PACCAR

2017 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 and other powertrain components 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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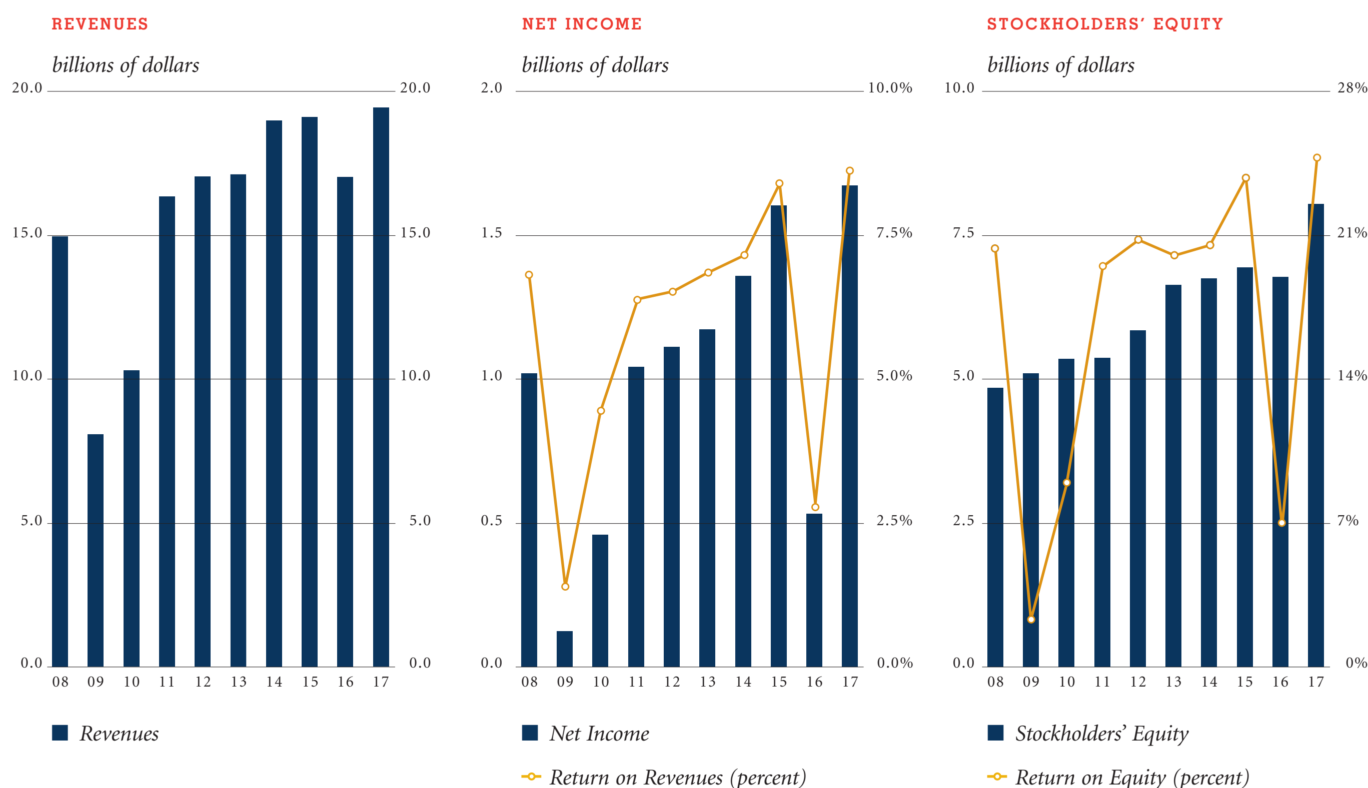
FINANCIAL HIGHLIGHTS

	2017	2016
	(millions, except per share data)	
Truck, Parts and Other Net Sales and Revenues	**$ 18,187.5**	$ 15,846.6
Financial Services Revenues	**1,268.9**	1,186.7
Total Revenues	**19,456.4**	17,033.3
Net Income	**1,675.2**	521.7
*Adjusted Net Income**	**1,501.8**	1,354.7
Total Assets:		
Truck, Parts and Other	**10,237.9**	8,444.1
Financial Services	**13,202.3**	12,194.8
Financial Services Debt	**8,879.4**	8,475.2
Stockholders' Equity	**8,050.5**	6,777.6
Per Common Share:		
Net Income:		
Basic	**$ 4.76**	$ 1.49
Diluted	**4.75**	1.48
Adjusted Diluted*	**4.26**	3.85
Cash Dividends Declared Per Share	**2.19**	1.56



* See Reconciliation of GAAP to Non-GAAP Financial Measures for 2017 and 2016 on page 46, and see Note M on pages 75-77 and Note K on pages 70-71.

PACCAR
INNOVATION CENTER

THE NEW CF AND XF
International Truck
of the Year 2018

DYNACRAFT
A PACCAR COMPANY

TO OUR SHAREHOLDERS

PACCAR is celebrating 112 years of success and delivered record revenues and excellent net profits to its shareholders in 2017 — the second best year in company history. This is a major milestone that was 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 and its employees are proud of the remarkable achievement of 79 consecutive years of net profit. 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 is one of the leading technology companies worldwide, and innovation is a cornerstone of its success, as exemplified by the opening of the PACCAR Innovation Center in Silicon Valley. PACCAR continues to integrate new technology into its daily operations, including sophisticated holograms for design and diagnostics, increased robotics in truck manufacturing, enhanced algorithms in parts distribution and mobile apps for our financial services and leasing customers.

PACCAR's excellent year in 2017 is due to many positive factors including record Kenworth and Peterbilt market share in North America and DAF's strong performance in the European truck market. A record aftermarket parts business reflects new sales initiatives and a growing population of PACCAR vehicles and powertrain components. Customers renewed their fleets to take advantage of the reliability and operating efficiency of new DAF, Kenworth and Peterbilt trucks and to meet increasing freight demand. PACCAR's financial results continue to benefit from global diversification, with dealers opening new service locations and PACCAR Parts launching several new distribution centers. The company has realized excellent synergies globally in product development, finance activities, purchasing and manufacturing.

The enacted tax reduction legislation in the United States will generate positive results for PACCAR. The revised corporate tax rate is comparable to other leading OECD countries' tax rates and will enable the transportation industry to update their fleets as a result of the accelerated depreciation enhancements. 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 as a global technology company and deliver excellent results to our shareholders.

Mark Pigott

MARK C. PIGOTT
Executive Chairman
February 21, 2018

PACCAR had an excellent year in 2017, generating record revenues and industry-leading operating margins. Revenues climbed to $19.46 billion and net income was $1.68 billion, an after-tax return on revenue of 8.6%. Net income included $173.4 million of one-time net tax benefits resulting from the recent changes to the U.S. tax law. Excluding the one-time net tax benefit, PACCAR earned $1.50 billion in adjusted net income[1], the second highest in the company's history. The adjusted after-tax return on revenues was 7.7%[1]. The company has earned net income for 79 consecutive years.

PACCAR's financial results reflect the company's premium-quality products and services, a strong truck market in Europe, record Class 8 truck market share of 30.7% in the U.S. and Canada and record medium-duty truck deliveries, complemented by record aftermarket parts sales and good financial services results worldwide. Last year's achievements reflect the efforts of PACCAR's 25,000 outstanding employees delivering industry-leading product quality and innovation, and outstanding operating efficiency. PACCAR's superior financial strength enabled the company to invest $697.8 million in capital projects and research and development in 2017 to enhance its manufacturing capability, expand its range of aerodynamic vehicles and powertrain components and strengthen its aftermarket capabilities. PACCAR delivered 158,900 trucks to its customers, the second highest in its history, and sold a record $3.33 billion of aftermarket parts. PACCAR's excellent credit ratings of A+/A1 supported PACCAR Financial Services' new loans and leases of $4.33 billion. Stockholders' equity was a record $8.05 billion.

Class 8 truck industry retail sales in North America, including Mexico, were 244,000 vehicles in 2017 compared to 243,000 the prior year. The European 16+ tonne market in 2017 increased to 306,000 vehicles compared to 303,000 in 2016. 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 strong financial performance in 2017 benefited from PACCAR Parts' record pre-tax profits of $614.2 million and PACCAR Financial Services' pre-tax profits of $264.0 million. After-tax return on beginning stockholders' equity (ROE) was 24.7% in 2017. Excluding the one-time tax benefit, ROE was 22.2%[1]. PACCAR's long-term financial performance has enabled the company to distribute $5.1 billion in dividends during the last ten years. PACCAR's average annual total stockholder return over the last fifteen years was 15.1% versus 9.9% 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 and capacity expansions in the last five years have enhanced the capability of the company's manufacturing and parts facilities.

In 2017, capital investments were $433.1 million and research and development expenses were $264.7 million. PACCAR expanded its vehicle product range, invested in truck and powertrain technologies that increase vehicle fuel efficiency and reliability, and enhanced its manufacturing and parts distribution facilities. The new DAF CF and XF, which earned the "International Truck of the Year 2018" award, the new Kenworth T880S set-forward front axle model, the expanded Peterbilt Model 520 cab configurations, and the PACCAR Automated Transmission in North America 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 2017 and the company invested in additional engine manufacturing capacity. Kenworth and Peterbilt have installed nearly 160,000 PACCAR engines since the Mississippi engine factory began production in 2010. PACCAR investments in truck manufacturing capacity included

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

the $110 million DAF cab paint facility in Westerlo, Belgium and the 100,000 square-foot Peterbilt truck test facility in Denton, Texas. Kenworth and Peterbilt are investing in additional robotic cab assembly capabilities to support the growing demand for their latest aerodynamic truck models. PACCAR is also investing in the development of zero emission electric and hydrogen fuel cell powertrains.

The PACCAR Technical Center in Pune, India provides support to PACCAR's global product and technology initiatives. In China, PACCAR expanded its purchasing activities and continued to examine opportunities to increase participation in the world's largest truck market.

CONTINUOUS IMPROVEMENT — Six Sigma and lean process development are integrated into all business activities at PACCAR and have 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 using advanced data analytics and artificial intelligence tools. Since 1997, PACCAR has delivered billions of dollars in Six Sigma savings in all facets of the company. Thousands of PACCAR's employees have been trained in Six Sigma and have implemented over 42,000 projects. Six Sigma, in conjunction with PACCAR Supplier Quality, improve logistics performance and component quality from company suppliers.

INFORMATION TECHNOLOGY — PACCAR's Information Technology Division (ITD) and its 840 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 implementing autonomous driving technologies and demonstrating new technologies such as truck platooning.

TRUCKS — U.S. and Canadian Class 8 truck industry retail sales in 2017 were 218,000 units and the Mexican market totaled 26,000 units. The European Union (EU) industry 16+ tonne truck registrations were 306,000 units.

PACCAR's Class 8 retail sales in the U.S. and Canada achieved a record market share of 30.7% in 2017, up from 28.5% in 2016. Kenworth and Peterbilt both achieved a record Class 8 market share of 15.3% in 2017. DAF achieved a 15.3% share in the 16+ tonne truck market in Europe in 2017 compared to 15.5% the prior year. Industry Class 6 and 7 truck registrations in the U.S. and Canada were 81,000 units, down 5% from the previous year. In the EU, the 6 to 16-tonne market was 53,000 units. PACCAR's market share in the U.S. and Canada medium-duty truck segment was a record 17.1%. DAF's share of the medium-duty truck market in Europe increased to 10.5%. PACCAR delivered a record 29,700 medium-duty trucks to its customers in 2017.

