion expires in June 2021. The Company intends to replace

these credit facilities on or before expiration 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, 2016.

On September 23, 2015, PACCAR's Board of Directors approved the repurchase of up to $300.0 million of the Company's common stock, and as of December 31, 2016, $206.7 million of shares have been repurchased pursuant to the 2015 authorization.

At December 31, 2016 and December 31, 2015, the Company had cash and cash equivalents and marketable debt securities of $1.33 billion and $1.82 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 $.33 billion, $.24 billion and $.24 billion in 2016, 2015 and 2014, 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. On July 19, 2016, the EC concluded its investigation of all major European truck manufacturers and reached a settlement with DAF under which the EC imposed a fine on DAF of €752.7 million ($833.0 million) for infringement of European Union competition rules. The fine is not tax deductible. In August 2016, DAF paid the fine.

Investments for property, plant and equipment in 2016 increased to $394.6 million from $306.5 million in 2015, reflecting additional investments for the construction of a new DAF cab paint facility in Europe, the Peterbilt plant expansion in Denton, Texas and a new PDC in Renton, Washington. Over the past decade, the Company's combined investments in worldwide capital projects and R&D totaled $6.09 billion, and have significantly increased the operating capacity and efficiency of its facilities and enhanced the quality and operating efficiency of the Company's premium products.

In 2017, capital investments are expected to be $375 to $425 million, and R&D is expected to be $250 to $280 million. The Company is investing for future growth in PACCAR's new truck models, integrated powertrain, advanced driver assistance and truck connectivity technologies, and additional capacity and operating efficiency of the Company's manufacturing and parts distribution facilities.

The Company conducts business in certain countries which have been experiencing or may experience significant financial stress, fiscal or political strain and are subject to the corresponding potential for default. The Company routinely monitors its financial exposure to global financial conditions, global counterparties and operating environments. As of December 31, 2016, the Company's exposures in such countries were insignificant.

***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 November 2015, 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, 2016 was $4.75 billion. The registration expires in November 2018 and does not limit the principal amount of debt securities that may be issued during that period.

As of December 31, 2016, the Company's European finance subsidiary, PACCAR Financial Europe, had €1,313.4 million available for issuance under a €2.50 billion medium-term note program listed on the Professional Securities

Market of the London Stock Exchange. This program replaced an expiring program in the second quarter of 2016 and is renewable annually through the filing of new listing particulars.

In April 2016, 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 April 2021 and limits the amount of commercial paper (up to one year) to 5.00 billion pesos. At December 31, 2016, 8.88 billion pesos were available for issuance.

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. 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, 2016:

| | MATURITY | | | | |
|---|---|---|---|---|---|
| ($ in millions) | WITHIN 1 YEAR | 1-3 YEARS | 3-5 YEARS | MORE THAN 5 YEARS | TOTAL |
| Borrowings* | $ 4,143.8 | $ 3,463.7 | $ 887.0 | | $ 8,494.5 |
| Purchase obligations | 202.6 | 132.4 | .4 | $ .2 | 335.6 |
| Interest on debt** | 84.1 | 95.0 | 21.6 | | 200.7 |
| Operating leases | 19.3 | 19.3 | 6.9 | 2.6 | 48.1 |
| Other obligations | 44.2 | 9.1 | 4.6 | .5 | 58.4 |
| | $ 4,494.0 | $ 3,719.5 | $ 920.5 | $ 3.3 | $ 9,137.3 |

* Commercial paper included in borrowings is at par value.

** Interest on floating-rate debt is based on the applicable market rates at December 31, 2016.

Total cash commitments for borrowings and interest on term debt are $8.70 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, 2016:

| | COMMITMENT EXPIRATION | | | | |
|---|---|---|---|---|---|
| ($ in millions) | WITHIN 1 YEAR | 1-3 YEARS | 3-5 YEARS | MORE THAN 5 YEARS | TOTAL |
| Loan and lease commitments | $ 603.3 | | | | $ 603.3 |
| Residual value guarantees | 259.7 | $ 343.9 | $ 88.2 | $ 7.4 | 699.2 |
| Letters of credit | 14.5 | .3 | .2 | 2.5 | 17.5 |
| | $ 877.5 | $ 344.2 | $ 88.4 | $ 9.9 | $ 1,320.0 |

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.

#### RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES:

This annual report includes "adjusted net income (non-GAAP)" and "adjusted net income per diluted share (non-GAAP)", which are financial measures that are not in accordance with U.S. generally accepted accounting principles ("GAAP"), since they exclude the non-recurring EC charge in 2016. These measures differ from the most directly comparable measures calculated in accordance with GAAP and may not be comparable to similarly titled non-GAAP financial measures used by other companies. In addition, the annual report includes the financial ratios noted below calculated based on non-GAAP measures.

Management utilizes these non-GAAP measures to evaluate the Company's performance and believes these measures allow investors and management to evaluate operating trends by excluding a significant non-recurring charge that is not representative of underlying operating trends.

Reconciliations from the most directly comparable GAAP measures to adjusted non-GAAP measures are as follows:

| ($ in millions, except per share amounts)<br>*Year Ended December 31, 2016* | |
|---|---|
| Net income | $ 521.7 |
| Non-recurring European Commission charge | 833.0 |
| Adjusted net income (non-GAAP) | $ 1,354.7 |
| | |
| Per diluted share | |
| Net income | $ 1.48 |
| Non-recurring European Commission charge | 2.37 |
| Adjusted net income (non-GAAP) | $ 3.85 |
| | |
| After-tax return on revenues | 3.1% |
| Non-recurring European Commission charge | 4.9% |
| After-tax adjusted return on revenues (non-GAAP)* | 8.0% |
| | |
| After-tax return on beginning equity | 7.5% |
| Non-recurring European Commission charge | 12.0% |
| After-tax adjusted return on beginning equity (non-GAAP)* | 19.5% |

* Calculated using adjusted net income.

| (in millions, except per share amounts) | Quarter Ended March 31, 2016 | Quarter Ended June 30, 2016 |
|---|---|---|
| Net (loss) income | $ (594.6) | $ 481.3 |
| Non-recurring European Commission charge | 942.6 | (109.6) |
| Adjusted net income (non-GAAP) | $ 348.0 | $ 371.7 |
| | | |
| Per diluted share | | |
| Net (loss) income | $ (1.69) | $ 1.37 |
| Non-recurring European Commission charge | 2.68 | (.31) |
| Adjusted net income (non-GAAP) | $ .99 | $ 1.06 |
| | | |
| Shares used in diluted share calculations | | |
| GAAP | 351.3 | 351.6 |
| Non-GAAP | 351.9 | 351.6 |

#### 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 in effect 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 accrued 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, 2016, 2015 and 2014 were $2.2 million, $2.0 million and $1.2 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 60% 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 2016, market values on equipment returning upon operating lease maturity decreased, resulting in an increase in depreciation expense of $9.6 million. During 2015 and 2014, market values on equipment returning upon operating lease maturity were generally higher than the residual values on the equipment, resulting in a reduction in depreciation expense of $5.8 million and $10.6 million, respectively.

At December 31, 2016, 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 $2.31 billion. A 10% decrease in used truck values worldwide, if 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 $57.7 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 periodic reporting of the wholesale dealer's financial condition, conducts periodic audits of the trucks being financed and in many cases, obtains 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.

The Company evaluates finance receivables that are not individually impaired on a collective basis 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 70%. Over the past three years, the Company's year-end 30+ days past due accounts were .5% 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. At December 31, 2016, 30+ days past dues were .5%. If past dues were 100 basis points higher or 1.5% as of December 31, 2016, the Company's estimate of credit losses would likely have increased by a range of $5 to $20 million depending on the extent of the past dues, the estimated value of the collateral as compared to amounts owed and general economic factors.

***Product Warranty***

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 1.3% and 1.8%. If the 2016 warranty expense had been .2% higher as a percentage of net sales and revenues in 2016, warranty expense would have increased by approximately $32 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 were to decrease .5%, 2016 net pension expense would increase to $92.9 million from $70.1 million and the projected benefit obligation would increase $208.0 million to $2.7 billion from $2.5 billion.

Effective January 2017, the Company will change the method used to estimate service cost and interest cost components of pension expense from a single weighted-average method, which is a single discount rate determined at the pension plans' measurement date, to an individual spot rate approach, which applies specific spot rates along the yield curve to the relevant projected cash flows. This approach is a more precise measurement of net periodic benefit costs and does not impact the benefit obligation. The Company considers this a change in estimate inseparable from a change in accounting principle, which will be accounted for prospectively. This change is expected to lower pension expense by approximately $15.0 million in 2017.

***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, 2016.

| Year Ended December 31, | 2016 | 2015 | 2014 |
|---|---|---|---|
| | | (millions, except per share data) | |
| **TRUCK, PARTS AND OTHER:** | | | |
| Net sales and revenues | **$ 15,846.6** | $ 17,942.8 | $ 17,792.8 |
| Cost of sales and revenues | **13,517.7** | 15,292.1 | 15,481.6 |
| Research and development | **247.2** | 239.8 | 215.6 |
| Selling, general and administrative | **440.8** | 445.9 | 465.2 |
| European Commission charge | **833.0** | | |
| Interest and other expense, net | **11.6** | 12.3 | 5.5 |
| | **15,050.3** | 15,990.1 | 16,167.9 |
| *Truck, Parts and Other Income Before Income Taxes* | **796.3** | 1,952.7 | 1,624.9 |
| **FINANCIAL SERVICES:** | | | |
| Interest and fees | **426.2** | 443.8 | 462.6 |
| Operating lease, rental and other revenues | **760.5** | 728.5 | 741.6 |
| Revenues | **1,186.7** | 1,172.3 | 1,204.2 |
| Interest and other borrowing expenses | **127.2** | 118.0 | 133.7 |
| Depreciation and other expenses | **635.2** | 583.7 | 588.5 |
| Selling, general and administrative | **99.4** | 95.6 | 96.2 |
| Provision for losses on receivables | **18.4** | 12.4 | 15.4 |
| | **880.2** | 809.7 | 833.8 |
| *Financial Services Income Before Income Taxes* | **306.5** | 362.6 | 370.4 |
| Investment income | **27.6** | 21.8 | 22.3 |
| *Total Income Before Income Taxes* | **1,130.4** | 2,337.1 | 2,017.6 |
| Income taxes | **608.7** | 733.1 | 658.8 |
| *Net Income* | **$ 521.7** | $ 1,604.0 | $ 1,358.8 |
| Net Income Per Share | | | |
| Basic | **$ 1.49** | $ 4.52 | $ 3.83 |
| Diluted | **$ 1.48** | $ 4.51 | $ 3.82 |
| Weighted Average Number of Common Shares Outstanding | | | |
| Basic | **351.1** | 354.6 | 355.0 |
| Diluted | **351.8** | 355.6 | 356.1 |

*See notes to consolidated financial statements.*

| *Year Ended December 31,* | **2016** | 2015 | 2014 |
|---|---|---|---|
| | | *(millions)* | |
| Net income | **$ 521.7** | $ 1,604.0 | $ 1,358.8 |
| Other comprehensive income (loss): | | | |
| Unrealized (losses) gains on derivative contracts | | | |
| Net (loss) gain arising during the period | **(6.5)** | 38.7 | 26.1 |
| Tax effect | **6.7** | (10.8) | (6.1) |
| Reclassification adjustment | **10.8** | (29.3) | (23.5) |
| Tax effect | **(8.9)** | 8.5 | 5.1 |
| | **2.1** | 7.1 | 1.6 |
| Unrealized (losses) gains on marketable debt securities | | | |
| Net holding (loss) gain | **(.1)** | (2.3) | 5.5 |
| Tax effect | **.4** | .6 | (1.3) |
| Reclassification adjustment | **(3.7)** | (2.1) | (.9) |
| Tax effect | **1.0** | .6 | .3 |
| | **(2.4)** | (3.2) | 3.6 |
| Pension plans | | | |
| Net (loss) gain arising during the period | **(50.3)** | 17.7 | (291.1) |
| Tax effect | **7.7** | (2.6) | 105.3 |
| Reclassification adjustment | **28.9** | 42.4 | 22.0 |
| Tax effect | **(10.0)** | (14.8) | (7.1) |
| | **(23.7)** | 42.7 | (170.9) |
| Foreign currency translation losses | **(87.1)** | (483.8) | (422.8) |
| Net other comprehensive loss | **(111.1)** | (437.2) | (588.5) |
| *Comprehensive Income* | **$ 410.6** | $ 1,166.8 | $ 770.3 |