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 above 14% for the third consecutive year. A combination of new technology, process improvements, applied data analytics and collaboration with suppliers partially offset the effects of commodity cost increases. PACCAR facilities established records for factory and distribution center efficiency.

PACCAR's product innovation and manufacturing expertise continued to be recognized as the industry leader in 2017. The PACCAR engine factory in Columbus, Mississippi earned the "2017 Quality Plant of the Year" award from

Quality Magazine. Peterbilt's truck factory in Denton, Texas earned Frost and Sullivan's "*Manufacturing Leadership*" awards in Operational Excellence and Engineering & Production Technology. Kenworth Chillicothe was recognized by the Ohio Environmental Protection Agency with its Silver Level award for exceptional achievements in environmental stewardship. The DAF LF was awarded "*Commercial Fleet Truck of the Year*" in the U.K. and DAF Trucks was named "*Truck Fleet Manufacturer of the Year*" in the U.K.

PACCAR Mexico continued its strong sales performance, achieving a 35.2% Class 8 market share. PACCAR Mexico also expanded truck manufacturing capacity for the critically-acclaimed T680 and T880 models equipped with PACCAR MX engines.

PACCAR Australia achieved strong results in 2017 with combined Kenworth and DAF heavy-duty market share of 22.9%. PacLease Australia continued to expand its operations offering customers Kenworth and DAF rental, full-service lease and contract maintenance programs tailored to their specific needs. Kenworth began producing 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. The T610 earned the "Good Design Award" in the Automotive and Transport category from *Good Design Australia*.

DAF Brasil increased truck production and market share in 2017 and was honored by Fenabrave, the Brasil national truck dealer association, as the most desired truck brand in Brasil for the second consecutive year.

PACCAR PARTS — PACCAR Parts had its fourth consecutive year 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 130 locations in 31 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 opened new distribution centers in Panama City, Panama and Brisbane, Australia and began construction of a new 160,000 square-foot distribution center in Toronto, Canada in 2017. PACCAR Parts will begin a project to expand warehouse capacity in Las Vegas in 2018.

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 $264.0 million in 2017. PACCAR issued $1.63 billion in medium-term notes at attractive rates during the year. PFS has operations covering 24 countries on four continents. The global breadth of PFS and its rigorous credit application process support a record portfolio of 188,000 trucks and trailers, with record total assets of $13.20 billion. PACCAR Financial and PACCAR Leasing are the preferred funding sources for DAF, Peterbilt and Kenworth trucks, financing 24.9% of dealer new truck sales in the markets where PFS operates in 2017. Strategically located used truck centers, interactive webcasts and targeted marketing enabled PFS to sell over 9,600 used trucks worldwide.

PACCAR Leasing (PacLease) represents one of the largest full-service truck rental and leasing operations in North America, Germany and Australia. PacLease placed nearly 6,200 new PACCAR vehicles in service, a 23% increase over 2016. The PacLease fleet totaled 38,000 vehicles at the end of 2017.

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 20% of the thousands of CDP reporting companies from around the world.

A LOOK AHEAD — PACCAR's 25,000 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 2018 is very good in North America as the economy is expected to grow 2-3%. The European economy is expected to grow approximately 2%.

The North American truck market in 2018 is expected to increase 10-20%, and the European truck market is forecast to be strong again in 2018 as anticipated economic growth will support heavy-duty truck demand. Current estimates for the 2018 Class 8 truck industry in the U.S. and Canada range from 235,000-265,000 units. Registrations for Class 6-7 trucks are expected to be between 80,000-90,000 vehicles. The European 16+ tonne truck market in 2018 is estimated to be in the range of 290,000-320,000 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 generating the profitable results its shareholders expect.

RONALD E. ARMSTRONG
Chief Executive Officer
February 21, 2018

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

Peterbilt achieved a record 15.3 percent Class 8 market share in 2017. Peterbilt produced its 1,000,000th truck in early 2018, highlighting 78 years of product quality and customer satisfaction.

Peterbilt Denton began delivery of the innovative PACCAR Automated Transmission designed specifically for long haul heavy vehicles up to 110,000 pounds GVW. The PACCAR transmission is available for engine ratings up to 510 horsepower and 1,850 lb.-ft. of torque. Peterbilt also introduced the PACCAR 20,000 lb. steer axle on Peterbilt Models 567, 520 and 348. This new steer axle provides superior durability in demanding vocational applications.

Peterbilt's Model 579 on-highway truck offers customers excellent performance due to the PACCAR powertrain integration and advanced aerodynamics. Peterbilt developed innovative new idle reduction technologies and enhanced adaptive cruise control to improve fuel economy by up to three percent.

Peterbilt's Class 8 trucks' remote diagnostics system, *SmartLINQ*, is installed in over 50,000 connected vehicles, providing customers with remote diagnostic notifications. In 2017, real-time visibility to vehicle service intervals has enhanced vehicle productivity.

The Peterbilt Model 520 achieved market share of over 30 percent in the low-cab-forward segment. Peterbilt introduced three new cab configurations for the Model 520 that improved driver ergonomics for left- and right-hand steer configurations. The Model 520 enhancements include new LED forward lighting, pantograph wipers and cab corner windows for improved visibility. Peterbilt Models 337 and 348 provide customers with collision avoidance and enhanced stability control technologies in the Class 6 and 7 markets.

Peterbilt partnered with the California Air Resources Board in the development of electric vehicles for logistics companies in port operations and refuse applications in urban centers.

The Peterbilt Denton factory increased truck production during the year in support of Peterbilt's record Class 8 market share. Peterbilt earned "*Manufacturing Leadership*" awards in Engineering & Production Technology and Operational Excellence, and a "*High Achiever*" award for Customer Value from Frost and Sullivan's Manufacturing Leadership Council.

Peterbilt added 25 dealerships, expanding its North American dealer network to a record 372 sales and service locations.

The Peterbilt Model 567 provides customers with the rugged reliability that makes Peterbilt the "Class" of the industry. The advanced PACCAR Powertrain delivers industry leading performance and efficiency in challenging applications. The "Class" of the industry provides excellent reliability and low cost of operation for all customer operations.

Kenworth achieved a record market share of 15.3 percent in 2017 and introduced the PACCAR 12-speed Automated Transmission, expanding Kenworth's PACCAR Powertrain offering. The new Kenworth T880S set-forward front axle model provides superior payload, maneuverability and visibility for the vocational markets.

Kenworth "The World's Best" on-highway T680 equipped with the PACCAR MX-13 engine partnered with the Department of Energy's SuperTruck II program, focusing on next generation advancements in Class 8 freight efficiency through aerodynamics, enhanced powertrain and weight optimization.

The Kenworth T680 and T880 offer the PACCAR tandem axle rated at 40,000 pounds, the lightest and most efficient axle in its class. The vocational T880 added the PACCAR front axle in 20,000 and 22,000 pound ratings.

Kenworth's predictive cruise control and neutral coast technology delivers increased fuel efficiency for T680 and T880 customers. The technology optimizes fuel economy by anticipating terrain changes through powertrain and cruise control algorithms integrated with satellite mapping.

Kenworth's proprietary *TruckTech+* diagnostic system has been installed in more than 38,000 Kenworth trucks equipped with the PACCAR MX-11 and MX-13 engines. The introduction of the *TruckTech+* service management system streamlines service and repair processes throughout the Kenworth dealer network. The service management system uses machine learning to optimize diagnostic information.

Kenworth unveiled its Certified Pre-Owned Class 8 truck program providing premium used trucks through the Kenworth dealer network and PACCAR Financial used truck centers.

The Kenworth Chillicothe and Renton assembly plants increased truck production by 40% during the year, supporting Kenworth's record Class 8 market share. Kenworth Chillicothe was recognized by the Ohio Environmental Protection Agency as a *Silver Level* organization for its commitment to achieving regulatory compliance requirements and exceptional achievements in environmental stewardship. Kenworth's Renton plant earned King County's *Gold Award* for exemplary wastewater discharge practices for the third consecutive year. The PACCAR Ste-Thérèse plant achieved record medium-duty production, delivering more than 15,000 trucks in 2017.

The Kenworth dealer network invested $156 million in new facilities, growing the network to a record 403 sales and service locations in the U.S. and Canada.

The Kenworth T680 with the 52-inch mid-roof sleeper is designed for flatbed, regional and bulk haul applications. The T680 sets the industry standard for outstanding performance, driver comfort and low cost of ownership. The T680 comes equipped with the integrated PACCAR Powertrain, including the PACCAR MX engine, PACCAR 12-speed Automated Transmission and PACCAR drive axles.

DAF
CF

DAF Trucks N.V. launched its new product range of XF, CF and LF vehicles in 2017. The DAF XF and CF vehicles earned the prestigious *"International Truck of the Year 2018"* award. DAF's industry-leading new cab paint facility in Westerlo, Belgium began operations.

DAF launched its new XF and CF trucks at the Commercial Vehicle Show in Birmingham, United Kingdom. The vehicles feature new PACCAR powertrains integrated with highly efficient transmissions and rear axles. Together with advanced vehicle software algorithms, excellent aerodynamics and a new compact aftertreatment system, these innovations deliver a fuel efficiency gain of seven percent. Vocational configurations of the new trucks are up to 600 pounds lighter, which enhance customer operating efficiency. The XF and CF were awarded *"International Truck of the Year 2018"* by a jury of leading transportation journalists from 23 European countries.

In 2017, DAF introduced many innovations to its LF series, reinforcing the truck's industry-leading position in the 7.5 to 19 ton market segment. A new PACCAR 3.8 liter engine was developed for urban applications. The new LF won the *"Commercial Fleet Truck of the Year"* award in the United Kingdom, and DAF Trucks was awarded *"Truck Fleet Manufacturer of the Year"* in the UK.

DAF sold a record 9,000 trucks outside the EU. Market leadership continued in Taiwan, and DAF grew market share in Russia, Australia, New Zealand, Belarus and South Africa. DAF sold a record 4,500 PACCAR engines to leading bus, coach and vocational vehicle manufacturers.

DAF opened its new state of the art €100 million cab paint facility at its Westerlo, Belgium plant. The new facility provides excellent quality, efficiency and environmental performance and supports DAF's global growth.

DAF's independent dealer network opened 27 new locations, expanding its worldwide network to 1,100 locations. New dealerships opened in Europe, Russia, Africa, the Middle East and South America.

DAF Trucks, in conjunction with Highways England, was selected by the UK government's Department for Transport for on-road truck platooning trials. In these trials, vehicles will follow the lead truck to achieve lower fuel consumption, reduced CO_2 emissions and improved traffic flow.

Thousands of customers enjoyed the *"DAF Experience 2017"*, which included a tour of DAF's modern production facilities and a showcase of DAF's premium trucks, aftermarket parts and financial services in Eindhoven, the Netherlands.

PACCAR Parts' TRP all-makes aftermarket parts program consists of 120,000 truck, bus and trailer parts and is supported by DAF's dealer network. DAF's dealers opened 20 new TRP retail parts stores in Europe, Asia, South America and Africa, bringing the total to more than 60 TRP stores.

The New DAF CF and XF – *"International Trucks of the Year 2018"* – offer superior quality, ergonomics, comfort and operating efficiency. DAF is the premier provider of vehicles and services that deliver customers transport efficiency, product innovation and industry-leading quality.

PACCAR Australia launched the new Kenworth T610, T610SAR and the 510 horsepower DAF CF85 models in 2017. PACCAR has delivered over 61,000 Kenworth and DAF vehicles operating in one of the world's most demanding environments.

PACCAR Australia enhanced its market leadership with the launch of two new products: the Kenworth T610, on-highway model and the T610SAR for vocational applications. The new Kenworth T610 combines state-of-the-art aerodynamics, a luxurious interior and industry-leading ergonomics designed specifically for Australian conditions and applications. PACCAR Australia customers are supported by 58 dealer locations.

The DAF CF85, available with the enhanced PACCAR MX-13 engine rated at 510 horsepower, contributed to record orders for DAF in Australia. The DAF LF 6x2 configuration delivered excellent versatility and increased performance and fuel efficiency.

PacLease Australia expanded operations by adding eight new franchise locations offering Kenworth and DAF customers rental, full-service lease and contract maintenance programs.

PACCAR Parts Australia achieved record sales in 2017 due to its Fleet Services program and sales of TRP all-makes truck and trailer parts. PACCAR Parts Fleet Services provides customers with national pricing and centralized billing.

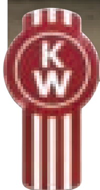
The new T610 establishes the Australian truck industry benchmark for comfort, styling and outstanding performance in many applications.

PACCAR Mexico (KENMEX) achieved a 35 percent share of the Class 8 Market in Mexico, increased production capacity of T680s and T880s by 23 percent and achieved record production in 2017.

PACCAR Mexico produces a broad range of Kenworth and Peterbilt Class 5-8 vehicles for NAFTA, Central and South America in its state-of-the-art 590,000 square-foot production facilities in Mexicali, Mexico. KENMEX has manufactured over 274,600 vehicles since its founding in 1959.

KENMEX launched the new PACCAR MX-13 engine rated at 500 horsepower for heavy haul markets, providing customers improved fuel economy. Kenworth's *TruckTech+* remote diagnostic system was introduced to enhance customer fleet performance through upgraded diagnostics and service scheduling at Kenworth dealers. PACCAR strengthened its presence in the Andean Region with increased sales of the DAF XF and CF vehicles.

PACCAR dealers in Mexico, Central and South America invested in new and improved facilities. They expanded to 224 service locations including 16 TRP retail parts stores in Mexico and 10 TRP locations in South America. They are supported by PACCAR Parts' world-class Parts Distribution Centers (PDCs) in San Luis Potosi, Mexico and a new PDC in Panama City, Panama.



KENMEX manufactures the versatile Class 5-7 LF trucks as a Peterbilt or Kenworth model. The vehicles deliver excellent fuel economy and maneuverability in North and South America while operating in urban environments.

Leyland Trucks, the United Kingdom's leading truck manufacturer, celebrated 10 years of PACCAR body production and delivered 17,400 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 10 years of PACCAR body production in 2017 and has delivered more than 8,100 fully-bodied trucks. Leyland's highly efficient 710,000 square-foot manufacturing facility features an updated final assembly production test facility. Leyland earned the overall "*Partnership with Education*" award at the United Kingdom's Manufacturer Awards.

The DAF LF City Vehicle introduced the new PACCAR PX-4 engine designed for light urban distribution applications. The low-entry LF cab with optional curb-side direct-view window features excellent handling and maneuverability optimized for urban and vocational operations.

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 LF is the ideal truck for urban and vocational applications.

PACCAR sells DAF, Kenworth and Peterbilt trucks and parts to customers in 100 countries on six continents. In 2017, PACCAR expanded its geographic diversification in South America, Eastern Europe, Africa and ASEAN.

DAF Brasil grew its market share in the heavy-duty truck segment, due to increased sales of the DAF CF and XF models and the introduction of a new CF tractor for logging and sugar cane applications. The DAF Brasil dealer service network increased to 32 locations. Fenabrave, the Brasilian truck industry dealer association, honored DAF Brasil with the "*Truck Brand of the Year*" award for the second consecutive year.

DAF delivered a record number of trucks outside Europe. Market leadership continued in Taiwan and DAF market share grew in Russia, New Zealand, Belarus and South Africa. DAF expanded into Mozambique and Zambia, and the 500th DAF truck was delivered in Jordan.

DAF sold a record number of PACCAR engines to the Chinese coach and bus industry. The PACCAR India Technical Center provides technical, engineering, and purchasing expertise to PACCAR operations worldwide.

The DAF assembly facility in Taiwan builds the full range of DAF XF, CF and LF models. DAF Brasil was awarded *"Truck Brand of the Year"* by the Fenabrave dealer association. PACCAR engineering teams in India support the PACCAR truck divisions around the world. PACCAR engines power buses throughout Europe and Asia.

PACCAR Parts achieved record pre-tax profit of $614 million and worldwide revenue of $3.33 billion in 2017, delivering 1.6 million parts shipments to over 2,100 DAF, Kenworth, Peterbilt and TRP locations.

PACCAR Parts expanded its global Fleet Services program by offering national pricing and centralized billing to over 1,000 commercial vehicle fleets with more than 735,000 vehicles. PACCAR Parts' advanced eCommerce program allows customers 24/7 online ordering access to more than 1.4 million quality aftermarket products. eCommerce delivers the benefits of the Kenworth *Privileges*, Peterbilt *Preferred*, DAF *MAX* and TRP *Performance* loyalty programs.

PACCAR Parts expanded its network capacity to 18 Parts Distribution Centers (PDCs) and 2.6 million square-feet of warehouse space, opening new PDCs in Brisbane, Australia and Panama City, Panama. Record TRP and PACCAR Genuine parts demand were driven by industry-leading aftermarket parts availability.

PACCAR Parts' successful TRP aftermarket brand for trucks, trailers, buses and engines offers 125,000 part numbers. TRP aftermarket parts retail stores expanded to 130 locations in 31 countries. TRP offers customers cost-effective parts choices for vehicle and trailer repair and maintenance.

PACCAR Parts' new Toronto distribution center will expand customer support in eastern Canada. PACCAR Parts' 365 Center supports customers with roadside assistance, powertrain support and service management. The interactive PACCAR Parts Experience showcases PACCAR's products and innovative technology. The PACCAR Parts Global eCommerce Program supports over 24,000 customers in over 40 countries.

PACCAR launched its proprietary automated transmission in 2017. PACCAR MX engines were installed in over 40 percent of Kenworth and Peterbilt heavy-duty vehicles in the United States and Canada and in all DAF vehicles.

PACCAR is one of the premier diesel engine manufacturers in the world, with over 800,000 sq. ft. of production facilities in Columbus, Mississippi and Eindhoven, the Netherlands. *Quality Magazine* honored PACCAR Engine Company with its prestigious *"Quality Plant of the Year"* award in 2017. PACCAR operates two world-class engine research and development centers, with 46 sophisticated engine test cells and a climatic chassis dynamometer to enhance its engine and powertrain design and manufacturing capabilities. PACCAR has delivered over 1.4 million engines, with the Columbus facility manufacturing over 150,000 engines since its opening in 2010.

In 2017, PACCAR introduced the PACCAR front and rear axle and PACCAR Automated Transmission for installation in Kenworth and Peterbilt vehicles. The PACCAR MX-13 engine is now offered with power ratings up to 530 horsepower. Advanced powertrain research and development activities focused on zero emissions all-electric vehicles and fuel cell hybrids, as well as natural gas hybrids with near zero emissions.

PACCAR engine and axle factories provide technology leadership in commercial vehicle powertrain 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. The PACCAR transmission in North America enables customers to have a fully-integrated PACCAR powertrain.

PACCAR Financial Services (PFS), which supports the sale of PACCAR trucks worldwide, achieved retail market share of 24.9 percent and earned pre-tax profits of $264 million in 2017.

The PFS portfolio is comprised of 188,000 trucks and trailers, with total assets of $13.2 billion. PACCAR's excellent balance sheet, complemented by its A+/A1 credit rating, enabled PFS to issue $1.6 billion in three-, four- and five-year medium term notes in 2017. Ongoing access to the capital markets at low interest rates allowed PFS to support the sale of Kenworth, Peterbilt and DAF trucks in 24 countries on four continents. PFS sold 9,600 pre-owned PACCAR trucks worldwide in 2017, opened a used truck facility in Los Angeles and launched a redesigned used truck website.

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 65 percent of dealer inventories and 18.4 percent of new Kenworth and Peterbilt Class 8 trucks sold or leased in the U.S. and Canada. PFC enhanced its industry leading online customer portal, delivering website navigation, which enables customers to make payments on mobile devices.

PACCAR Financial Europe (PFE) has $3.5 billion in assets and provides financial services to DAF dealers and customers in 17 European countries. PFE achieved 23 percent market share of DAF 6+ tonne vehicles in 2017.

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 financing and leasing for dealers and customers.

PACCAR Leasing achieved its 28th consecutive year of profitability with a worldwide fleet of over 37,900 Kenworth, Peterbilt and DAF vehicles.

PacLease offers premium Kenworth, Peterbilt and DAF vehicles for full-service lease and rental customers. PacLease is an industry leader in introducing new technologies and providing fleet customers innovative transportation solutions. PacLease increased truck deliveries by 23 percent, leasing over 6,000 Kenworth, Peterbilt and DAF vehicles to customers in North America, Europe and Australia through its network of 574 locations.

PacLease invested in new technologies to support franchise growth and enhance customer efficiency. PacLease introduced the new Rental Performance System, a mobile web-based platform which provides franchise rental operations customized dashboards to review rental fleet performance, real-time rate adjustment capabilities and a streamlined check-in/check-out process.

PacLease Mexico is the largest full-service lease provider in Mexico with a fleet of over 7,700 trucks and trailers. In 2017, PacLease Mexico unveiled a new website to promote its high quality used Kenworth trucks.

PacLease Australia grew its franchise network to 11 locations. PacLease Australia launched a franchise business system which provides advanced rental reservations and asset management features.

PacLease Europe celebrated its 10th anniversary with over 2,800 DAF trucks and trailers in its fleet.

PacLease provides its customers with innovative transportation solutions and premium-quality PACCAR vehicles. PacLease offers new Peterbilt, Kenworth and DAF trucks with the PACCAR engine and powertrain.

PACCAR's Technical Centers' world-class design, 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, North America and India are equipped with state-of-the-art product development and validation capabilities and staffed with experts in vehicle design and testing, as well as powertrain and software 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. Sophisticated computer simulations and advanced analysis of engine and vehicle control systems operate on powerful computers to optimize vehicle efficiency.

The new PACCAR Innovation Center in Silicon Valley and advanced engineering work at the Technical Centers drives research in powertrain electrification, advanced driver assistance systems, connectivity and augmented reality tools. The Technical Centers leverage this research to identify product enhancements that will further improve the industry-leading performance and fuel efficiency of Kenworth, Peterbilt and DAF trucks.

PACCAR Technical Centers in Eindhoven, the Netherlands, Silicon Valley, California, Mount Vernon, Washington, and Pune, India advance the quality and competitiveness of PACCAR products worldwide.

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

ITD partnered with Microsoft to convert 3D engineering designs to full-scale 3D holograms viewable with the Microsoft HoloLens. Engineers design prototypes as life-like holograms, providing improved design and faster product releases.