*See notes to consolidated financial statements.*

## ASSETS

| *December 31,* | **2016** | 2015 |
|---|---|---|
| | | *(millions)* |
| **TRUCK, PARTS AND OTHER:** | | |
| *Current Assets* | | |
| Cash and cash equivalents | **$ 1,781.7** | $ 1,929.9 |
| Trade and other receivables, net | **862.2** | 879.0 |
| Marketable debt securities | **1,140.9** | 1,448.1 |
| Inventories, net | **727.8** | 796.5 |
| Other current assets | **225.6** | 245.7 |
| *Total Truck, Parts and Other Current Assets* | **4,738.2** | 5,299.2 |
| Equipment on operating leases, net | **1,013.9** | 992.2 |
| Property, plant and equipment, net | **2,260.0** | 2,176.4 |
| Other noncurrent assets, net | **432.0** | 387.4 |
| *Total Truck, Parts and Other Assets* | **8,444.1** | 8,855.2 |
| **FINANCIAL SERVICES:** | | |
| Cash and cash equivalents | **134.0** | 86.5 |
| Finance and other receivables, net | **8,837.4** | 9,303.6 |
| Equipment on operating leases, net | **2,623.9** | 2,380.8 |
| Other assets | **599.5** | 483.7 |
| *Total Financial Services Assets* | **12,194.8** | 12,254.6 |
| | **$ 20,638.9** | $ 21,109.8 |

## LIABILITIES AND STOCKHOLDERS' EQUITY

| *December 31,* | **2016** | 2015 |
|---|---|---|
| | *(millions)* | |
| **TRUCK, PARTS AND OTHER:** | | |
| *Current Liabilities* | | |
| Accounts payable, accrued expenses and other | **$ 2,034.1** | $ 2,071.7 |
| Dividend payable | **210.4** | 492.6 |
| *Total Truck, Parts and Other Current Liabilities* | **2,244.5** | 2,564.3 |
| Residual value guarantees and deferred revenues | **1,072.6** | 1,047.4 |
| Other liabilities | **739.1** | 720.2 |
| *Total Truck, Parts and Other Liabilities* | **4,056.2** | 4,331.9 |
| **FINANCIAL SERVICES:** | | |
| Accounts payable, accrued expenses and other | **395.0** | 356.9 |
| Commercial paper and bank loans | **2,447.5** | 2,796.5 |
| Term notes | **6,027.7** | 5,795.0 |
| Deferred taxes and other liabilities | **934.9** | 889.1 |
| *Total Financial Services Liabilities* | **9,805.1** | 9,837.5 |
| **STOCKHOLDERS' EQUITY:** | | |
| Preferred stock, no par value - authorized 1.0 million shares, none issued | | |
| Common stock, $1 par value - authorized 1.2 billion shares; issued 350.7 million and 351.3 million shares | **350.7** | 351.3 |
| Additional paid-in capital | **70.1** | 69.3 |
| Retained earnings | **7,484.9** | 7,536.8 |
| Accumulated other comprehensive loss | **(1,128.1)** | (1,017.0) |
| *Total Stockholders' Equity* | **6,777.6** | 6,940.4 |
| | **$ 20,638.9** | $ 21,109.8 |

*See notes to consolidated financial statements.*

| *Year Ended December 31,* | **2016** | 2015 | 2014 |
|---|---|---|---|
| | | *(millions)* | |
| **OPERATING ACTIVITIES:** | | | |
| *Net Income* | **$ 521.7** | $ 1,604.0 | $ 1,358.8 |
| *Adjustments to reconcile net income to cash provided by operations:* | | | |
| Depreciation and amortization: | | | |
| Property, plant and equipment | **302.4** | 292.2 | 285.2 |
| Equipment on operating leases and other | **690.7** | 614.9 | 632.5 |
| Provision for losses on financial services receivables | **18.4** | 12.4 | 15.4 |
| Deferred taxes | **30.9** | (55.2) | (98.0) |
| Other, net | **30.3** | 46.6 | 40.4 |
| Pension contributions | **(185.7)** | (62.9) | (81.1) |
| *Change in operating assets and liabilities:* | | | |
| (Increase) decrease in assets other than cash and cash equivalents: | | | |
| Receivables: | | | |
| Trade and other receivables | **(61.8)** | 105.3 | (71.3) |
| Wholesale receivables on new trucks | **401.6** | (273.4) | (232.8) |
| Sales-type finance leases and dealer direct loans on new trucks | **116.1** | (6.6) | (133.1) |
| Inventories | **64.1** | 64.3 | (189.5) |
| Other assets, net | **41.0** | (125.1) | (72.0) |
| (Decrease) increase in liabilities: | | | |
| Accounts payable and accrued expenses | **(8.6)** | (162.6) | 252.3 |
| Residual value guarantees and deferred revenues | **155.9** | 242.0 | 123.1 |
| Other liabilities, net | **183.8** | 260.1 | 293.7 |
| *Net Cash Provided by Operating Activities* | **2,300.8** | 2,556.0 | 2,123.6 |
| **INVESTING ACTIVITIES:** | | | |
| Originations of retail loans and direct financing leases | **(2,825.9)** | (3,064.5) | (3,114.2) |
| Collections on retail loans and direct financing leases | **2,509.8** | 2,681.9 | 2,847.6 |
| Net decrease (increase) in wholesale receivables on used equipment | **9.5** | (24.7) | 1.1 |
| Purchases of marketable debt securities | **(1,031.9)** | (1,329.8) | (1,122.5) |
| Proceeds from sales and maturities of marketable debt securities | **1,304.8** | 1,035.5 | 997.9 |
| Payments for property, plant and equipment | **(375.2)** | (286.7) | (298.2) |
| Acquisitions of equipment for operating leases | **(1,589.7)** | (1,438.5) | (1,239.1) |
| Proceeds from asset disposals | **433.8** | 448.8 | 395.5 |
| Other, net | **.5** | 3.1 | |
| *Net Cash Used in Investing Activities* | **(1,564.3)** | (1,974.9) | (1,531.9) |
| **FINANCING ACTIVITIES:** | | | |
| Payments of cash dividends | **(829.3)** | (680.5) | (623.8) |
| Purchases of treasury stock | **(70.5)** | (201.6) | (42.7) |
| Proceeds from stock compensation transactions | **29.4** | 21.8 | 29.1 |
| Net (decrease) increase in commercial paper and short-term bank loans | **(322.8)** | 250.7 | 349.1 |
| Proceeds from term debt | **1,994.8** | 1,993.2 | 1,650.8 |
| Payments on term debt | **(1,625.1)** | (1,580.1) | (1,883.0) |
| *Net Cash Used in Financing Activities* | **(823.5)** | (196.5) | (520.5) |
| Effect of exchange rate changes on cash | **(13.7)** | (105.8) | (83.7) |
| *Net (Decrease) Increase in Cash and Cash Equivalents* | **(100.7)** | 278.8 | (12.5) |
| Cash and cash equivalents at beginning of year | **2,016.4** | 1,737.6 | 1,750.1 |
| Cash and cash equivalents at end of year | **$ 1,915.7** | $ 2,016.4 | $ 1,737.6 |

*See notes to consolidated financial statements.*

| *December 31,* | **2016** | 2015 | 2014 |
|---|---|---|---|
| | | *(millions, except per share data)* | |
| **COMMON STOCK, $1 PAR VALUE:** | | | |
| Balance at beginning of year | **$ 351.3** | $ 355.2 | $ 354.3 |
| Treasury stock retirement | **(1.4)** | (4.6) | |
| Stock compensation | **.8** | .7 | .9 |
| Balance at end of year | **350.7** | 351.3 | 355.2 |
| **ADDITIONAL PAID-IN CAPITAL:** | | | |
| Balance at beginning of year | **69.3** | 156.7 | 106.2 |
| Treasury stock retirement | **(43.4)** | (128.5) | |
| Stock compensation and tax benefit | **44.2** | 41.1 | 50.5 |
| Balance at end of year | **70.1** | 69.3 | 156.7 |
| **TREASURY STOCK, AT COST:** | | | |
| Balance at beginning of year | | (42.7) | |
| Purchases, shares: 2016 - 1.38; 2015 - 3.85; 2014 - .73 | **(70.5)** | (201.6) | (42.7) |
| Retirements | **70.5** | 244.3 | |
| Balance at end of year | | | (42.7) |
| **RETAINED EARNINGS:** | | | |
| Balance at beginning of year | **7,536.8** | 6,863.8 | 6,165.1 |
| Net income | **521.7** | 1,604.0 | 1,358.8 |
| Cash dividends declared on common stock, per share: 2016 - $1.56; 2015 - $2.32; 2014 - $1.86 | **(547.9)** | (819.8) | (660.1) |
| Treasury stock retirement | **(25.7)** | (111.2) | |
| Balance at end of year | **7,484.9** | 7,536.8 | 6,863.8 |
| **ACCUMULATED OTHER COMPREHENSIVE LOSS:** | | | |
| Balance at beginning of year | **(1,017.0)** | (579.8) | 8.7 |
| Other comprehensive loss | **(111.1)** | (437.2) | (588.5) |
| Balance at end of year | **(1,128.1)** | (1,017.0) | (579.8) |
| *Total Stockholders' Equity* | **$ 6,777.6** | $ 6,940.4 | $ 6,753.2 |

*See notes to consolidated financial statements.*

## 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) includes finance and leasing products and services provided to customers and dealers. PACCAR's finance and leasing activities are principally related to PACCAR products and associated equipment. 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, 2016, 2015 and 2014 were $698.9, $668.6 and $681.5, respectively. Depreciation and related leased unit operating expenses were $581.7, $536.2 and $544.0 for the years ended December 31, 2016, 2015 and 2014, 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, 2016 or December 31, 2015. 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 income (loss) (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, 2016 and 2015, respectively, trade and other receivables include trade receivables from dealers and customers of $734.6 and $739.2 and other receivables of $127.6 and $139.8 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 receivables and other* – Operating lease receivables and other include monthly rentals due on operating leases, unamortized loan and lease origination costs, 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. Accounts are considered past due once the unpaid balance is over 30 days outstanding based on contractual payment terms. Accounts are charged-off against the allowance for credit losses when, in the judgment of management, they are considered uncollectible. The allowance for credit losses for Truck, Parts and Other was $1.7 and $1.3 for the years ended December 31, 2016 and 2015, respectively. Net charge-offs were $.1, $.3 and $.2 for the years ended December 31, 2016, 2015 and 2014, 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 in the normal course 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 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.

On average, modifications extended contractual terms by approximately four months in 2016 and seven months in 2015 and did not have a significant effect on the weighted average term or interest rate of the total portfolio at December 31, 2016 and 2015.

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 periodic reporting of the wholesale dealer's financial condition, conducts periodic audits of the trucks being financed and in many cases, obtains 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.

The Company evaluates finance receivables that are not individually impaired on a collective basis 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 sold individually, which is the lowest unit of account, 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, which generally occurs 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 a partial charge-off. 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, 2016. Goodwill was $103.0 and $105.6 at December 31, 2016 and 2015, respectively. The decrease in value was mostly due to currency translation.

***Product Support Liabilities:*** Product support liabilities include estimated future payments related to product warranties and deferred revenues on 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's maximum exposure to potential default of its swap counterparties is limited to the asset position of its swap portfolio. The asset position of the Company's swap portfolio is $109.7 at December 31, 2016.

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 AOCI. 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 October 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.* The amendment in this ASU requires recognition of income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Currently the recognition of current and deferred income taxes for an intra-entity asset transfer is recognized when the asset has been sold to an outside party. This ASU is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods, and early adoption is permitted. This amendment should be applied on a modified retrospective basis with a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. The Company will adopt this ASU on January 1, 2017. The effect of the adoption will reduce prepaid income taxes and retained earnings by approximately $20.0. Because the corresponding deferred tax asset is not realizable, the Company will record an offsetting valuation allowance.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* The amendment in this ASU addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU is effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted. This standard should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the standard retrospectively, the standard would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The amendment in this ASU requires entities having financial assets measured at amortized cost to estimate credit reserves under an expected credit loss model rather than the current incurred loss model. Under this new model, expected credit losses will be based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect collectability. The ASU is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. Early adoption is permitted, but not earlier than annual and interim periods beginning after December 15, 2018. This amendment should be applied on a modified retrospective basis with a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which amends the existing accounting standards for leases. Under the new lease standard, lessees will recognize a right-of-use asset and a lease liability for virtually all leases (other than short-term leases). Lessor accounting is largely unchanged. The ASU is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is permitted. This

ASU requires leases to be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The amendment in this ASU addresses the recognition, measurement, presentation and disclosure of financial instruments. The ASU is effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. This amendment is applied with a cumulative effect adjustment as of the beginning of the period of adoption. The Company is currently evaluating the 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 FASB has subsequently issued several related ASUs to clarify the implementation guidance in ASU 2014-09. This standard may be applied retrospectively to each prior period presented or modified retrospectively with a cumulative effect recognized as of the date of initial application. The Company expects to adopt this ASU in January 2018 on a modified retrospective basis, with the cumulative effect adjustment recognized into retained earnings as of January 1, 2018.

The Company's evaluation of the new standard is substantially complete, and the Company does not expect adoption of the new standard to have a material impact on the income statement or retained earnings. The Company currently expects the most significant effect of the standard relates to trucks sold in Europe that are subject to an RVG and are currently accounted for as an operating lease in the Truck, Parts and Other section of the Company's Consolidated Balance Sheets (see Note E). Under the new standard, based on the Company's current assessment, revenues would be recognized immediately for certain of these RVG contracts that allow customers the option to return their truck and for which there is no economic incentive to do so. Based on the existing portfolio of RVG contracts, under the new standard, revenues are expected to be recognized immediately for approximately half of the RVG portfolio instead of being deferred and amortized over the life of the RVG contract. The Company will continue to evaluate the new standard, including any new interpretive guidance, and any related impact to its financial statements.

The FASB also issued the following standards, none of which are expected to have a material impact on the Company's consolidated financial statements.

| STANDARD | DESCRIPTION | EFFECTIVE DATE |
|---|---|---|
| 2017-04 | *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* | January 1, 2020* |
| 2016-09 | *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* | January 1, 2017** |
| 2015-11 | *Inventory (Topic 330): Simplifying the Measurement of Inventory.* | January 1, 2017** |

* The Company expects to early adopt in 2017.

** The Company expects to adopt on the effective date.

The Company adopted the following standards effective January 1, 2016, none of which had a material impact on the Company's consolidated financial statements.

| STANDARD | DESCRIPTION |
|---|---|
| 2015-07 | *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* |
| 2015-05 | *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.* |
| 2015-03 | *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* |
| 2015-15 | *Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measure of Debt Issuance Costs Associated with Line-of-Credit Arrangements.* |
| 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.* |

### B. INVESTMENTS IN MARKETABLE DEBT SECURITIES

Marketable debt securities consisted of the following at December 31:

| **2016** | **AMORTIZED COST** | **UNREALIZED GAINS** | **UNREALIZED LOSSES** | **FAIR VALUE** |
|---|---|---|---|---|
| **U.S. tax-exempt securities** | **$ 597.9** | **$ .2** | **$ 3.1** | **$ 595.0** |
| **U.S. corporate securities** | **47.6** | **.2** | | **47.8** |
| **U.S. government and agency securities** | **16.0** | | | **16.0** |
| **Non-U.S. corporate securities** | **306.9** | **1.5** | **.4** | **308.0** |
| **Non-U.S. government securities** | **97.6** | **.6** | | **98.2** |
| **Other debt securities** | **75.9** | **.2** | **.2** | **75.9** |
| | **$ 1,141.9** | **$ 2.7** | **$ 3.7** | **$ 1,140.9** |

| 2015 | AMORTIZED COST | UNREALIZED GAINS | UNREALIZED LOSSES | FAIR VALUE |
|---|---|---|---|---|
| U.S. tax-exempt securities | $ 505.0 | $ .7 | $ .3 | $ 505.4 |
| U.S. corporate securities | 76.7 | .1 | .1 | 76.7 |
| U.S. government and agency securities | 15.7 | .1 | .1 | 15.7 |
| Non-U.S. corporate securities | 585.6 | 1.8 | .4 | 587.0 |
| Non-U.S. government securities | 192.7 | 1.1 | .1 | 193.7 |
| Other debt securities | 69.6 | .1 | .1 | 69.6 |
| | $ 1,445.3 | $ 3.9 | $ 1.1 | $ 1,448.1 |

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 $4.4, $2.6 and $1.2, and gross realized losses were $.1, $.8 and $.1 for the years ended December 31, 2016, 2015 and 2014, respectively.

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

| *At December 31,* | **2016** | | 2015 | |
|---|---|---|---|---|
| | **LESS THAN TWELVE MONTHS** | **TWELVE MONTHS OR GREATER** | LESS THAN TWELVE MONTHS | TWELVE MONTHS OR GREATER |
| Fair value | **$ 615.5** | | $ 579.0 | |
| Unrealized losses | **3.7** | | 1.1 | |

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 on marketable debt securities at December 31, 2016 were as follows:

| *Maturities:* | **AMORTIZED COST** | **FAIR VALUE** |
|---|---|---|
| **Within one year** | **$ 274.5** | **$ 274.7** |
| **One to five years** | **858.2** | **857.0** |
| **Six to ten years** | **.1** | **.1** |
| **More than ten years** | **9.1** | **9.1** |
| | **$ 1,141.9** | **$ 1,140.9** |

### C. INVENTORIES

Inventories include the following:

| *At December 31,* | **2016** | 2015 |
|---|---|---|
| Finished products | **$ 452.3** | $ 443.6 |
| Work in process and raw materials | **444.7** | 528.9 |
| | **897.0** | 972.5 |
| Less LIFO reserve | **(169.2)** | (176.0) |
| | **$ 727.8** | $ 796.5 |

Inventories valued using the LIFO method comprised 49% and 52% of consolidated inventories before deducting the LIFO reserve at December 31, 2016 and 2015, respectively.

### D. FINANCE AND OTHER RECEIVABLES

Finance and other receivables include the following:

| *At December 31,* | **2016** | 2015 |
|---|---|---|
| Loans | **$ 3,948.6** | $ 4,011.7 |
| Direct financing leases | **2,798.0** | 2,719.5 |
| Sales-type finance leases | **867.3** | 969.8 |
| Dealer wholesale financing | **1,528.5** | 1,950.1 |
| Operating lease receivables and other | **150.9** | 131.9 |
| Unearned interest: Finance leases | **(344.7)** | (364.6) |
| | **$ 8,948.6** | $ 9,418.4 |
| Less allowance for losses: | | |
| Loans and leases | **(97.1)** | (99.2) |
| Dealer wholesale financing | **(5.5)** | (7.3) |
| Operating lease receivables and other | **(8.6)** | (8.3) |
| | **$ 8,837.4** | $ 9,303.6 |

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, 2017* | LOANS | FINANCE LEASES |
|---|---|---|
| 2017 | $ 1,238.4 | $ 1,101.8 |
| 2018 | 1,030.4 | 882.0 |
| 2019 | 802.2 | 684.6 |
| 2020 | 557.8 | 446.5 |
| 2021 | 285.0 | 217.0 |
| Thereafter | 34.8 | 94.3 |
| | $ 3,948.6 | $ 3,426.2 |

Estimated residual values included with finance leases amounted to $239.1 in 2016 and $209.8 in 2015. 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:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | DEALER | | CUSTOMER | | |
| | WHOLESALE | RETAIL | RETAIL | OTHER* | TOTAL |
| **Balance at January 1** | **$ 7.3** | **$ 10.3** | **$ 88.9** | **$ 8.3** | **$ 114.8** |
| **Provision for losses** | **(1.7)** | **(.7)** | **18.6** | **2.2** | **18.4** |
| **Charge-offs** | | | **(22.9)** | **(2.1)** | **(25.0)** |
| **Recoveries** | | | **5.5** | **.3** | **5.8** |
| **Currency translation and other** | **(.1)** | | **(2.6)** | **(.1)** | **(2.8)** |
| **Balance at December 31** | **$ 5.5** | **$ 9.6** | **$ 87.5** | **$ 8.6** | **$ 111.2** |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | DEALER | | CUSTOMER | | |
| | WHOLESALE | RETAIL | RETAIL | OTHER* | TOTAL |
| Balance at January 1 | $ 9.0 | $ 11.9 | $ 93.6 | $ 7.5 | $ 122.0 |
| Provision for losses | (.8) | (1.4) | 11.6 | 3.0 | 12.4 |
| Charge-offs | (.3) | | (13.6) | (3.2) | (17.1) |
| Recoveries | | | 3.5 | .5 | 4.0 |
| Currency translation and other | (.6) | (.2) | (6.2) | .5 | (6.5) |
| Balance at December 31 | $ 7.3 | $ 10.3 | $ 88.9 | $ 8.3 | $ 114.8 |

| | 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 |

* Operating lease and other trade receivables.

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

| | DEALER | | CUSTOMER | |
|---|---|---|---|---|
| ***At December 31, 2016*** | WHOLESALE | RETAIL | RETAIL | TOTAL |
| **Recorded investment for impaired finance receivables evaluated individually** | **$ .1** | | **$ 57.3** | **$ 57.4** |
| **Allowance for impaired finance receivables determined individually** | **.1** | | **4.9** | **5.0** |
| **Recorded investment for finance receivables evaluated collectively** | **1,528.4** | **$ 1,406.0** | **5,805.9** | **8,740.3** |
| **Allowance for finance receivables determined collectively** | **5.4** | **9.6** | **82.6** | **97.6** |

| *At December 31, 2015* | DEALER WHOLESALE | DEALER RETAIL | CUSTOMER RETAIL | TOTAL |
|---|---|---|---|---|
| Recorded investment for impaired finance receivables evaluated individually | $ 5.0 | | $ 64.0 | $ 69.0 |
| Allowance for impaired finance receivables determined individually | .3 | | 6.5 | 6.8 |
| Recorded investment for finance receivables evaluated collectively | 1,945.1 | $ 1,561.3 | 5,711.1 | 9,217.5 |
| Allowance for finance receivables determined collectively | 7.0 | 10.3 | 82.4 | 99.7 |

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

| *At December 31,* | **2016** | 2015 |
|---|---|---|
| Dealer: | | |
| Wholesale | **$ .1** | $ 5.0 |
| Customer retail: | | |
| Fleet | **49.5** | 50.7 |
| Owner/operator | **6.9** | 10.0 |
| | **$ 56.5** | $ 65.7 |

*Impaired Loans:* Impaired loans are summarized below. The impaired loans with specific reserve represent the unpaid principal balance. The recorded investment of impaired loans as of December 31, 2016 and December 31, 2015 was not significantly different than the unpaid principal balance.