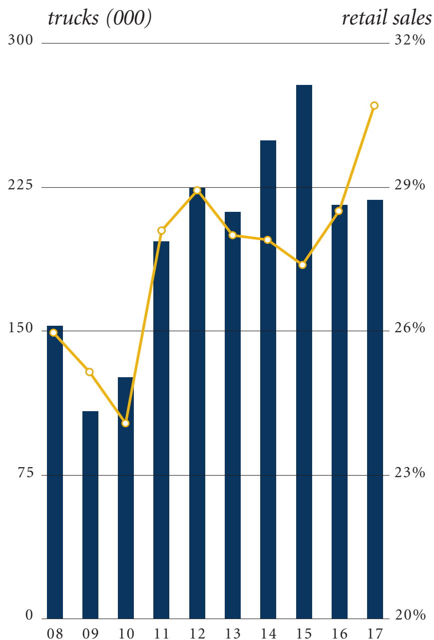
ITD and Peterbilt developed a mobile augmented reality (AR) application that superimposes components, such as wire harnesses, on the camera image of a truck. This enables technicians to use "X-Ray vision" to locate wires, components and access technical information, reducing service time.

ITD and DAF introduced the 3D Truck Configurator in 2017. This application allows customers to configure their trucks online with access to all available sales options. Customers view the configured 3D image of their truck in real-time. PacLease and ITD launched the Rental Performance System.

ITD and Kenworth introduced the Diagnostics Assistant application, which utilizes machine learning logic to enhance service quality.

PACCAR implemented 3D Engineering design using a full-scale hologram; augmented reality superimposing the wiring harness image on the truck dashboard; PACCAR's global IT headquarters; and machine learning to diagnostically enhance service performance.

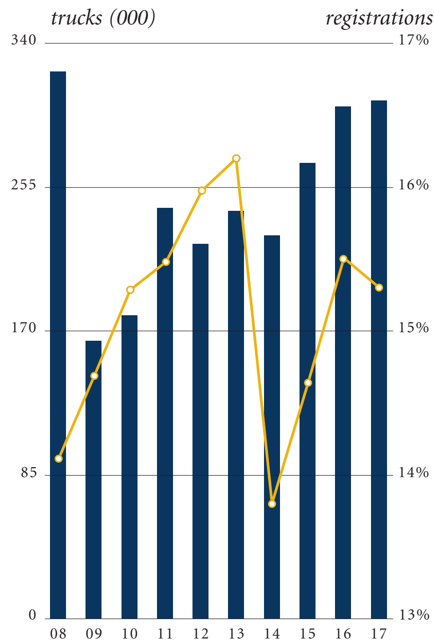
U.S. AND CANADA CLASS 8 MARKET SHARE



Total U.S. and Canada Class 8 Units

PACCAR Market Share (percent)

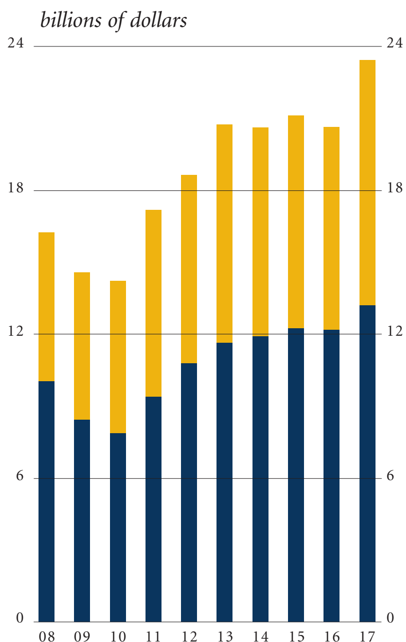
WESTERN AND CENTRAL EUROPE 16+ TONNE MARKET SHARE



Total Western and Central Europe 16+ Tonne Units

PACCAR Market Share (percent)

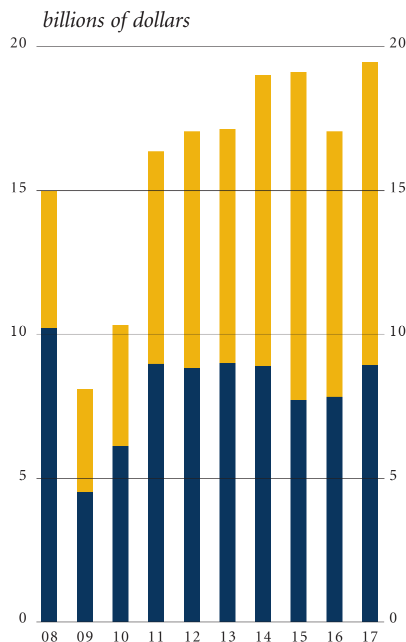
TOTAL ASSETS



Truck, Parts and Other

Financial Services

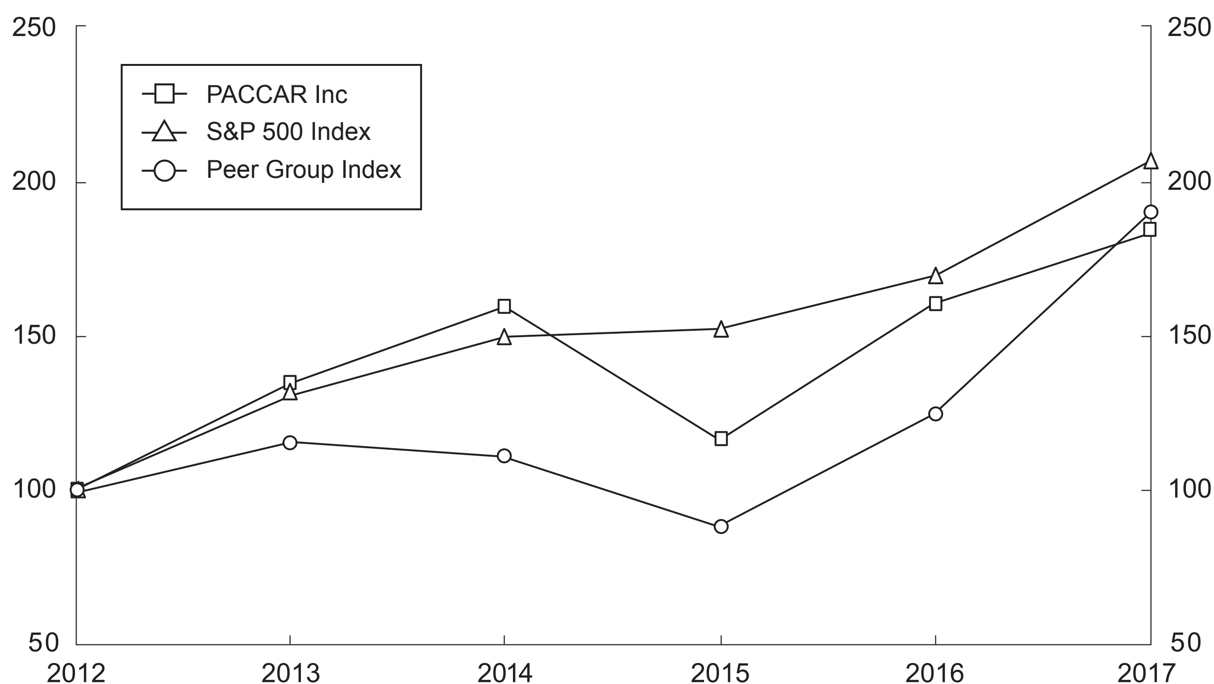
GEOGRAPHIC REVENUE



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, 2017. 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 Incorporated, 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, 2012, in the Company's common stock and in the stated indices and assumes reinvestment of dividends.



	2012	2013	2014	2015	2016	2017
PACCAR Inc	100	134.90	159.43	116.19	160.79	184.60
S&P 500 Index	100	132.39	150.51	152.59	170.84	208.14
Peer Group Index	100	116.35	111.61	87.57	124.93	190.50

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.

2017 Financial Highlights

- Worldwide net sales and revenues were a record $19.46 billion in 2017 compared to $17.03 billion in 2016.
- Truck sales were $14.77 billion in 2017 compared to $12.77 billion in 2016, reflecting higher truck deliveries in the U.S. and Canada, Europe and Australia.
- Parts sales were a record $3.33 billion in 2017 compared to $3.01 billion in 2016 reflecting higher demand in all markets.
- Financial Services revenues were $1.27 billion in 2017 compared to $1.19 billion in 2016. The increase was primarily revenues from higher average operating lease assets.
- In 2017, PACCAR earned net income for the 79th consecutive year. Net income of $1.68 billion ($4.75 per diluted share) includes a one-time net tax benefit of $173.4 million from the Tax Cuts and Jobs Act ("the Tax Act"). Excluding this one-time net benefit, the Company earned adjusted net income (non-GAAP) of $1.50 billion ($4.26 per diluted share) in 2017. The operating results in 2017 reflect higher truck deliveries and record worldwide Parts segment sales and profit, partially offset by lower Financial Services segment results. Net income in 2016 was $521.7 million ($1.48 per diluted share). Excluding the $833.0 million non-recurring EC charge, the Company earned adjusted net income (non-GAAP) of $1.35 billion ($3.85 per diluted share) in 2016. See Reconciliation of GAAP to Non-GAAP Financial Measures on page 46.
- Capital investments were $433.1 million in 2017 compared to $402.7 million in 2016, reflecting additional investments in the Company's manufacturing facilities, new product development and enhanced aftermarket support.
- After-tax return on beginning equity (ROE) was 24.7% in 2017, which includes the one-time net tax benefit of $173.4 million from the Tax Act. Excluding the one-time net benefit, adjusted ROE (non-GAAP) was 22.2% in 2017. This compares to an ROE of 7.5% in 2016. Excluding the EC charge, adjusted ROE (non-GAAP) was 19.5% in 2016. See Reconciliation of GAAP to Non-GAAP Financial Measures on page 46.
- Research and development (R&D) expenses were $264.7 million in 2017 compared to $247.2 million in 2016.

The Company opened the PACCAR Innovation Center in Sunnyvale, California in the third quarter of 2017. The advanced technology research and development center coordinates next-generation product development and identifies emerging technologies to enhance future vehicle performance. Technology areas of focus include advanced driver assistance systems, artificial intelligence, vehicle connectivity and powertrain electrification.

In the third quarter of 2017, the Company launched a new proprietary 12-speed automated transmission in North America, the lightest transmission for Class 8 on-highway vehicles. The PACCAR automated transmission is designed to complement the superior performance of PACCAR MX engines and PACCAR axles. The transmission reduces vehicle weight by up to 105 pounds, enhances low-speed maneuverability through excellent gear ratio coverage, and contributes to increased customer uptime with its industry-leading 750,000 mile oil change interval.

The Company is constructing a new 160,000 square-foot Parts distribution center in Toronto, Canada. The $35 million facility is expected to open in mid-2018. PACCAR Parts opened new distribution centers in Brisbane, Australia and Panama City, Panama during the fourth quarter of 2017.

The Company's Dynacraft division is constructing a new 130,000 square-foot manufacturing facility in McKinney, Texas to manufacture components and subassemblies such as battery cables, door assemblies and air conditioning assemblies for Kenworth and Peterbilt trucks. The facility will support Peterbilt's operations in Denton, Texas and manufacture PACCAR's new 20,000-pound front axle for Peterbilt and Kenworth Class 8 trucks.

The Company's Kenworth division will collaborate with the PACCAR Technical Center and the Company's DAF division to launch its U.S. Department of Energy (DOE) SuperTruck II program. The five-year project will utilize the Kenworth T680 with a 76-inch sleeper and the fuel-efficient PACCAR MX-13 engine with the goal to double Class 8 vehicle freight efficiency and achieve greenhouse gas emissions requirements effective in 2021, 2024 and 2027.

Beginning in the first quarter of 2018, the Company's DAF division will participate in a two-year truck platooning trial organized by the United Kingdom Department for Transport. The trial is organized to demonstrate that wirelessly-linked truck combinations, or platoons, can deliver improved efficiency to the transportation industry by lowering fuel consumption, reducing CO2 emissions, improving traffic flow and contributing to increased road safety.

Truck Outlook

Truck industry retail sales in the U.S. and Canada in 2018 are expected to be 235,000 to 265,000 units compared to 218,400 in 2017. In Europe, the 2018 truck industry registrations for over 16-tonne vehicles are expected to be 290,000 to 320,000 units compared to 306,100 in 2017. In South America, heavy-duty truck industry sales were 68,700 units in 2017 and in 2018 are estimated to be in a range of 65,000 to 75,000 units.

Parts Outlook

In 2018, PACCAR Parts sales are expected to grow 5-8% compared to 2017 sales.

Financial Services Outlook

Based on the truck market outlook, average earning assets in 2018 are expected to increase 2-4% compared to 2017. 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 2018 are expected to be $425 to $475 million, and R&D is expected to be $280 to $310 million. The Company is investing in new truck models, integrated powertrain, enhanced aerodynamic truck designs, advanced driver assistance and truck connectivity technologies, and expanded manufacturing and parts distribution facilities.

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

RESULTS OF OPERATIONS:

($ in millions, except per share amounts) *Year Ended December 31,*	**2017**	2016	2015
Net sales and revenues:			
Truck	**$ 14,774.8**	$ 12,767.3	$ 14,782.5
Parts	**3,327.0**	3,005.7	3,060.1
Other	**85.7**	73.6	100.2
Truck, Parts and Other	**18,187.5**	15,846.6	17,942.8
Financial Services	**1,268.9**	1,186.7	1,172.3
	$ 19,456.4	$ 17,033.3	$ 19,115.1
Income (loss) before income taxes:			
Truck	**$ 1,296.9**	$ 1,125.8	$ 1,440.3
Parts	**614.2**	543.8	555.6
Other*	**(37.1)**	(873.3)	(43.2)
Truck, Parts and Other	**1,874.0**	796.3	1,952.7
Financial Services	**264.0**	306.5	362.6
Investment income	**35.3**	27.6	21.8
Income taxes**	**(498.1)**	(608.7)	(733.1)
Net Income	**$ 1,675.2**	$ 521.7	$ 1,604.0
Diluted earnings per share	**$ 4.75**	$ 1.48	$ 4.51
After-tax return on revenues	**8.6%**	3.1%	8.4%
Adjusted after-tax return on revenues (non-GAAP)***	**7.7%**	8.0%	

* In 2016, Other includes the EC charge of $833.0 million.
** In 2017, Income Taxes include a one-time benefit of $173.4 million from the Tax Act.
*** See Reconciliation of GAAP to non-GAAP Financial Measures 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.

2017 Compared to 2016:

Truck

The Company's Truck segment accounted for 76% of revenue in 2017 compared to 75% in 2016.

The Company's new truck deliveries are summarized below:

Year Ended December 31,	**2017**	2016	% CHANGE
U.S. and Canada	**84,200**	71,500	18
Europe	**57,100**	53,000	8
Mexico, South America, Australia and other	**17,600**	16,400	7
Total units	**158,900**	140,900	13

In 2017, industry retail sales in the heavy-duty market in the U.S. and Canada increased to 218,400 units from 215,700 units in 2016. The Company's heavy-duty truck retail market share increased to 30.7% in 2017 from 28.5% in 2016. The medium-duty market was 81,300 units in 2017 compared to 85,600 units in 2016. The Company's medium-duty market share was 17.1% in 2017 compared to 16.2% in 2016.

The over 16-tonne truck market in Europe in 2017 increased to 306,100 units from 302,500 units in 2016, and DAF's market share decreased to 15.3% in 2017 from 15.5% in 2016. The 6 to 16-tonne market in 2017 decreased to 52,600 units from 52,900 units in 2016. DAF market share in the 6 to 16-tonne market in 2017 increased to 10.5% from 10.1% in 2016.

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

($ in millions) *Year Ended December 31,*	**2017**	2016	% CHANGE
Truck net sales and revenues:			
U.S. and Canada	**$ 8,775.2**	$ 7,363.5	19
Europe	**4,254.9**	3,863.0	10
Mexico, South America, Australia and other	**1,744.7**	1,540.8	13
	$ 14,774.8	$ 12,767.3	16
Truck income before income taxes	**$ 1,296.9**	$ 1,125.8	15
Pre-tax return on revenues	**8.8%**	8.8%	

The Company's worldwide truck net sales and revenues increased to $14.77 billion in 2017 from $12.77 billion in 2016, primarily reflecting higher truck deliveries in the U.S. and Canada, Europe and Australia. Truck segment income before income taxes in 2017 reflects higher truck deliveries, while pre-tax return on revenues were unchanged at the higher volumes due to a lower gross margin percentage.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between 2017 and 2016 for the Truck segment are as follows:

($ in millions)	**NET SALES AND REVENUES**	**COST OF SALES AND REVENUES**	**GROSS MARGIN**
2016	**$ 12,767.3**	**$ 11,256.8**	**$ 1,510.5**
Increase (decrease)			
Truck delivery volume	**1,841.9**	**1,559.7**	**282.2**
Average truck sales prices	**121.6**		**121.6**
Average per truck material, labor and other direct costs		**100.5**	**(100.5)**
Factory overhead and other indirect costs		**81.6**	**(81.6)**
Operating leases	**(28.1)**	**(25.2)**	**(2.9)**
Currency translation	**72.1**	**104.1**	**(32.0)**
Total increase	**2,007.5**	**1,820.7**	**186.8**
2017	**$ 14,774.8**	**$ 13,077.5**	**$ 1,697.3**

- Truck delivery volume, which resulted in higher sales and cost of sales, primarily reflects higher truck deliveries in the U.S. and Canada ($1,309.0 million sales and $1,104.3 million cost of sales) and Europe ($370.4 million sales and $312.2 million cost of sales).
- Average truck sales prices increased sales by $121.6 million, primarily due to higher price realization in Europe ($66.7 million) and the U.S. and Canada ($66.2 million), partially offset by lower price realization in Mexico ($12.5 million).
- Average cost per truck increased cost of sales by $100.5 million, reflecting higher material costs.
- Factory overhead and other indirect costs increased $81.6 million, primarily due to higher salaries and related expenses ($38.9 million), higher maintenance costs ($27.8 million) as well as higher depreciation expense ($12.7 million).
- Operating lease revenues decreased by $28.1 million and cost of sales decreased by $25.2 million, reflecting higher revenues deferred and lower revenues recognized.
- The currency translation effect on sales primarily reflects an increase in the value of the euro relative to the U.S. dollar, partially offset by a weaker British pound. The currency effect on cost of sales primarily reflects the stronger euro relative to the U.S. dollar.
- Truck gross margins decreased to 11.5% in 2017 from 11.8% in 2016 primarily due to the factors noted above.

Truck selling, general and administrative expenses (SG&A) for 2017 increased to $206.5 million from $202.5 million in 2016. The increase was primarily due to higher professional fees and salaries and related expenses, partially offset by lower sales and marketing expenses. As a percentage of sales, Truck SG&A decreased to 1.4% in 2017 from 1.6% in 2016 due to higher net sales.

Parts

The Company's Parts segment accounted for 17% of revenues in 2017 compared to 18% in 2016.

($ in millions) *Year Ended December 31,*	**2017**	2016	% CHANGE
Parts net sales and revenues:			
U.S. and Canada	**$ 2,175.0**	$ 1,932.7	13
Europe	**801.0**	761.8	5
Mexico, South America, Australia and other	**351.0**	311.2	13
	$ 3,327.0	$ 3,005.7	11
Parts income before income taxes	**$ 614.2**	$ 543.8	13
Pre-tax return on revenues	**18.5%**	18.1%	

The Company's worldwide parts net sales and revenues increased to a record $3.33 billion in 2017 from $3.01 billion in 2016, due to higher aftermarket demand and successful marketing programs in all markets. The increase in Parts segment income before income taxes and pre-tax return on revenues in 2017 was primarily due to higher sales volume.

The major factors for the changes in net sales, cost of sales and gross margin between 2017 and 2016 for the Parts segment are as follows:

($ in millions)	NET SALES	COST OF SALES	GROSS MARGIN
2016	**$ 3,005.7**	**$ 2,195.7**	**$ 810.0**
Increase (decrease)			
Aftermarket parts volume	**270.0**	**183.6**	**86.4**
Average aftermarket parts sales prices	**45.9**		**45.9**
Average aftermarket parts direct costs		**37.5**	**(37.5)**
Warehouse and other indirect costs		**17.1**	**(17.1)**
Currency translation	**5.4**	**10.3**	**(4.9)**
Total increase	**321.3**	**248.5**	**72.8**
2017	**$ 3,327.0**	**$ 2,444.2**	**$ 882.8**

- Aftermarket parts sales volume increased by $270.0 million and related cost of sales increased by $183.6 million due to higher demand in all markets.
- Average aftermarket parts sales prices increased sales by $45.9 million, reflecting higher price realization in the U.S. and Canada and Europe.
- Average aftermarket parts direct costs increased $37.5 million due to higher material costs.
- Warehouse and other indirect costs increased $17.1 million, primarily due to higher salaries and related expenses to support the higher sales volume.
- The currency translation effect on sales primarily reflects an increase in the value of the euro relative to the U.S. dollar, partially offset by a weaker British pound. The currency effect on cost of sales primarily reflects the stronger euro relative to the U.S. dollar.
- Parts gross margins in 2017 decreased to 26.5% from 26.9% in 2016 due to the factors noted above.

Parts SG&A expense for 2017 was $195.0 million compared to $191.7 million in 2016 primarily due to higher salaries and related expenses. As a percentage of sales, Parts SG&A was 5.9% in 2017, down from 6.4% in 2016, due to higher net sales.

Financial Services

The Company's Financial Services segment accounted for 7% of revenues in 2017 and 2016.

($ in millions) *Year Ended December 31,*	**2017**	2016	% CHANGE
New loan and lease volume:			
U.S. and Canada	**$ 2,450.7**	$ 2,474.9	(1)
Europe	**1,107.7**	1,104.8	
Mexico, Australia and other	**769.7**	643.7	20
	$ 4,328.1	$ 4,223.4	2
New loan and lease volume by product:			
Loans and finance leases	**$ 3,330.2**	$ 3,016.4	10
Equipment on operating lease	**997.9**	1,207.0	(17)
	$ 4,328.1	$ 4,223.4	2
New loan and lease unit volume:			
Loans and finance leases	**33,500**	31,000	8
Equipment on operating lease	**9,700**	12,000	(19)
	43,200	43,000	
Average earning assets:			
U.S. and Canada	**$ 7,351.9**	$ 7,454.0	(1)
Europe	**2,937.7**	2,673.2	10
Mexico, Australia and other	**1,613.0**	1,465.5	10
	$ 11,902.6	$ 11,592.7	3
Average earning assets by product:			
Loans and finance leases	**$ 7,407.5**	$ 7,287.2	2
Dealer wholesale financing	**1,601.2**	1,643.4	(3)
Equipment on lease and other	**2,893.9**	2,662.1	9
	$ 11,902.6	$ 11,592.7	3
Revenues:			
U.S. and Canada	**$ 734.0**	$ 690.3	6
Europe	**306.8**	287.1	7
Mexico, Australia and other	**228.1**	209.3	9
	$ 1,268.9	$ 1,186.7	7
Revenues by product:			
Loans and finance leases	**$ 375.2**	$ 369.9	1
Dealer wholesale financing	**55.9**	56.3	(1)
Equipment on lease and other	**837.8**	760.5	10
	$ 1,268.9	$ 1,186.7	7
Income before income taxes	**$ 264.0**	$ 306.5	(14)

New loan and lease volume was $4.33 billion in 2017 compared to $4.22 billion in 2016, primarily due to higher truck deliveries in 2017. PFS finance market share on new PACCAR truck sales was 24.9% in 2017 compared to 26.7% in 2016.