| ***At December 31, 2016*** | **DEALER WHOLESALE** | **DEALER RETAIL** | **CUSTOMER RETAIL FLEET** | **CUSTOMER RETAIL OWNER/OPERATOR** | **TOTAL** |
|---|---|---|---|---|---|
| **Impaired loans with a specific reserve** | **$ .1** | | **$ 18.9** | **$ 1.8** | **$ 20.8** |
| **Associated allowance** | **(.1)** | | **(2.8)** | **(.3)** | **(3.2)** |
| | | | **$ 16.1** | **$ 1.5** | **$ 17.6** |
| **Impaired loans with no specific reserve** | | | **10.8** | **.2** | **11.0** |
| **Net carrying amount of impaired loans** | | | **$ 26.9** | **$ 1.7** | **$ 28.6** |
| **Average recorded investment** | **$ 2.8** | | **$ 28.0** | **$ 2.4** | **$ 33.2** |

| *At December 31, 2015* | DEALER WHOLESALE | DEALER RETAIL | CUSTOMER RETAIL FLEET | CUSTOMER RETAIL OWNER/OPERATOR | TOTAL |
|---|---|---|---|---|---|
| Impaired loans with a specific reserve | $ 5.0 | | $ 21.7 | $ 2.4 | $ 29.1 |
| Associated allowance | (.3) | | (3.5) | (.5) | (4.3) |
| | $ 4.7 | | $ 18.2 | $ 1.9 | $ 24.8 |
| Impaired loans with no specific reserve | | | 6.5 | .3 | 6.8 |
| Net carrying amount of impaired loans | $ 4.7 | | $ 24.7 | $ 2.2 | $ 31.6 |
| Average recorded investment | $ 4.4 | | $ 26.6 | $ 2.5 | $ 33.5 |

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

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Interest income recognized: | | | |
| Dealer wholesale | | | $ .1 |
| Customer retail - fleet | **$ 1.1** | $ 1.4 | 1.2 |
| Customer retail - owner/operator | **.4** | .4 | .4 |
| | **$ 1.5** | $ 1.8 | $ 1.7 |

*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, 2016*** | **WHOLESALE** | **RETAIL** | **FLEET** | **OWNER/ OPERATOR** | **TOTAL** |
| **Performing** | **$ 1,519.3** | **$ 1,406.0** | **$ 4,863.4** | **$ 922.1** | **$ 8,710.8** |
| **Watch** | **9.1** | | **14.9** | **5.5** | **29.5** |
| **At-risk** | **.1** | | **50.4** | **6.9** | **57.4** |
| | **$ 1,528.5** | **$ 1,406.0** | **$ 4,928.7** | **$ 934.5** | **$ 8,797.7** |

| | DEALER | | CUSTOMER RETAIL | | |
|---|---|---|---|---|---|
| *At December 31, 2015* | WHOLESALE | RETAIL | FLEET | OWNER/ OPERATOR | TOTAL |
| Performing | $ 1,922.4 | $ 1,561.3 | $ 4,680.6 | $ 996.6 | $ 9,160.9 |
| Watch | 22.7 | | 27.0 | 6.9 | 56.6 |
| At-risk | 5.0 | | 53.8 | 10.2 | 69.0 |
| | $ 1,950.1 | $ 1,561.3 | $ 4,761.4 | $ 1,013.7 | $ 9,286.5 |

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, 2016*** | **WHOLESALE** | **RETAIL** | **FLEET** | **OWNER/ OPERATOR** | **TOTAL** |
| **Current and up to 30 days past due** | **$ 1,528.4** | **$ 1,406.0** | **$ 4,898.4** | **$ 926.4** | **$ 8,759.2** |
| **31 - 60 days past due** | | | **12.6** | **3.9** | **16.5** |
| **Greater than 60 days past due** | **.1** | | **17.7** | **4.2** | **22.0** |
| | **$ 1,528.5** | **$ 1,406.0** | **$ 4,928.7** | **$ 934.5** | **$ 8,797.7** |

| | DEALER | | CUSTOMER RETAIL | | |
|---|---|---|---|---|---|
| *At December 31, 2015* | WHOLESALE | RETAIL | FLEET | OWNER/ OPERATOR | TOTAL |
| Current and up to 30 days past due | $ 1,949.8 | $ 1,561.3 | $ 4,733.6 | $ 1,002.7 | $ 9,247.4 |
| 31 - 60 days past due | | | 8.3 | 5.4 | 13.7 |
| Greater than 60 days past due | .3 | | 19.5 | 5.6 | 25.4 |
| | $ 1,950.1 | $ 1,561.3 | $ 4,761.4 | $ 1,013.7 | $ 9,286.5 |

*Troubled Debt Restructurings:* The balance of TDRs was $43.1 and $52.3 at December 31, 2016 and December 31, 2015, 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:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **RECORDED INVESTMENT** | | RECORDED INVESTMENT | |
| | **PRE-MODIFICATION** | **POST-MODIFICATION** | PRE-MODIFICATION | POST-MODIFICATION |
| Fleet | **$ 27.2** | **$ 27.2** | $ 38.3 | $ 37.9 |
| Owner/operator | **4.4** | **4.4** | 6.5 | 6.5 |
| | **$ 31.6** | **$ 31.6** | $ 44.8 | $ 44.4 |

The effect on the allowance for credit losses from such modifications was not significant at December 31, 2016 and 2015.

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:

| | **2016** | 2015 |
|---|---|---|
| Fleet | **$ .3** | $ 6.7 |
| Owner/operator | **.4** | .4 |
| | **$ .7** | $ 7.1 |

The TDRs that subsequently defaulted did not significantly impact the Company's allowance for credit losses at December 31, 2016 and 2015.

*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 leases. 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, 2016 and 2015 was $25.4 and $14.6, respectively. Proceeds from the sales of repossessed assets were $51.7, $48.0 and $58.5 for the years ended December 31, 2016, 2015 and 2014, 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 expenses 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,* | **2016** | 2015 | **2016** | 2015 |
| Equipment on operating leases | **$ 1,282.3** | $ 1,282.6 | **$ 3,640.6** | $ 3,335.5 |
| Less allowance for depreciation | **(268.4)** | (290.4) | **(1,016.7)** | (954.7) |
| | **$ 1,013.9** | $ 992.2 | **$ 2,623.9** | $ 2,380.8 |

Annual minimum lease payments due on Financial Services operating leases beginning January 1, 2017 are $587.0, $428.6, $253.6, $125.2, $50.0 and $6.1 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,* | **2016** | 2015 |
| Residual value guarantees | **$ 699.2** | $ 691.4 |
| Deferred lease revenues | **373.4** | 356.0 |
| | **$ 1,072.6** | $ 1,047.4 |

The deferred lease revenue is amortized on a straight-line basis over the RVG contract period. At December 31, 2016, the annual amortization of deferred revenues beginning January 1, 2017 is $153.2, $111.8, $65.1, $39.6, $3.2 and $.5 thereafter. Annual maturities of the RVGs beginning January 1, 2017 are $259.7, $168.1, $175.8, $51.7, $36.5 and $7.4 thereafter.

## F. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include the following:

| *At December 31,* | USEFUL LIVES | **2016** | 2015 |
|---|---|---|---|
| Land | | **$ 221.2** | $ 222.1 |
| Buildings and improvements | 10 - 40 years | **1,134.1** | 1,061.7 |
| Machinery, equipment and production tooling | 3 - 12 years | **3,285.2** | 3,237.1 |
| Construction in progress | | **352.8** | 248.4 |
| | | **4,993.3** | 4,769.3 |
| Less allowance for depreciation | | **(2,733.3)** | (2,592.9) |
| | | **$ 2,260.0** | $ 2,176.4 |

## G. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER

Accounts payable, accrued expenses and other include the following:

| *At December 31,* | **2016** | 2015 |
|---|---|---|
| *Truck, Parts and Other:* | | |
| Accounts payable | **$ 938.6** | $ 929.7 |
| Product support liabilities | **344.2** | 384.1 |
| Accrued expenses | **233.1** | 231.4 |
| Accrued capital expenditures | **111.2** | 85.7 |
| Salaries and wages | **194.8** | 197.2 |
| Other | **212.2** | 243.6 |
| | **$ 2,034.1** | $ 2,071.7 |

## H. PRODUCT SUPPORT LIABILITIES

Changes in product support liabilities are summarized as follows:

| WARRANTY RESERVES | **2016** | 2015 | 2014 |
|---|---|---|---|
| Balance at January 1 | **$ 346.2** | $ 310.8 | $ 218.7 |
| Cost accruals | **211.9** | 294.8 | 302.6 |
| Payments | **(255.7)** | (228.8) | (210.5) |
| Change in estimates for pre-existing warranties | **(7.3)** | (21.3) | 16.1 |
| Currency translation | **(13.0)** | (9.3) | (16.1) |
| Balance at December 31 | **$ 282.1** | $ 346.2 | $ 310.8 |

| DEFERRED REVENUES ON EXTENDED WARRANTIES AND R&M CONTRACTS | **2016** | 2015 | 2014 |
|---|---|---|---|
| Balance at January 1 | **$ 524.8** | $ 462.0 | $ 411.8 |
| Deferred revenues | **347.6** | 333.0 | 323.7 |
| Revenues recognized | **(274.3)** | (248.4) | (246.1) |
| Currency translation | **(24.6)** | (21.8) | (27.4) |
| Balance at December 31 | **$ 573.5** | $ 524.8 | $ 462.0 |

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

| | WARRANTY RESERVES | | DEFERRED REVENUES | |
|---|---|---|---|---|
| *At December 31,* | **2016** | 2015 | **2016** | 2015 |
| *Truck, Parts and Other:* | | | | |
| Accounts payable, accrued expenses and other | **$ 181.4** | $ 241.6 | **$ 162.8** | $ 142.5 |
| Other liabilities | **100.7** | 104.6 | **395.7** | 368.2 |
| *Financial Services:* | | | | |
| Deferred taxes and other liabilities | | | **15.0** | 14.1 |
| | **$ 282.1** | $ 346.2 | **$ 573.5** | $ 524.8 |

## I. BORROWINGS AND CREDIT ARRANGEMENTS

Financial Services borrowings include the following:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| *At December 31,* | **EFFECTIVE RATE** | **BORROWINGS** | EFFECTIVE RATE | BORROWINGS |
| Commercial paper | **.7%** | **$ 2,242.5** | .6% | $ 2,620.4 |
| Bank loans | **5.5%** | **205.0** | 4.8% | 176.1 |
| | | **2,447.5** | | 2,796.5 |
| Term notes | **1.5%** | **6,027.7** | 1.4% | 5,795.0 |
| | **1.4%** | **$ 8,475.2** | 1.2% | $ 8,591.5 |

Commercial paper and term notes borrowings were $8,270.2 and $8,415.4 at December 31, 2016 and 2015, respectively. Unamortized debt issuance costs, unamortized discounts and the net effect of fair value hedges were $(19.3) and $(11.2) at December 31, 2016 and 2015, respectively. The effective rate is the weighted average rate as of December 31, 2016 and 2015 and includes the effects of interest-rate contracts.

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

| *Beginning January 1, 2017* | COMMERCIAL PAPER | BANK LOANS | TERM NOTES | TOTAL |
|---|---|---|---|---|
| 2017 | $ 2,243.3 | $ 55.4 | $ 1,845.1 | $ 4,143.8 |
| 2018 | | 38.7 | 1,658.9 | 1,697.6 |
| 2019 | | 26.5 | 1,739.6 | 1,766.1 |
| 2020 | | 60.3 | 302.6 | 362.9 |
| 2021 | | 24.1 | 500.0 | 524.1 |
| | $ 2,243.3 | $ 205.0 | $ 6,046.2 | $ 8,494.5 |

Interest paid on borrowings was $108.2, $101.3 and $136.3 in 2016, 2015 and 2014, respectively. For the years ended December 31, 2016, 2015 and 2014, the Company capitalized interest on borrowings of nil, nil and $1.3, 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 Financial Corp. (PFC), PACCAR Financial Europe and PACCAR Financial Mexico.

In November 2015, the Company's U.S. finance subsidiary, 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, 2016 was $4,750.0. The registration expires in November 2018 and does not limit the principal amount of debt securities that may be issued during that period.