PFS revenues increased to $1.27 billion in 2017 from $1.19 billion in 2016. The increase was primarily due to higher average operating lease earning assets, and higher used truck sales, partially offset by unfavorable effects of currency translation, which decreased PFS revenues by $.6 million in 2017.

PFS income before income taxes decreased to $264.0 million in 2017 from $306.5 million in 2016, primarily due to lower results on returned lease assets, higher borrowing rates, a higher provision for losses on receivables, and the effects of translating weaker foreign currencies to the U.S. dollar, partially offset by higher average earning asset balances. The currency exchange impact decreased PFS income before income taxes by $1.2 million in 2017.

Included in Financial Services "Other Assets" on the Company's Consolidated Balance Sheets are used trucks held for sale, net of impairments, of $221.7 million at December 31, 2017 and $267.2 million at December 31, 2016. These trucks are primarily units returned from matured operating leases in the ordinary course of business, and also includes trucks acquired from repossessions or through acquisitions of used trucks in trades related to new truck sales.

The Company recognized losses on used trucks, excluding repossessions, of $45.1 million in 2017 compared to $16.4 million in 2016, including losses on multiple unit transactions of $29.2 million in 2017 compared to $6.8 million in 2016. Used truck losses related to repossessions, which are recognized as credit losses, were $5.1 million and $3.4 million in 2017 and 2016, respectively.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between 2017 and 2016 are outlined below:

($ in millions)	INTEREST AND FEES	INTEREST AND OTHER BORROWING EXPENSES	FINANCE MARGIN
2016	**$ 426.2**	**$ 127.2**	**$ 299.0**
Increase (decrease)			
Average finance receivables	**2.3**		**2.3**
Average debt balances		**2.4**	**(2.4)**
Yields	**5.3**		**5.3**
Borrowing rates		**21.0**	**(21.0)**
Currency translation	**(2.7)**	**(1.0)**	**(1.7)**
Total increase (decrease)	**4.9**	**22.4**	**(17.5)**
2017	**$ 431.1**	**$ 149.6**	**$ 281.5**

- Average finance receivables increased $89.1 million (excluding foreign exchange effects) in 2017 as a result of retail portfolio new business volume exceeding collections.
- Average debt balances increased $130.6 million (excluding foreign exchange effects) in 2017. The higher average debt balances reflect funding for a higher average earning assets portfolio, which includes loans, finance leases, wholesale and equipment on operating lease.
- Higher portfolio yields (4.81% in 2017 compared to 4.77% in 2016) increased interest and fees by $5.3 million. The higher portfolio yields reflect higher lending volumes in North America which have higher market rates than Europe.
- Higher borrowing rates (1.7% in 2017 compared to 1.5% in 2016) 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, primarily the Mexican peso and the British pound, partially offset by a strengthening euro.

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

($ in millions) *Year Ended December 31,*	**2017**	2016
Operating lease and rental revenues	**$ 784.6**	$ 720.5
Used truck sales and other	**53.2**	40.0
Operating lease, rental and other revenues	**$ 837.8**	$ 760.5
Depreciation of operating lease equipment	**$ 587.4**	$ 509.1
Vehicle operating expenses	**99.6**	92.1
Cost of used truck sales and other	**40.5**	34.0
Depreciation and other expenses	**$ 727.5**	$ 635.2

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between 2017 and 2016 are outlined below:

($ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSES	LEASE MARGIN
2016	**$ 760.5**	**$ 635.2**	**$ 125.3**
Increase (decrease)			
Used truck sales	**9.7**	**8.5**	**1.2**
Results on returned lease assets		**31.0**	**(31.0)**
Average operating lease assets	**56.5**	**47.9**	**8.6**
Revenue and cost per asset	**5.5**	**5.1**	**.4**
Currency translation and other	**5.6**	**(.2)**	**5.8**
Total increase (decrease)	**77.3**	**92.3**	**(15.0)**
2017	**$ 837.8**	**$ 727.5**	**$ 110.3**

- A higher volume of used truck sales increased operating lease, rental and other revenues by $9.7 million and increased depreciation and other expenses by $8.5 million.
- Results on returned lease assets increased depreciation and other expenses by $31.0 million, primarily due to higher losses on sales of returned lease units.
- Average operating lease assets increased $223.8 million (excluding foreign exchange effects), which increased revenues by $56.5 million and related depreciation and other expenses by $47.9 million.
- Revenue per asset increased $5.5 million primarily due to higher rental income. Cost per asset increased $5.1 million due to higher depreciation expense, partially offset by lower vehicle operating expenses.
- The currency translation effects reflect an increase in the value of foreign currencies, relative to the U.S. dollar, primarily the euro, partially offset by a weakening of the British pound.

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

($ in millions)	**2017**		2016	
	PROVISION FOR LOSSES ON RECEIVABLES	**NET CHARGE-OFFS**	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS
U.S. and Canada	**$ 13.7**	**$ 14.5**	$ 14.0	$ 14.7
Europe	**1.4**	**1.4**	.4	1.2
Mexico, Australia and other	**7.2**	**5.5**	4.0	3.3
	$ 22.3	**$ 21.4**	$ 18.4	$ 19.2

The provision for losses on receivables was $22.3 million in 2017, an increase of $3.9 million compared to 2016, reflecting higher portfolio balances in Mexico, Australia and other and 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, 2017 and 2016 are summarized below:

($ in millions)	2017		2016	
	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*
Commercial	**$ 189.7**	**2.4%**	$ 236.2	3.2%
Insignificant delay	**78.9**	**1.0%**	90.3	1.3%
Credit - no concession	**58.2**	**.8%**	51.9	.7%
Credit - TDR	**20.5**	**.3%**	31.6	.4%
	$ 347.3	**4.5%**	$ 410.0	5.6%

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

In 2017, total modification activity decreased compared to 2016, reflecting lower volumes of refinancing for commercial reasons, primarily in the U.S. The decrease in modifications for insignificant delay reflects fewer fleet customers requesting payment relief for up to three months. Credit - TDR modifications decreased to $20.5 million in 2017 from $31.6 million in 2016 mainly due to the contract modifications for two fleet customers in 2016.

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

At December 31,	2017	2016
Percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	**.4%**	.3%
Europe	**.3%**	.5%
Mexico, Australia and other	**1.5%**	1.8%
Worldwide	**.5%**	.5%

Accounts 30+ days past due were .5% at December 31, 2017 and December 31, 2016, reflecting lower past dues in Europe as well as Mexico, Australia and other, offset by an increase in the U.S. and Canada. The Company continues to focus on maintaining low past due balances.

When the Company modifies a 30+ days past due account, the customer is then generally considered current under the revised contractual terms. The Company modified $.6 million and $2.6 million of accounts worldwide during the fourth quarter of 2017 and the fourth quarter of 2016, respectively, 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,	2017	2016
Pro forma percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	**.4%**	.3%
Europe	**.3%**	.5%
Mexico, Australia and other	**1.5%**	2.0%
Worldwide	**.5%**	.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, 2017 and 2016. The effect on the allowance for credit losses from such modifications was not significant at December 31, 2017 and 2016.

The Company's 2017 and 2016 annualized pre-tax return on average earning assets for Financial Services was 2.2% and 2.6%, respectively. The decrease was due primarily to higher losses on used trucks in 2017.

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 2017 and 2016. Other SG&A was $48.1 million in 2017 and $46.6 million in 2016. The increase in other SG&A was primarily due to higher labor related costs.

Other income (loss) before tax was a loss of $37.1 million in 2017 compared to a loss of $873.3 million in 2016, which included the impact of the $833.0 million EC charge.

Investment income increased to $35.3 million in 2017 from $27.6 million in 2016, primarily due to higher average U.S. portfolio balances and higher yields on U.S. investments due to higher market interest rates.

Income Taxes

In 2017, the effective tax rate was 22.9% compared to 53.8% in 2016. The lower rate is due to the 2017 one-time impact from the change in U.S. tax law as explained below, and the unfavorable 2016 impact of the one-time non-deductible expense of $833.0 million for the EC charge.

On December 22, 2017, the U.S. enacted new federal income tax legislation, the Tax Cuts and Jobs Act ("the Tax Act"). The Tax Act lowered the U.S. statutory income tax rate from 35% to 21%, imposed a one-time transition tax on the Company's foreign earnings, which previously had been deferred from U.S. income tax and created a modified territorial system. As a result, the Company recorded a provisional amount of $304.0 million of deferred tax benefits, due to the re-measurement of net deferred tax liabilities at the new lower statutory tax rate. In addition, the Company recorded a provisional amount of $130.6 million of tax expense on the Company's foreign earnings, which previously had been deferred from U.S. income tax. These provisional amounts may change in 2018, as new information becomes available, as the Tax Act continues to be interpreted and as new technical guidance is issued. Based on the Company's current operations, the Company does not expect its future foreign earnings will be subject to significant U.S. federal income tax as a result of the new modified territorial system. The Company's effective tax rate for 2018 is estimated at 23% to 25%, reflecting the reduced federal tax rate of 21% and other provisions of the Act.

($ in millions)

Year Ended December 31,	**2017**	2016
Domestic income before taxes	**$ 1,347.8**	$ 1,190.7
Foreign income (loss) before taxes	**825.5**	(60.3)
Total income before taxes	**$ 2,173.3**	$ 1,130.4
Domestic pre-tax return on revenues	**12.8%**	12.8%
Foreign pre-tax return on revenues	**9.2%**	(.8)%
Total pre-tax return on revenues	**11.2%**	6.6%

In 2017, the improvement in domestic income before taxes was due to higher truck deliveries and improved aftermarket demand. Foreign income (loss) before taxes improved due to stronger truck and aftermarket demand as well as the 2016 impact of the $833.0 million EC charge.

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 85,600 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) *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
(Decrease) increase			
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) *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
(Decrease) increase			
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) *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, Australia and other	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, Australia and other	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, Australia and other	209.3	218.2	(4)
	$ 1,186.7	$ 1,172.3	1
Revenues 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 revenues 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) *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, Australia and other	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, Australia and other	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, Australia and other	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.

($ in millions) *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.

LIQUIDITY AND CAPITAL RESOURCES:

($ in millions) *At December 31,*	**2017**	2016	2015
Cash and cash equivalents	**$ 2,364.7**	$ 1,915.7	$ 2,016.4
Marketable debt securities	**1,367.1**	1,140.9	1,448.1
	$ 3,731.8	$ 3,056.6	$ 3,464.5

The Company's total cash and marketable debt securities at December 31, 2017 increased $675.2 million from the balances at December 31, 2016, mainly due to an increase in cash and cash equivalents.

The change in cash and cash equivalents is summarized below:

($ in millions) *Year Ended December 31,*	**2017**	2016	2015
Operating activities:			
Net income	**$ 1,675.2**	$ 521.7	$ 1,604.0
Net income items not affecting cash	**999.5**	1,072.7	910.9
Pension contributions	**(70.6)**	(185.7)	(62.9)
Changes in operating assets and liabilities, net	**111.7**	892.1	104.0
Net cash provided by operating activities	**2,715.8**	2,300.8	2,556.0
Net cash used in investing activities	**(1,964.6)**	(1,564.3)	(1,974.9)
Net cash used in financing activities	**(393.8)**	(823.5)	(196.5)
Effect of exchange rate changes on cash	**91.6**	(13.7)	(105.8)
Net increase (decrease) in cash and cash equivalents	**449.0**	(100.7)	278.8
Cash and cash equivalents at beginning of the year	**1,915.7**	2,016.4	1,737.6
Cash and cash equivalents at end of the year	**$ 2,364.7**	$ 1,915.7	$ 2,016.4

2017 Compared to 2016:

Operating activities: Cash provided by operations increased by $415.0 million to $2.72 billion in 2017. Higher operating cash flows reflect higher net income of $1.68 billion in 2017, compared to net income of $521.7 million in 2016, which includes payment of the $833.0 million EC charge. In addition, there were higher cash inflows of $342.2 million from accounts payable and accrued expenses as purchases of goods and services exceeded payments. The higher cash inflows were offset by wholesale receivables on new trucks of $673.6 million as originations exceeded cash receipts in 2017 ($272.0 million) compared to cash receipts exceeding originations in 2016 ($401.6 million). Additionally, there was a higher cash usage of $214.0 million from inventory due to $149.9 million in net inventory purchases in 2017 versus $64.1 million in net inventory reductions in 2016. Finally, there was a higher cash outflow for payment of income taxes of $160.0 million.

Investing activities: Cash used in investing activities increased by $400.3 million to $1.96 billion in 2017 from $1.56 billion in 2016. Higher net cash used in investing activities reflects $463.7 million in marketable debt securities as there was $190.8 million in net purchases of marketable debt securities in 2017 compared to $272.9 million in net proceeds from sales of marketable debt securities in 2016. In addition, there were higher net originations of retail loans and direct financing leases of $87.0 million in 2017 compared to 2016. The outflows were partially offset by lower cash used in the acquisitions of equipment for operating leases of $166.5 million.

Financing activities: Cash used in financing activities was $393.8 million in 2017 compared to cash used in financing activities of $823.5 million in 2016. The Company paid $558.3 million in dividends in 2017 compared to $829.3 million in 2016; the decrease of $271.0 million was primarily due to a lower special dividend paid in January 2017 than the special dividend paid in January 2016. In 2016, the Company repurchased 1.4 million shares of common stock for $70.5 million, while there were no stock repurchases in 2017. In 2017, the Company issued $1.67 billion of term debt, increased its outstanding commercial paper and short-term bank loans by $352.1 million and repaid term debt of $1.90 billion. 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. This resulted in cash provided by borrowing activities of $125.2 million in 2017, $78.3 million higher than the cash provided by borrowing activities of $46.9 million in 2016.

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.

Credit Lines and Other:
The Company has line of credit arrangements of $3.52 billion, of which $3.31 billion were unused at December 31, 2017. Included in these arrangements are $3.0 billion of syndicated bank facilities, of which $1.0 billion expires in June 2018, $1.0 billion expires in June 2021 and $1.0 billion expires in June 2022. 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, 2017.

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, 2017, $206.7 million of shares have been repurchased pursuant to the 2015 authorization.

At December 31, 2017 and December 31, 2016, the Company had cash and cash equivalents and marketable debt securities of $1.84 billion and $1.33 billion, respectively, which are reinvested in foreign subsidiaries. The Company periodically repatriates foreign earnings. Dividends paid by foreign subsidiaries to the U.S. parent were nil, $.33 billion and $.24 billion in 2017, 2016 and 2015, respectively. The Company believes that its U.S. cash and cash equivalents and marketable debt securities, future operating cash flow and access to the capital markets, along with periodic repatriation of foreign earnings, will be sufficient to meet U.S. liquidity requirements.

Truck, Parts and Other
The Company provides funding for working capital, capital expenditures, R&D, dividends, stock repurchases and other business initiatives and commitments primarily from cash provided by operations. Management expects this method of funding to continue in the future.

Investments for property, plant and equipment in 2017 increased to $425.7 million from $394.6 million in 2016, reflecting additional investments in the Company's manufacturing facilities, new product development and enhanced aftermarket support. Over the past decade, the Company's combined investments in worldwide capital projects and R&D totaled $6.11 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.

Capital investments in 2018 are expected to be $425 to $475 million, and R&D is expected to be $280 to $310 million. The Company is investing in PACCAR's new truck models, integrated powertrains, enhanced aerodynamic truck designs, advanced driver assistance and truck connectivity technologies, and expanded 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, 2017, 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, 2017 was $4.45 billion. The registration expires in November 2018 and does not limit the principal amount of debt securities that may be issued during that period. PFC intends to renew the registration in 2018.

As of December 31, 2017, the Company's European finance subsidiary, PACCAR Financial Europe, had €1.34 billion 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 2017 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, 2017, 6.25 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, 2017:

	MATURITY				
($ in millions)	WITHIN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS	TOTAL
Borrowings*	$ 4,475.7	$ 3,498.3	$ 926.3		$ 8,900.3
Purchase obligations	186.5	133.5	122.8		442.8
Interest on debt**	98.2	109.3	18.6		226.1
Operating leases	23.0	24.9	10.9	$ 2.6	61.4
Other obligations	58.8	9.2	1.2	6.6	75.8
	$ 4,842.2	$ 3,775.2	$ 1,079.8	$ 9.2	$ 9,706.4

* Commercial paper included in borrowings is at par value.

** Interest on floating-rate debt is based on the applicable market rates at December 31, 2017.

Total cash commitments for borrowings and interest on term debt are $9.13 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, 2017:

	COMMITMENT EXPIRATION				
($ in millions)	WITHIN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS	TOTAL
Loan and lease commitments	$ 928.6				$ 928.6
Residual value guarantees	287.8	$ 479.4	$ 134.0	$ 8.6	909.8
Letters of credit	11.7	.5	.1	3.0	15.3
	$ 1,228.1	$ 479.9	$ 134.1	$ 11.6	$ 1,853.7

Loan and lease commitments are for funding new retail loan and lease contracts. Residual value guarantees represent the Company's commitment to acquire trucks at a guaranteed value if the customer decides to return the truck at a specified date in the future.

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 one-time tax benefit from the Tax Cuts and Jobs Act (“the Tax Act”) in 2017 and the non-recurring European Commission 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 significant non-recurring items that are not representative of underlying operating trends.

Reconciliations from the most directly comparable GAAP measures of: adjusted net income (non-GAAP) and adjusted net income per diluted share (non-GAAP) are as follows:

($ in millions, except per share amounts)

Year Ended December 31,	**2017**	2016
Net income	**$ 1,675.2**	$ 521.7
One-time tax benefit from the Tax Act	**(173.4)**	
Non-recurring European Commission charge		833.0
Adjusted net income (non-GAAP)	**$ 1,501.8**	$ 1,354.7
Per diluted share:		
Net income	**$ 4.75**	$ 1.48
One-time tax benefit from the Tax Act	**(.49)**	
Non-recurring European Commission charge		2.37
Adjusted net income (non-GAAP)	**$ 4.26**	$ 3.85
After-tax return on revenues	**8.6%**	3.1%
One-time tax benefit from the Tax Act	**(.9)%**	
Non-recurring European Commission charge		4.9%
After-tax adjusted return on revenues (non-GAAP)*	**7.7%**	8.0%
After-tax return on beginning equity	**24.7%**	7.5%
One-time tax benefit from the Tax Act	**(2.5)%**	
Non-recurring European Commission charge		12.0%
After-tax adjusted return on beginning equity (non-GAAP)*	**22.2%**	19.5%

* Calculated using adjusted net income.

($ in millions, except per share amounts)		Three Months Ended December 31, 2017
Net income	$	589.2
One-time tax benefit from the Tax Act		(173.4)
Adjusted net income (non-GAAP)	$	415.8
Per diluted share:		
Net income	$	1.67
One-time tax benefit from the Tax Act		(.49)
Adjusted net income (non-GAAP)	$	1.18
Shares used in diluted share calculations:		
GAAP		353.2
Non-GAAP		353.2

($ in millions, except per share amounts)		Three Months Ended March 31, 2016		Three Months 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, 2017, 2016 and 2015 were $1.9 million, $2.2 million and $2.0 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 2017, market values on equipment returning upon operating lease maturity decreased, resulting in an increase in depreciation expense of $41.2 million. 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, 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.

At December 31, 2017, 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 $2.73 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 $78.1 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 three to five years, 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 30% and 80%. Over the past three years, the Company's year-end 30+ days past due accounts were 0.5% 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 8 to 38 basis points of receivables. At December 31, 2017, 30+ days past dues were 0.5%. If past dues were 100 basis points higher or 1.5% as of December 31, 2017, the Company's estimate of credit losses would likely have increased by a range of $6 to $30 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 1.4%. If the 2017 warranty expense had been .2% higher as a percentage of net sales and revenues in 2017, warranty expense would have increased by approximately $36 million.

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 judgement regarding the future outcomes of tax law issues included in tax returns and jurisdictional mix of earnings. 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; litigation, including EC-related claims; 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, 2017.

Year Ended December 31,	**2017**	2016	2015
		(millions, except per share data)	
TRUCK, PARTS AND OTHER:			
Net sales and revenues	**$ 18,187.5**	$ 15,846.6	$ 17,942.8
Cost of sales and revenues	**15,593.7**	13,517.7	15,292.1
Research and development	**264.7**	247.2	239.8
Selling, general and administrative	**449.5**	440.8	445.9
European Commission charge		833.0	
Interest and other expense, net	**5.6**	11.6	12.3
	16,313.5	15,050.3	15,990.1
Truck, Parts and Other Income Before Income Taxes	**1,874.0**	796.3	1,952.7
FINANCIAL SERVICES:			
Interest and fees	**431.1**	426.2	443.8
Operating lease, rental and other revenues	**837.8**	760.5	728.5
Revenues	**1,268.9**	1,186.7	1,172.3
Interest and other borrowing expenses	**149.6**	127.2	118.0
Depreciation and other expenses	**727.5**	635.2	583.7
Selling, general and administrative	**105.5**	99.4	95.6
Provision for losses on receivables	**22.3**	18.4	12.4
	1,004.9	880.2	809.7
Financial Services Income Before Income Taxes	**264.0**	306.5	362.6
Investment income	**35.3**	27.6	21.8
Total Income Before Income Taxes	**2,173.3**	1,130.4	2,337.1
Income taxes	**498.1**	608.7	733.1
Net Income	**$ 1,675.2**	$ 521.7	$ 1,604.0
Net Income Per Share			
Basic	**$ 4.76**	$ 1.49	$ 4.52
Diluted	**$ 4.75**	$ 1.48	$ 4.51
Weighted Average Number of Common Shares Outstanding			
Basic	**351.9**	351.1	354.6
Diluted	**352.9**	351.8	355.6

See notes to consolidated financial statements.