As of December 31, 2016, the Company's European finance subsidiary, PACCAR Financial Europe, had €1,313.4 available for issuance under a €2,500.0 medium-term note program listed on the Professional Securities Market of the London Stock Exchange. This program replaced an expiring program in the second quarter of 2016 and is renewable annually through the filing of new listing particulars.

In April 2016, 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 April 2021 and limits the amount of commercial paper (up to one year) to 5,000.0 pesos. At December 31, 2016, 8,880.0 pesos remained available for issuance.

The Company has line of credit arrangements of $3,431.0 of which $3,223.4 were unused at December 31, 2016. Included in these arrangements are $3,000.0 of syndicated bank facilities, of which $1,000.0 expires in June 2017, $1,000.0 expires in June 2020 and $1,000.0 expires in June 2021. The Company intends to replace these credit facilities on or before expiration 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, 2016.

### J. LEASES

The Company leases certain facilities and computer equipment under operating leases. Leases expire at various dates through the year 2026. At January 1, 2017, annual minimum rent payments under non-cancelable operating leases having initial or remaining terms in excess of one year are $19.3, $12.2, $7.1, $4.5, $2.4 and $2.6 thereafter. For the years ended December 31, 2016, 2015 and 2014, total rental expenses under all leases amounted to $28.8, $30.5 and $34.5, respectively.

### K. COMMITMENTS AND CONTINGENCIES

At December 31, 2016, PACCAR had standby letters of credit and surety bonds totaling $28.9, from third party financial institutions, in the normal course of business, which guarantee various insurance, financing and other activities. At December 31, 2016, PACCAR's financial services companies, in the normal course of business, had outstanding commitments to fund new loan and lease transactions amounting to $603.3. The commitments generally expire in 90 days. The Company had other commitments, primarily to purchase production inventory, equipment and energy amounting to $245.5, $135.3, $3.8, $3.4, $.2 and $.2 for 2017, 2018, 2019, 2020, 2021 and beyond, respectively.

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, 2016, 2015 and 2014 were $2.2, $2.0 and $1.2, 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.

In the first half of 2016, the Company recorded a charge of €752.7 ($833.0) in connection with an investigation by the European Commission (EC) of all major European truck manufacturers, including DAF Trucks N.V., its subsidiary DAF Trucks Deutschland GmbH (collectively, "DAF") and the Company as their parent. On July 19, 2016, the EC reached a settlement with DAF and the Company under which the EC imposed a fine of €752.7 ($833.0) for infringement of European Union competition rules. DAF paid the fine in August 2016. Following the EC settlement, claims and a petition to certify a claim as a class action have been filed against DAF and other truck manufacturers. Others may bring EC-related claims against the Company or its subsidiaries. While the Company

believes it has meritorious defenses, such claims will likely take a significant period of time to resolve, and it is not possible to estimate a range of potential loss. An adverse outcome of such proceedings could have a material impact on the Company's results of operations.

PACCAR is a defendant in various legal proceedings and, in addition, there are various other contingent liabilities arising in the normal course of business. After consultation with legal counsel, management does not anticipate that disposition of these various 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 2016, 2015 and 2014 of $2.0, $3.3 and $1.8, respectively.

*Defined Benefit Pension Plans:* The Company has several defined benefit pension plans, which cover a majority of its employees. The Company evaluates its actuarial assumptions on an annual basis and considers changes based upon market conditions and other factors.

The 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 $185.7 to its pension plans in 2016 and $62.9 in 2015. The Company expects to contribute in the range of $50.0 to $100.0 to its pension plans in 2017, of which $17.1 is estimated to satisfy minimum funding requirements. Annual benefits expected to be paid beginning January 1, 2017 are $80.7, $82.7, $87.4, $93.5, $99.2 and for the five years thereafter, a total of $576.3.

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 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 fair value of commingled trust funds is determined using the market approach and is based on the unadjusted net asset value (NAV) per unit as determined by the sponsor of the fund based on the fair values of underlying investments. These assets are collective investment trusts, and substantially all of these investments have no redemption restrictions or unfunded commitments. Securities measured at NAV per unit as a practical expedient are not classified in the fair value hierarchy.

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

| | | FAIR VALUE HIERARCHY | | | | |
|---|---|---|---|---|---|---|
| ***At December 31, 2016*** | TARGET | LEVEL 1 | LEVEL 2 | TOTAL | MEASURED AT NAV | TOTAL |
| ***Equities:*** | | | | | | |
| **U.S. equities** | | | | | **$ 690.8** | **$ 690.8** |
| **Global equities** | | | | | **746.1** | **746.1** |
| **Total equities** | **50 - 70%** | | | | **1,436.9** | **1,436.9** |
| ***Fixed income:*** | | | | | | |
| **U.S. fixed income** | | **$ 195.7** | **$ 196.9** | **$ 392.6** | **317.8** | **710.4** |
| **Non-U.S. fixed income** | | | **19.6** | **19.6** | **254.5** | **274.1** |
| **Total fixed income** | **30 - 50%** | **195.7** | **216.5** | **412.2** | **572.3** | **984.5** |
| **Cash and other** | | **8.8** | **60.0** | **68.8** | **3.9** | **72.7** |
| **Total plan assets** | | **$ 204.5** | **$ 276.5** | **$ 481.0** | **$ 2,013.1** | **$ 2,494.1** |

| | | FAIR VALUE HIERARCHY | | | | |
|---|---|---|---|---|---|---|
| *At December 31, 2015* | TARGET | LEVEL 1 | LEVEL 2 | TOTAL | MEASURED AT NAV | TOTAL |
| *Equities:* | | | | | | |
| U.S. equities | | | | | $ 593.8 | $ 593.8 |
| Global equities | | | | | 674.2 | 674.2 |
| Total equities | 50 - 70% | | | | 1,268.0 | 1,268.0 |
| *Fixed income:* | | | | | | |
| U.S. fixed income | | $ 283.4 | $ 173.9 | $ 457.3 | 174.3 | 631.6 |
| Non-U.S. fixed income | | | 22.4 | 22.4 | 231.3 | 253.7 |
| Total fixed income | 30 - 50% | 283.4 | 196.3 | 479.7 | 405.6 | 885.3 |
| Cash and other | | 8.2 | 54.9 | 63.1 | 2.6 | 65.7 |
| Total plan assets | | $ 291.6 | $ 251.2 | $ 542.8 | $ 1,676.2 | $ 2,219.0 |

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

| *At December 31,* | **2016** | 2015 |
|---|---|---|
| *Weighted average assumptions:* | | |
| Discount rate | **3.7%** | 4.2% |
| Rate of increase in future compensation levels | **3.9%** | 3.9% |
| Assumed long-term rate of return on plan assets | **6.4%** | 6.5% |

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

| | 2016 | 2015 |
|---|---|---|
| *Change in projected benefit obligation:* | | |
| Benefit obligation at January 1 | **$ 2,306.0** | $ 2,417.4 |
| Service cost | **88.6** | 91.3 |
| Interest cost | **94.3** | 92.2 |
| Benefits paid | **(80.2)** | (121.3) |
| Actuarial loss (gain) | **186.4** | (141.6) |
| Currency translation and other | **(90.6)** | (35.6) |
| Participant contributions | **1.1** | 3.6 |
| Projected benefit obligation at December 31 | **$ 2,505.6** | $ 2,306.0 |
| *Change in plan assets:* | | |
| Fair value of plan assets at January 1 | **$ 2,219.0** | $ 2,309.4 |
| Employer contributions | **185.7** | 62.9 |
| Actual return on plan assets | **254.5** | .3 |
| Benefits paid | **(80.2)** | (121.3) |
| Currency translation and other | **(86.0)** | (35.9) |
| Participant contributions | **1.1** | 3.6 |
| Fair value of plan assets at December 31 | **$ 2,494.1** | $ 2,219.0 |
| Funded status at December 31 | **$ (11.5)** | $ (87.0) |

| | 2016 | 2015 |
|---|---|---|
| *Amounts recorded on balance sheet:* | | |
| Other noncurrent assets | **$ 107.2** | $ 27.2 |
| Other liabilities | **118.7** | 114.2 |
| Accumulated other comprehensive loss: | | |
| Actuarial loss | **410.6** | 386.3 |
| Prior service cost | **3.4** | 3.9 |
| Net initial transition amount | **.1** | .2 |

In 2015, the Company provided a one-time lump-sum offer to certain retired employees in the U.S. retirement plan, which resulted in a lump-sum distribution totaling $48.5.

Of the December 31, 2016 amounts in accumulated other comprehensive loss, $27.1 of unrecognized actuarial loss and $1.2 of unrecognized prior service cost are expected to be amortized into net pension expense in 2017.

The accumulated benefit obligation for all pension plans of the Company was $2,215.3 and $2,028.2 at December 31, 2016 and 2015, respectively.

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

| *At December 31,* | 2016 | 2015 |
|---|---|---|
| Projected benefit obligation | **$ 110.2** | $ 217.9 |
| Accumulated benefit obligation | **100.4** | 207.7 |
| Fair value of plan assets | **9.3** | 128.8 |

The components of pension expense are as follows:

| *Year Ended December 31,* | **2016** | 2015 | 2014 |
|---|---|---|---|
| Service cost | **$ 88.6** | $ 91.3 | $ 67.3 |
| Interest on projected benefit obligation | **94.3** | 92.2 | 91.8 |
| Expected return on assets | **(141.7)** | (140.8) | (128.0) |
| Amortization of prior service costs | **1.2** | 1.3 | 1.2 |
| Recognized actuarial loss | **27.7** | 41.1 | 20.8 |
| Curtailment gain | | (.1) | |
| Net pension expense | **$ 70.1** | $ 85.0 | $ 53.1 |

Effective January 2017, the Company will change the method used to estimate service cost and interest cost components of pension expense from a single weighted-average method, which is a single discount rate determined at the pension plans measurement date, to an individual spot rate approach, which applies specific spot rates along the yield curve to the relevant projected cash flows. This approach is a more precise measurement of net periodic benefit costs and does not impact the benefit obligation. The Company considers this a change in estimate inseparable from a change in accounting principle which will be accounted for prospectively. This change is expected to lower pension expense by approximately $15.0 in 2017.

*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 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Metal and Electrical Engineering Industry Pension Fund | | 135668 | **$ 23.1** | $ 23.0 | $ 27.1 |
| Western Metal Industry Pension Plan | 91-6033499 | 001 | **1.5** | 2.1 | 2.0 |
| Other plans | | | **.7** | .9 | 1.0 |
| | | | **$ 25.3** | $ 26.0 | $ 30.1 |

The Company contributions shown in the table above approximates the multi-employer pension expense for each of the years ended December 31, 2016, 2015 and 2014, 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 May 31, 2018. The Company's contributions were less than 5% of the total contributions to the plan for the last two reporting periods ending December 2016. 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 96.2% at December 31, 2016, a funding improvement plan effective through 2026 is in place. The funding improvement plan includes a reduction in pension benefits and delays in future benefit increases.

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, 2020. In accordance with the U.S. Pension Protection Act of 2006, the plan was certified as critical (red) status as of December 31, 2016, and a funding improvement plan was implemented requiring additional contributions through 2022 as long as the plan remains in critical status. Contributions by the Company were 15% and 12% of the total contributions to the plan for the years ended December 31, 2016 and 2015, respectively.

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 2016, 2015 and 2014. Other plans are located in Australia, Brasil, Canada, the Netherlands, Belgium and Germany. Expenses for these plans were $34.1, $36.1 and $36.3 in 2016, 2015 and 2014, 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,* | **2016** | 2015 | 2014 |
|---|---|---|---|
| Domestic | **$ 1,190.7** | $ 1,581.6 | $ 1,267.3 |
| Foreign | **(60.3)** | 755.5 | 750.3 |
| | **$ 1,130.4** | $ 2,337.1 | $ 2,017.6 |

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

| *Year Ended December 31,* | **2016** | 2015 | 2014 |
|---|---|---|---|
| Current provision: | | | |
| Federal | **$ 322.9** | $ 521.8 | $ 482.4 |
| State | **41.7** | 61.1 | 59.0 |
| Foreign | **213.2** | 205.4 | 215.4 |
| | **577.8** | 788.3 | 756.8 |
| Deferred provision (benefit): | | | |
| Federal | **31.5** | (57.8) | (88.3) |
| State | **4.8** | 5.3 | .3 |
| Foreign | **(5.4)** | (2.7) | (10.0) |
| | **30.9** | (55.2) | (98.0) |
| | **$ 608.7** | $ 733.1 | $ 658.8 |

Tax benefits recognized for net operating loss carryforwards were $1.2, $.6 and $16.0 for the years ended 2016, 2015 and 2014, respectively.

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

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Statutory rate | **35.0%** | 35.0% | 35.0% |
| Effect of: | | | |
| Non-deductible EC charge | **25.8** | | |
| State | **2.9** | 2.1 | 2.0 |
| Federal domestic production deduction | **(2.6)** | (1.8) | (1.8) |
| Tax on foreign earnings | **(7.4)** | (2.7) | (1.6) |
| Other, net | **.1** | (1.2) | (.9) |
| | **53.8%** | 31.4% | 32.7% |

The Company has not provided a deferred tax liability for the temporary differences of approximately $3,860.0 related to the investments in foreign subsidiaries that are considered to be indefinitely reinvested. The amount of the deferred tax liability would be approximately $130.0 as of December 31, 2016.

Included in domestic taxable income for 2016, 2015 and 2014 are $180.4, $249.7 and $249.0 of foreign earnings, respectively, which are not indefinitely reinvested, for which domestic taxes of $7.1, $12.2 and $18.6, respectively, were provided to account for the difference between the domestic and foreign tax rate on those earnings.

At December 31, 2016, the Company had net operating loss carryforwards of $420.6, of which $232.8 related to foreign subsidiaries and $187.8 related to states in the U.S. The related deferred tax asset was $83.2, for which a $64.5 valuation allowance has been provided. The carryforward periods range from four 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,* | **2016** | 2015 |
|---|---|---|
| *Assets:* | | |
| Accrued expenses | **$ 239.2** | $ 240.7 |
| Net operating loss and tax credit carryforwards | **84.4** | 63.6 |
| Postretirement benefit plans | **11.7** | 44.9 |
| Allowance for losses on receivables | **41.2** | 41.9 |
| Other | **106.4** | 112.5 |
| | **482.9** | 503.6 |
| Valuation allowance | **(64.5)** | (32.9) |
| | **418.4** | 470.7 |
| *Liabilities:* | | |
| Financial Services leasing depreciation | **(808.7)** | (810.4) |
| Depreciation and amortization | **(246.1)** | (277.9) |
| Other | **(35.3)** | (29.2) |
| | **(1,090.1)** | (1,117.5) |
| Net deferred tax liability | **$ (671.7)** | $ (646.8) |

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

| *At December 31,* | **2016** | 2015 |
|---|---|---|
| *Truck, Parts and Other:* | | |
| Other noncurrent assets, net | **$ 119.5** | $ 135.7 |
| Other liabilities | **(6.3)** | (25.0) |
| *Financial Services:* | | |
| Other assets | **74.6** | 44.9 |
| Deferred taxes and other liabilities | **(859.5)** | (802.4) |
| Net deferred tax liability | **$ (671.7)** | $ (646.8) |

Cash paid for income taxes was $499.4, $879.7 and $689.9 in 2016, 2015 and 2014, respectively.

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

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Balance at January 1 | **$ 19.1** | $ 12.0 | $ 13.1 |
| Additions for tax positions related to the current year | **3.9** | 10.3 | .9 |
| Additions for tax positions related to prior years | | | .1 |
| Reductions for tax positions related to prior years | **(.3)** | (2.0) | (.9) |
| Reductions related to settlements | **(5.4)** | | |
| Lapse of statute of limitations | | (1.2) | (1.2) |
| Balance at December 31 | **$ 17.3** | $ 19.1 | $ 12.0 |

The Company had $17.3, $19.1 and $12.0 of unrecognized tax benefits, of which $13.9, $9.9 and $1.1 would impact the effective tax rate, if recognized, as of December 31, 2016, 2015 and 2014, respectively.

The Company recognized $1.9, $1.9 and $.8 of income related to interest in 2016, 2015 and 2014, respectively. Accrued interest expense and penalties were $.9, $2.8 and $4.7 as of December 31, 2016, 2015 and 2014, respectively. Interest and penalties are classified as income taxes in the Consolidated Statements of Income.

The Company believes it is reasonably possible that no unrecognized tax benefits will be resolved within the next twelve months. As of December 31, 2016, the United States Internal Revenue Service has completed examinations of the Company's tax returns for all years through 2011, with the exception of 2009 which remains subject to examination. The Company's tax returns for other major jurisdictions remain subject to examination for the years ranging from 2008 through 2016.

### N. STOCKHOLDERS' EQUITY

*Accumulated Other Comprehensive Income (Loss):* The components of AOCI and the changes in AOCI, net of tax, included in the Consolidated Balance Sheets and the Consolidated Statements of Stockholders' Equity, consisted of the following:

| | DERIVATIVE CONTRACTS | MARKETABLE DEBT SECURITIES | PENSION PLANS | FOREIGN CURRENCY TRANSLATION | TOTAL |
|---|---|---|---|---|---|
| **Balance at January 1, 2016** | **$ (6.4)** | **$ 2.1** | **$ (390.4)** | **$ (622.3)** | **$ (1,017.0)** |
| **Recorded into AOCI** | **.2** | **.3** | **(42.6)** | **(87.1)** | **(129.2)** |
| **Reclassified out of AOCI** | **1.9** | **(2.7)** | **18.9** | | **18.1** |
| **Net other comprehensive income (loss)** | **2.1** | **(2.4)** | **(23.7)** | **(87.1)** | **(111.1)** |
| **Balance at December 31, 2016** | **$ (4.3)** | **$ (.3)** | **$ (414.1)** | **$ (709.4)** | **$ (1,128.1)** |

| | DERIVATIVE CONTRACTS | MARKETABLE DEBT SECURITIES | PENSION PLANS | FOREIGN CURRENCY TRANSLATION | TOTAL |
|---|---|---|---|---|---|
| Balance at January 1, 2015 | $ (13.5) | $ 5.3 | $ (433.1) | $ (138.5) | $ (579.8) |
| Recorded into AOCI | 27.9 | (1.7) | 15.1 | (483.8) | (442.5) |
| Reclassified out of AOCI | (20.8) | (1.5) | 27.6 | | 5.3 |
| Net other comprehensive income (loss) | 7.1 | (3.2) | 42.7 | (483.8) | (437.2) |
| Balance at December 31, 2015 | $ (6.4) | $ 2.1 | $ (390.4) | $ (622.3) | $ (1,017.0) |

| | DERIVATIVE CONTRACTS | MARKETABLE DEBT SECURITIES | PENSION PLANS | FOREIGN CURRENCY TRANSLATION | TOTAL |
|---|---|---|---|---|---|
| Balance at January 1, 2014 | $ (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 income (loss) | 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) |

Reclassifications out of AOCI during the years ended December 31, 2016, 2015 and 2014 are as follows:

| AOCI COMPONENTS | LINE ITEM IN THE CONSOLIDATED STATEMENTS OF INCOME | AMOUNT RECLASSIFIED OUT OF AOCI 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Unrealized (gains) and losses on derivative contracts: | | | | |
| *Truck, Parts and Other* | | | | |
| Foreign-exchange contracts | Net sales and revenues | **$ (27.9)** | $ (.1) | |
| | Cost of sales and revenues | **.6** | 3.4 | $ .3 |
| | Interest and other expense, net | **1.3** | (4.1) | (2.1) |
| *Financial Services* | | | | |
| Interest-rate contracts | Interest and other borrowing expenses | **36.8** | (28.5) | (21.7) |
| | Pre-tax expense increase (reduction) | **10.8** | (29.3) | (23.5) |
| | Tax (benefit) expense | **(8.9)** | 8.5 | 5.1 |
| | After-tax expense increase (reduction) | **1.9** | (20.8) | (18.4) |
| Unrealized (gains) and losses on marketable debt securities: | | | | |
| Marketable debt securities | Investment income | **(3.7)** | (2.1) | (.9) |
| | Tax expense | **1.0** | .6 | .3 |
| | After-tax income increase | **(2.7)** | (1.5) | (.6) |
| Pension plans: | | | | |
| *Truck, Parts and Other* | | | | |
| Actuarial loss | Cost of sales and revenues | **13.6** | 22.4 | 11.1 |
| | Selling, general and administrative | **13.0** | 17.1 | 9.0 |
| | | **26.6** | 39.5 | 20.1 |
| Prior service costs | Cost of sales and revenues | **.9** | 1.0 | 1.0 |
| | Selling, general and administrative | **.3** | .2 | .2 |
| | | **1.2** | 1.2 | 1.2 |
| *Financial Services* | | | | |
| Actuarial loss | Selling, general and administrative | **1.1** | 1.7 | .7 |
| | Pre-tax expense increase | **28.9** | 42.4 | 22.0 |
| | Tax benefit | **(10.0)** | (14.8) | (7.1) |
| | After-tax expense increase | **18.9** | 27.6 | 14.9 |
| Total reclassifications out of AOCI | | **$ 18.1** | $ 5.3 | $ (4.1) |

*Other Capital Stock Changes:* The Company purchased treasury shares of 1.4 million, 3.8 million and .7 million in 2016, 2015 and 2014, respectively. The Company retired treasury shares of 1.4 million in 2016 and 4.5 million in 2015; there were no treasury stock retirements in 2014.

## 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, 2016, the notional amount of the Company's interest-rate contracts was $2,977.8. Notional maturities for all interest-rate contracts are $706.8 for 2017, $1,041.9 for 2018, $863.6 for 2019, $174.1 for 2020, $191.4 for 2021 and nil thereafter.

*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, 2016, the notional amount of the outstanding foreign-exchange contracts was $522.4. 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,* | **2016** | | 2015 | |
|---|---|---|---|---|
| | **ASSETS** | **LIABILITIES** | ASSETS | LIABILITIES |
| Derivatives designated under hedge accounting: | | | | |
| *Interest-rate contracts:* | | | | |
| Financial Services: | | | | |
| Other assets | **$ 109.7** | | $ 132.2 | |
| Deferred taxes and other liabilities | | **$ 46.3** | | $ 46.7 |
| *Foreign-exchange contracts:* | | | | |
| Truck, Parts and Other: | | | | |
| Other current assets | **3.9** | | 3.9 | |
| Accounts payable, accrued expenses and other | | **1.9** | | .2 |
| | **$ 113.6** | **$ 48.2** | $ 136.1 | $ 46.9 |
| Economic hedges: | | | | |
| *Interest-rate contracts:* | | | | |
| Financial Services: | | | | |
| Deferred taxes and other liabilities | | **$ .1** | | |
| *Foreign-exchange contracts:* | | | | |
| Truck, Parts and Other: | | | | |
| Other current assets | **$ .8** | | $ .9 | |
| Accounts payable, accrued expenses and other | | **.3** | | $ .3 |
| Financial Services: | | | | |
| Other assets | **4.0** | | .3 | |
| Deferred taxes and other liabilities | | **.7** | | 1.0 |
| | **$ 4.8** | **$ 1.1** | $ 1.2 | $ 1.3 |
| Gross amounts recognized in Balance Sheet | **$ 118.4** | **$ 49.3** | $ 137.3 | $ 48.2 |
| Less amounts not offset in financial instruments: | | | | |
| Truck, Parts and Other: | | | | |
| Foreign-exchange contracts | **(1.0)** | **(1.0)** | (.4) | (.4) |
| Financial Services: | | | | |
| Interest-rate contracts | **(15.4)** | **(15.4)** | (3.3) | (3.3) |
| Foreign-exchange contracts | **(.1)** | **(.1)** | (.2) | (.2) |
| Pro-forma net amount | **$ 101.9** | **$ 32.8** | $ 133.4 | $ 44.3 |

*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,* | **2016** | 2015 | 2014 |
|---|---|---|---|
| Interest-rate swaps | **$ 5.5** | $ (.9) | $ .1 |
| Term notes | **(6.4)** | .2 | (2.6) |

*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. Amounts in AOCI are reclassified into net income in the same period in which the hedged transaction affects earnings. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is 4.6 years. For the periods ended December 31, 2016, 2015 and 2014, the Company recognized no gains or losses on the ineffective portion.

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

| *Year Ended December 31,* | **2016** | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| | **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 | | **$ 24.4** | | $ 4.9 | | $ 1.7 |
| Financial Services | **$ (30.9)** | | $ 33.8 | | $ 24.4 | |
| | **$ (30.9)** | **$ 24.4** | $ 33.8 | $ 4.9 | $ 24.4 | $ 1.7 |

Expense (income) reclassified out of AOCI into income was as follows:

| *Year Ended December 31,* | **2016** | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| | **INTEREST-RATE CONTRACTS** | **FOREIGN-EXCHANGE CONTRACTS** | INTEREST-RATE CONTRACTS | FOREIGN-EXCHANGE CONTRACTS | INTEREST-RATE CONTRACTS | FOREIGN-EXCHANGE CONTRACTS |
| Truck, Parts and Other: | | | | | | |
| Net sales and revenues | | **$ (27.9)** | | $ (.1) | | |
| Cost of sales and revenues | | **.6** | | 3.4 | | $ .3 |
| Interest and other expense, net | | **1.3** | | (4.1) | | (2.1) |
| Financial Services: | | | | | | |
| Interest and other borrowing expenses | **$ 36.8** | | $ (28.5) | | $ (21.7) | |
| | **$ 36.8** | **$ (26.0)** | $ (28.5) | $ (.8) | $ (21.7) | $ (1.8) |

The amount of gain recorded in AOCI at December 31, 2016 that is estimated to be reclassified into earnings in the following 12 months if interest rates and exchange rates remain unchanged is approximately $.8, 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.

The amount of gains or losses reclassified out of AOCI into net income based on the probability that the original forecasted transactions would not occur was a loss of $.3 for the year ended December 31, 2016 and nil for the years ended December 31, 2015 and 2014.

*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 (income) expense recognized in earnings related to economic hedges was as follows:

| *Year Ended December 31,* | **2016** | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| | **INTEREST-RATE CONTRACTS** | **FOREIGN-EXCHANGE CONTRACTS** | INTEREST-RATE CONTRACTS | FOREIGN-EXCHANGE CONTRACTS | INTEREST-RATE CONTRACTS | FOREIGN-EXCHANGE CONTRACTS |
| Truck, Parts and Other: | | | | | | |
| Net sales and revenues | | **$ (.4)** | | | | |
| Cost of sales and revenues | | **.4** | | $ (.7) | | $ (5.3) |
| Interest and other expense, net | | **14.9** | | 3.0 | | 3.8 |
| Financial Services: | | | | | | |
| Interest and other borrowing expenses | **$ .1** | **(28.4)** | | (7.6) | | 4.2 |
| Selling, general and administrative | | **1.8** | | (2.3) | | 5.2 |
| | **$ .1** | **$ (11.7)** | | $ (7.6) | | $ 7.9 |

## 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, 2016. 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, 2016* | LEVEL 1 | LEVEL 2 | TOTAL |
|---|---|---|---|
| **Assets:** | | | |
| **Marketable debt securities** | | | |
| **U.S. tax-exempt securities** | | **$ 595.0** | **$ 595.0** |
| **U.S. corporate securities** | | **47.8** | **47.8** |
| **U.S. government and agency securities** | **$ 15.4** | **.6** | **16.0** |
| **Non-U.S. corporate securities** | | **308.0** | **308.0** |
| **Non-U.S. government securities** | | **98.2** | **98.2** |
| **Other debt securities** | | **75.9** | **75.9** |
| **Total marketable debt securities** | **$ 15.4** | **$ 1,125.5** | **$ 1,140.9** |
| **Derivatives** | | | |
| **Cross currency swaps** | | **$ 102.7** | **$ 102.7** |
| **Interest-rate swaps** | | **7.0** | **7.0** |
| **Foreign-exchange contracts** | | **8.7** | **8.7** |
| **Total derivative assets** | | **$ 118.4** | **$ 118.4** |
| **Liabilities:** | | | |
| **Derivatives** | | | |
| **Cross currency swaps** | | **$ 37.1** | **$ 37.1** |
| **Interest-rate swaps** | | **9.3** | **9.3** |
| **Foreign-exchange contracts** | | **2.9** | **2.9** |
| **Total derivative liabilities** | | **$ 49.3** | **$ 49.3** |

| *At December 31, 2015* | LEVEL 1 | LEVEL 2 | TOTAL |
|---|---|---|---|
| Assets: | | | |
| Marketable debt securities | | | |
| U.S. tax-exempt securities | | $ 505.4 | $ 505.4 |
| U.S. corporate securities | | 76.7 | 76.7 |
| U.S. government and agency securities | $ 15.1 | .6 | 15.7 |
| Non-U.S. corporate securities | | 587.0 | 587.0 |
| Non-U.S. government securities | | 193.7 | 193.7 |
| Other debt securities | | 69.6 | 69.6 |
| Total marketable debt securities | $ 15.1 | $ 1,433.0 | $ 1,448.1 |
| Derivatives | | | |
| Cross currency swaps | | $ 130.5 | $ 130.5 |
| Interest-rate swaps | | 1.7 | 1.7 |
| Foreign-exchange contracts | | 5.1 | 5.1 |
| Total derivative assets | | $ 137.3 | $ 137.3 |
| Liabilities: | | | |
| Derivatives | | | |
| Cross currency swaps | | $ 37.2 | $ 37.2 |
| Interest-rate swaps | | 9.5 | 9.5 |
| Foreign-exchange contracts | | 1.5 | 1.5 |
| Total derivative liabilities | | $ 48.2 | $ 48.2 |

**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 financing, 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,* | **2016** | | 2015 | |
|---|---|---|---|---|
| | **CARRYING AMOUNT** | **FAIR VALUE** | CARRYING AMOUNT | FAIR VALUE |
| *Assets:* | | | | |
| Financial Services fixed rate loans | **$ 3,607.4** | **$ 3,638.4** | $ 3,660.6 | $ 3,729.0 |
| *Liabilities:* | | | | |
| Financial Services fixed rate debt | **4,915.2** | **4,929.3** | 4,167.9 | 4,192.2 |

### 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, 2016, the maximum number of shares available for future grants was 14.6 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.

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Risk-free interest rate | **1.37%** | 1.35% | 1.51% |
| Expected volatility | **26%** | 28% | 34% |
| Expected dividend yield | **4.0%** | 3.4% | 3.4% |
| Expected term | **5 years** | 5 years | 5 years |
| Weighted average grant date fair value of options per share | **$ 7.51** | $ 10.98 | $ 13.17 |

The fair value of options granted was $6.0, $6.3 and $8.6 for the years ended December 31, 2016, 2015 and 2014, respectively. The fair value of options vested during the years ended December 31, 2016, 2015 and 2014 was $7.8, $9.5 and $10.5, respectively.

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

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Intrinsic value of options exercised | **$ 10.4** | $ 14.1 | $ 20.9 |
| Cash received from stock option exercises | **29.4** | 21.8 | 29.1 |
| Tax benefit related to stock award exercises | **1.0** | 3.5 | 4.4 |
| Stock based compensation | **13.1** | 14.6 | 16.2 |
| Tax benefit related to stock based compensation | **4.7** | 5.1 | 5.6 |

The summary of options as of December 31, 2016 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** | **4,421,600** | **$ 47.23** | | |
| **Granted** | **792,700** | **50.00** | | |
| **Exercised** | **(679,900)** | **43.16** | | |
| **Cancelled** | **(67,500)** | **59.53** | | |
| **Options outstanding at December 31** | **4,466,900** | **$ 48.15** | **5.78** | **$ 70.3** |
| **Vested and expected to vest** | **4,348,300** | **$ 48.06** | **5.71** | **$ 68.9** |
| **Exercisable** | **2,629,100** | **$ 42.58** | **4.08** | **$ 56.1** |

* **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, 2016 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** | **181,900** | **$ 58.79** |
| **Granted** | **148,500** | **49.53** |
| **Vested** | **(128,100)** | **53.62** |
| **Forfeited** | **(3,900)** | **54.71** |
| **Nonvested awards outstanding at December 31** | **198,400** | **$ 55.27** |

* **Weighted Average**

As of December 31, 2016, there was $5.3 of total unrecognized compensation cost related to nonvested stock options, which is recognized over a remaining weighted average vesting period of 1.61 years. Unrecognized compensation cost related to nonvested restricted stock awards of $1.5 is expected to be recognized over a remaining weighted average vesting period of 1.55 years.

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

| *Year Ended December 31,* | **2016** | 2015 | 2014 |
|---|---|---|---|
| Additional shares | **694,700** | 906,100 | 1,120,500 |
| Antidilutive options | **1,943,500** | 1,180,400 | 673,700 |

### 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, the EC charge, 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 design and manufacture of high-quality, light-, medium- and heavy-duty commercial trucks and the Parts segment includes the distribution of aftermarket parts for trucks and related commercial vehicles, 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 derives its earnings primarily from financing or leasing of 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 the EC charge and a portion of corporate expenses. Intercompany interest income on cash advances to the financial services companies is included in Other and was $.4, $.5 and $.9 for 2016, 2015 and 2014, respectively.

| *Geographic Area Data* | **2016** | 2015 | 2014 |
|---|---|---|---|
| Net sales and revenues: | | | |
| United States | **$ 9,221.3** | $ 11,408.3 | $ 10,106.3 |
| Europe | **4,903.3** | 4,515.9 | 4,835.7 |
| Other | **2,908.7** | 3,190.9 | 4,055.0 |
| | **$ 17,033.3** | $ 19,115.1 | $ 18,997.0 |
| Property, plant and equipment, net: | | | |
| United States | **$ 1,187.0** | $ 1,140.5 | $ 1,132.0 |
| The Netherlands | **406.7** | 438.7 | 517.4 |
| Other | **666.3** | 597.2 | 663.9 |
| | **$ 2,260.0** | $ 2,176.4 | $ 2,313.3 |
| Equipment on operating leases, net: | | | |
| United States | **$ 1,458.0** | $ 1,287.9 | $ 1,226.6 |
| Germany | **318.3** | 321.9 | 347.0 |
| United Kingdom | **309.7** | 321.3 | 342.2 |
| Mexico | **304.8** | 330.0 | 346.9 |
| Other | **1,247.0** | 1,111.9 | 977.8 |
| | **$ 3,637.8** | $ 3,373.0 | $ 3,240.5 |

*December 31, 2016, 2015 and 2014 (currencies in millions)*

| *Business Segment Data* | **2016** | 2015 | 2014 |
|---|---|---|---|
| Net sales and revenues: | | | |
| Truck | **$ 13,652.7** | $ 15,568.6 | $ 15,330.4 |
| Less intersegment | **(885.4)** | (786.1) | (736.4) |
| External customers | **12,767.3** | 14,782.5 | 14,594.0 |
| Parts | **3,052.9** | 3,104.7 | 3,125.9 |
| Less intersegment | **(47.2)** | (44.6) | (48.4) |
| External customers | **3,005.7** | 3,060.1 | 3,077.5 |
| Other | **73.6** | 100.2 | 121.3 |
| | **15,846.6** | 17,942.8 | 17,792.8 |
| Financial Services | **1,186.7** | 1,172.3 | 1,204.2 |
| | **$ 17,033.3** | $ 19,115.1 | $ 18,997.0 |
| Income before income taxes: | | | |
| Truck | **$ 1,125.8** | $ 1,440.3 | $ 1,160.1 |
| Parts | **543.8** | 555.6 | 496.7 |
| Other* | **(873.3)** | (43.2) | (31.9) |
| | **796.3** | 1,952.7 | 1,624.9 |
| Financial Services | **306.5** | 362.6 | 370.4 |
| Investment income | **27.6** | 21.8 | 22.3 |
| | **$ 1,130.4** | $ 2,337.1 | $ 2,017.6 |
| Depreciation and amortization: | | | |
| Truck | **$ 432.8** | $ 399.8 | $ 415.0 |
| Parts | **7.3** | 6.2 | 5.9 |
| Other | **15.8** | 14.9 | 11.8 |
| | **455.9** | 420.9 | 432.7 |
| Financial Services | **537.2** | 486.2 | 485.0 |
| | **$ 993.1** | $ 907.1 | $ 917.7 |
| Expenditures for long-lived assets: | | | |
| Truck | **$ 735.6** | $ 660.0 | $ 504.9 |
| Parts | **16.9** | 24.9 | 9.9 |
| Other | **25.5** | 17.7 | 12.1 |
| | **778.0** | 702.6 | 526.9 |
| Financial Services | **1,214.4** | 1,044.4 | 935.3 |
| | **$ 1,992.4** | $ 1,747.0 | $ 1,462.2 |
| Segment assets: | | | |
| Truck | **$ 4,429.4** | $ 4,472.3 | $ 4,871.1 |
| Parts | **805.1** | 793.3 | 787.2 |
| Other | **287.0** | 211.6 | 106.1 |
| Cash and marketable securities | **2,922.6** | 3,378.0 | 2,937.1 |
| | **8,444.1** | 8,855.2 | 8,701.5 |
| Financial Services | **12,194.8** | 12,254.6 | 11,917.3 |
| | **$ 20,638.9** | $ 21,109.8 | $ 20,618.8 |

* Other includes the $833.0 European Commission charge in 2016.

# 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, 2016, 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, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2016.

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 89.

Ronald E. Armstrong
*Chief Executive Officer*

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

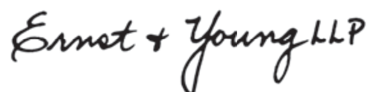
The Board of Directors and Stockholders of PACCAR Inc

We have audited the accompanying consolidated balance sheets of PACCAR Inc as of December 31, 2016 and 2015, 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, 2016. 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, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, 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, 2016, 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 21, 2017 expressed an unqualified opinion thereon.



Seattle, Washington
February 21, 2017

# 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, 2016, 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, 2016, 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, 2016 and 2015, 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, 2016 and our report dated February 21, 2017 expressed an unqualified opinion thereon.

Seattle, Washington
February 21, 2017

Ernst & Young LLP

## SELECTED FINANCIAL DATA

| | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | | *(millions except per share data)* | | | |
| Truck, Parts and Other Net Sales | **$ 15,846.6** | $ 17,942.8 | $ 17,792.8 | $ 15,948.9 | $ 15,951.7 |
| Financial Services Revenues | **1,186.7** | 1,172.3 | 1,204.2 | 1,174.9 | 1,098.8 |
| Total Revenues | **$ 17,033.3** | $ 19,115.1 | $ 18,997.0 | $ 17,123.8 | $ 17,050.5 |
| Net Income | **$ 521.7** | $ 1,604.0 | $ 1,358.8 | $ 1,171.3 | $ 1,111.6 |
| Adjusted Net Income* | **1,354.7** | | | | |
| Net Income Per Share: | | | | | |
| Basic | **1.49** | 4.52 | 3.83 | 3.31 | 3.13 |
| Diluted | **1.48** | 4.51 | 3.82 | 3.30 | 3.12 |
| Adjusted Diluted* | **3.85** | | | | |
| Cash Dividends Declared Per Share | **1.56** | 2.32 | 1.86 | 1.70 | 1.58 |
| Total Assets: | | | | | |
| Truck, Parts and Other | **8,444.1** | 8,855.2 | 8,701.5 | 9,095.4 | 7,832.3 |
| Financial Services | **12,194.8** | 12,254.6 | 11,917.3 | 11,630.1 | 10,795.5 |
| Truck, Parts and Other Long-Term Debt | | | | 150.0 | 150.0 |
| Financial Services Debt | **8,475.2** | 8,591.5 | 8,230.6 | 8,274.2 | 7,730.1 |
| Stockholders' Equity | **6,777.6** | 6,940.4 | 6,753.2 | 6,634.3 | 5,846.9 |

* See Reconciliation of GAAP to Non-GAAP Financial Measures for 2016 on page 46, and see Note K on pages 70-71.

## 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 1,668 record holders of the common stock at December 31, 2016.

| | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **DIVIDENDS** | **STOCK PRICE** | | DIVIDENDS | STOCK PRICE | |
| QUARTER | **DECLARED** | **HIGH** | **LOW** | DECLARED | HIGH | LOW |
| First | **$ .24** | **$55.60** | **$43.46** | $ .22 | $68.87 | $59.33 |
| Second | **.24** | **60.86** | **48.17** | .22 | 68.44 | 60.50 |
| Third | **.24** | **60.75** | **49.35** | .24 | 66.43 | 51.51 |
| Fourth | **.24** | **68.50** | **53.38** | .24 | 56.05 | 45.04 |
| Year-End Extra | **.60** | | | 1.40 | | |

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)* | | | |
| **2016** | | | | |
| **Truck, Parts and Other:** | | | | |
| **Net sales and revenues** | **$ 4,010.6** | **$ 4,115.8** | **$ 3,953.2** | **$ 3,767.0** |
| **Cost of sales and revenues** | **3,413.6** | **3,489.4** | **3,371.5** | **3,243.2** |
| **Research and development** | **59.6** | **60.8** | **59.2** | **67.6** |
| **European Commission charge** | **942.6** | **(109.6)** | | |
| **Financial Services:** | | | | |
| **Revenues** | **289.4** | **297.4** | **296.2** | **303.7** |
| **Interest and other borrowing expenses** | **30.3** | **32.6** | **32.2** | **32.1** |
| **Depreciation and other expenses** | **150.9** | **156.4** | **162.6** | **165.3** |
| **Net (Loss) Income** | **(594.6)** | **481.3** | **346.2** | **288.8** |
| **Adjusted Net Income*** | **348.0** | **371.7** | | |
| **Net (Loss) Income Per Share:** | | | | |
| **Basic** | **$ (1.69)** | **$ 1.37** | **$ .99** | **$ .82** |
| **Diluted** | **(1.69)** | **1.37** | **.98** | **.82** |
| **Adjusted Diluted*** | **.99** | **1.06** | | |

| | FIRST | SECOND | THIRD | FOURTH |
|---|---|---|---|---|
| 2015 | | | | |
| Truck, Parts and Other: | | | | |
| Net sales and revenues | $ 4,548.0 | $ 4,786.1 | $ 4,546.2 | $ 4,062.5 |
| Cost of sales and revenues | 3,910.2 | 4,061.2 | 3,851.3 | 3,469.4 |
| Research and development | 56.2 | 59.3 | 57.6 | 66.7 |
| Financial Services: | | | | |
| Revenues | 284.7 | 293.8 | 301.0 | 292.8 |
| Interest and other borrowing expenses | 29.1 | 29.6 | 29.2 | 30.1 |
| Depreciation and other expenses | 140.4 | 145.9 | 152.5 | 144.9 |
| Net Income | 378.4 | 447.2 | 431.2 | 347.2 |
| Net Income Per Share: | | | | |
| Basic | $ 1.07 | $ 1.26 | $ 1.21 | $ .98 |
| Diluted | 1.06 | 1.26 | 1.21 | .98 |

* See Reconciliation of GAAP to Non-GAAP Financial Measures for 2016 on page 46.

*(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) | **2016** | 2015 |
|---|---|---|
| **CONSOLIDATED:** | | |
| *Assets* | | |
| Cash equivalents and marketable debt securities | **$ (20.0)** | $ (21.7) |
| **FINANCIAL SERVICES:** | | |
| *Assets* | | |
| Fixed rate loans | **(68.3)** | (71.3) |
| *Liabilities* | | |
| Fixed rate term debt | **95.0** | 79.0 |
| Interest-rate swaps | **4.8** | 19.3 |
| Total | **$ 11.5** | $ 5.3 |

**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 $31.5 related to contracts outstanding at December 31, 2016, compared to a loss of $30.4 at December 31, 2015. These amounts would be largely offset by changes in the values of the underlying hedged exposures.

# OFFICERS AND DIRECTORS

## OFFICERS

**Mark C. Pigott**
Executive Chairman

**Ronald E. Armstrong**
Chief Executive Officer

**Robert J. Christensen (Retired 2/1/17)**
President and
Chief Financial Officer

**Gary L. Moore**
Executive Vice President

**Harrie C.A.M. Schippers**
Executive Vice President and
Chief Financial Officer

**Michael T. Barkley**
Senior Vice President and Controller

**Robert A. Bengston**
Senior Vice President

**T. Kyle Quinn**
Senior Vice President

**Darrin C. Siver**
Senior Vice President

**James D. Clack**
Vice President, General Counsel
and Secretary

**David J. Danforth**
Vice President

**Marco A. Davila**
Vice President

**C. Michael Dozier**
Vice President

**R. Preston Feight**
Vice President

**Todd R. Hubbard**
Vice President

**William D. Jackson**
Vice President

**Jack K. LeVier**
Vice President

**A. Lily Ley**
Vice President

**Debra E. Poppas**
Vice President

**Landon J. Sproull**
Vice President

**George E. West, Jr.**
Vice President

**Ulrich Kammholz**
Treasurer

## 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 (1, 4)

**Beth E. Ford**
Group Executive Vice President and
Chief Operating Officer
Land O'Lakes, Inc. (2)

**Kirk S. Hachigian**
Executive Chairman
JELD-WEN, inc. (2)

**Luiz Kaufmann**
Managing Partner
L. Kaufmann Consultants (1)

**Roderick C. McGeary**
Former Vice Chairman
KPMG LLP (1, 4)

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

**Mark A. Schulz**
Retired President,
International Operations
Ford Motor Company (2, 4)

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

**Charles R. Williamson (Lead Director)**
Former Chairman
Weyerhaeuser Company and
Former 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,
Paraná, 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 Mexicana, 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

*Distribution Centers:*
Atlanta, Georgia
Bayswater, Australia
Brampton, Canada
Budapest, Hungary
Eindhoven, The Netherlands
Lancaster, Pennsylvania
Las Vegas, Nevada
Leyland, Lancashire, United Kingdom
Madrid, Spain
Montreal, Canada
Moscow, Russia
Oklahoma City, Oklahoma
Ponta Grossa, Brasil
Renton, Washington
Rockford, Illinois
San Luis Potosí, Mexico
Santiago, Chile

**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 Leasing Company**
Division of 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 Financial México, S.A. de C.V.**
Calzada Gustavo Vildósola
Castro 2000
Mexicali, Baja California
Mexico

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

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

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

## PACCAR GLOBAL SALES

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

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

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

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

**Telephone**
425.468.7400

**Facsimile**
425.468.8216

**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 Forms 1099. Requests concerning these matters should be directed to Wells Fargo.*

**Online Delivery of Annual Report and Proxy Statement**
PACCAR's 2016 Annual Report and the 2017 Proxy Statement are available on PACCAR's website at www.paccar.com/2017annualmeeting

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

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**Independent Auditors**
Ernst & Young LLP
Seattle, Washington

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

**Annual Stockholders' Meeting**
April 25, 2017, 10:30 a.m.
PACCAR Parts
Distribution Center
405 Houser Way North,
Renton, Washington
98057

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