Year Ended December 31,	**2017**	2016	2015
		(millions)	
Net income	**$ 1,675.2**	$ 521.7	$ 1,604.0
Other comprehensive income (loss):			
Unrealized (losses) gains on derivative contracts			
Net (loss) gain arising during the period	**(125.5)**	(6.5)	38.7
Tax effect	**33.9**	6.7	(10.8)
Reclassification adjustment	**133.4**	10.8	(29.3)
Tax effect	**(36.3)**	(8.9)	8.5
	5.5	2.1	7.1
Unrealized (losses) gains on marketable debt securities			
Net holding loss	**(1.5)**	(.1)	(2.3)
Tax effect	**.4**	.4	.6
Reclassification adjustment	**(.6)**	(3.7)	(2.1)
Tax effect	**.2**	1.0	.6
	(1.5)	(2.4)	(3.2)
Pension plans			
Net gain (loss) arising during the period	**37.1**	(50.3)	17.7
Tax effect	**(16.7)**	7.7	(2.6)
Reclassification adjustment	**26.6**	28.9	42.4
Tax effect	**(8.5)**	(10.0)	(14.8)
	38.5	(23.7)	42.7
Foreign currency translation gain (loss)	**292.0**	(87.1)	(483.8)
Net other comprehensive income (loss)	**334.5**	(111.1)	(437.2)
Comprehensive Income	**$ 2,009.7**	$ 410.6	$ 1,166.8

See notes to consolidated financial statements.

ASSETS

December 31,	**2017**	2016
	(millions)	
TRUCK, PARTS AND OTHER:		
Current Assets		
Cash and cash equivalents	**$ 2,254.8**	$ 1,781.7
Trade and other receivables, net	**1,127.9**	862.2
Marketable debt securities	**1,367.1**	1,140.9
Inventories, net	**928.4**	727.8
Other current assets	**404.4**	225.6
Total Truck, Parts and Other Current Assets	**6,082.6**	4,738.2
Equipment on operating leases, net	**1,265.7**	1,013.9
Property, plant and equipment, net	**2,464.4**	2,260.0
Other noncurrent assets, net	**425.2**	432.0
Total Truck, Parts and Other Assets	**10,237.9**	8,444.1
FINANCIAL SERVICES:		
Cash and cash equivalents	**109.9**	134.0
Finance and other receivables, net	**9,697.1**	8,837.4
Equipment on operating leases, net	**2,876.3**	2,623.9
Other assets	**519.0**	599.5
Total Financial Services Assets	**13,202.3**	12,194.8
	$ 23,440.2	$ 20,638.9

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31,	**2017**	2016
	(millions)	
TRUCK, PARTS AND OTHER:		
Current Liabilities		
Accounts payable, accrued expenses and other	**$ 2,569.5**	$ 2,034.1
Dividend payable	**422.1**	210.4
Total Truck, Parts and Other Current Liabilities	**2,991.6**	2,244.5
Residual value guarantees and deferred revenues	**1,339.0**	1,072.6
Other liabilities	**939.8**	739.1
Total Truck, Parts and Other Liabilities	**5,270.4**	4,056.2
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	**466.2**	395.0
Commercial paper and bank loans	**2,933.9**	2,447.5
Term notes	**5,945.5**	6,027.7
Deferred taxes and other liabilities	**773.7**	934.9
Total Financial Services Liabilities	**10,119.3**	9,805.1
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 351.8 million and 350.7 million shares	**351.8**	350.7
Additional paid-in capital	**123.2**	70.1
Retained earnings	**8,369.1**	7,484.9
Accumulated other comprehensive loss	**(793.6)**	(1,128.1)
Total Stockholders' Equity	**8,050.5**	6,777.6
	$ 23,440.2	$ 20,638.9

See notes to consolidated financial statements.

Year Ended December 31,	**2017**	2016	2015
		(millions)	
OPERATING ACTIVITIES:			
Net Income	**$ 1,675.2**	$ 521.7	$ 1,604.0
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization:			
Property, plant and equipment	**321.4**	302.4	292.2
Equipment on operating leases and other	**786.1**	690.7	614.9
Provision for losses on financial services receivables	**22.3**	18.4	12.4
Deferred taxes	**(173.9)**	30.9	(55.2)
Other, net	**43.6**	30.3	46.6
Pension contributions	**(70.6)**	(185.7)	(62.9)
Change in operating assets and liabilities:			
(Increase) decrease in assets other than cash and cash equivalents:			
Receivables:			
Trade and other receivables	**(207.2)**	(61.8)	105.3
Wholesale receivables on new trucks	**(272.0)**	401.6	(273.4)
Sales-type finance leases and dealer direct loans on new trucks	**71.9**	116.1	(6.6)
Inventories	**(149.9)**	64.1	64.3
Other assets, net	**131.4**	41.0	(125.1)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	**333.6**	(8.6)	(162.6)
Residual value guarantees and deferred revenues	**166.3**	155.9	242.0
Other liabilities, net	**37.6**	183.8	260.1
Net Cash Provided by Operating Activities	**2,715.8**	2,300.8	2,556.0
INVESTING ACTIVITIES:			
Originations of retail loans and direct financing leases	**(3,116.8)**	(2,825.9)	(3,064.5)
Collections on retail loans and direct financing leases	**2,713.7**	2,509.8	2,681.9
Net decrease (increase) in wholesale receivables on used equipment	**5.2**	9.5	(24.7)
Purchases of marketable debt securities	**(970.3)**	(1,031.9)	(1,329.8)
Proceeds from sales and maturities of marketable debt securities	**779.5**	1,304.8	1,035.5
Payments for property, plant and equipment	**(423.4)**	(375.2)	(286.7)
Acquisitions of equipment for operating leases	**(1,423.2)**	(1,589.7)	(1,438.5)
Proceeds from asset disposals	**470.7**	433.8	448.8
Other, net		.5	3.1
Net Cash Used in Investing Activities	**(1,964.6)**	(1,564.3)	(1,974.9)
FINANCING ACTIVITIES:			
Payments of cash dividends	**(558.3)**	(829.3)	(680.5)
Purchases of treasury stock		(70.5)	(201.6)
Proceeds from stock compensation transactions	**39.3**	29.4	21.8
Net increase (decrease) in commercial paper and short-term bank loans	**352.1**	(322.8)	250.7
Proceeds from term debt	**1,670.2**	1,994.8	1,993.2
Payments on term debt	**(1,897.1)**	(1,625.1)	(1,580.1)
Net Cash Used in Financing Activities	**(393.8)**	(823.5)	(196.5)
Effect of exchange rate changes on cash	**91.6**	(13.7)	(105.8)
Net Increase (Decrease) in Cash and Cash Equivalents	**449.0**	(100.7)	278.8
Cash and cash equivalents at beginning of year	**1,915.7**	2,016.4	1,737.6
Cash and cash equivalents at end of year	**$ 2,364.7**	$ 1,915.7	$ 2,016.4

See notes to consolidated financial statements.

December 31,	**2017**	2016	2015
		(millions, except per share data)	
COMMON STOCK, $1 PAR VALUE:			
Balance at beginning of year	**$ 350.7**	$ 351.3	$ 355.2
Treasury stock retirement		(1.4)	(4.6)
Stock compensation	**1.1**	.8	.7
Balance at end of year	**351.8**	350.7	351.3
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	**70.1**	69.3	156.7
Treasury stock retirement		(43.4)	(128.5)
Stock compensation and tax benefit	**53.1**	44.2	41.1
Balance at end of year	**123.2**	70.1	69.3
TREASURY STOCK, AT COST:			
Balance at beginning of year			(42.7)
Purchases, shares: 2017 - nil; 2016 - 1.38; 2015 - 3.85		(70.5)	(201.6)
Retirements		70.5	244.3
Balance at end of year			
RETAINED EARNINGS:			
Balance at beginning of year	**7,484.9**	7,536.8	6,863.8
Net income	**1,675.2**	521.7	1,604.0
Cash dividends declared on common stock,	**(771.1)**		
per share: 2017 - $2.19; 2016 - $1.56; 2015 - $2.32		(547.9)	(819.8)
Treasury stock retirement		(25.7)	(111.2)
Cumulative effect of change in accounting principle	**(19.9)**		
Balance at end of year	**8,369.1**	7,484.9	7,536.8
ACCUMULATED OTHER COMPREHENSIVE LOSS:			
Balance at beginning of year	**(1,128.1)**	(1,017.0)	(579.8)
Other comprehensive income (loss)	**334.5**	(111.1)	(437.2)
Balance at end of year	**(793.6)**	(1,128.1)	(1,017.0)
Total Stockholders' Equity	**$ 8,050.5**	$ 6,777.6	$ 6,940.4

See notes to consolidated financial statements.

December 31, 2017, 2016 and 2015 (currencies in millions)

A. SIGNIFICANT ACCOUNTING POLICIES

Description of Operations: PACCAR Inc (the Company or PACCAR) is a multinational company operating in three principal segments: (1) the Truck segment includes the design and manufacture of high-quality, light-, medium- and heavy-duty commercial trucks; (2) the Parts segment includes the distribution of aftermarket parts for trucks and related commercial vehicles; and (3) the Financial Services segment (PFS) 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, 2017, 2016 and 2015 were $760.9, $698.9 and $668.6, respectively. Depreciation and related leased unit operating expenses were $665.7, $581.7 and $536.2 for the years ended December 31, 2017, 2016 and 2015, 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, 2017 or December 31, 2016. 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, 2017 and 2016, respectively, trade and other receivables include trade receivables from dealers and customers of $962.0 and $734.6 and other receivables of $165.9 and $127.6 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 $1.5 and $1.7 for the years ended December 31, 2017 and 2016, respectively. Net charge-offs were $.1, $.1 and $.3 for the years ended December 31, 2017, 2016 and 2015, 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 five months in 2017 and four months in 2016 and did not have a significant effect on the weighted average term or interest rate of the total portfolio at December 31, 2017 and 2016.

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 three to five years, 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 two 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 significant impairment charges for the three years ended December 31, 2017. Goodwill was $117.4 and $103.0 at December 31, 2017 and 2016, respectively. The increase 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 $53.3 at December 31, 2017.

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 in current 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 February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-02 *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendment requires a reclassification from accumulated other comprehensive income (AOCI) to retained earnings the difference between the historical corporate income tax rate and the newly enacted income tax rate resulting from the Tax Act. This ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted. Upon adoption, the Company estimates Retained earnings will increase and AOCI will decrease approximately $40 million with no impact to Stockholders' Equity. The Company expects to early adopt this ASU in 2018.

In March 2017, FASB issued ASU 2017-07 *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendment disaggregates the service cost component from non-service cost components of pension expense and prescribes where to present the various components of pension cost on the income statement. This ASU also allows only the service cost component to be eligible for capitalization, when applicable (e.g. as a cost of manufactured inventory or self-constructed assets). The Company will adopt this ASU in January 2018 and accordingly will apply the income statement presentation of service and non-service components of pension expense retrospectively and the capitalization of service cost prospectively. Non-service components of pension expense (see Note L) are currently reported in Cost of sales and revenues and Selling, general and administrative expenses. Upon adoption of this ASU these costs will be reported in Truck, Parts and Other: Interest and other expenses, net.

In October 2016, the FASB issued 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 adopted this ASU on January 1, 2017. The effect of the adoption reduced prepaid income taxes and retained earnings by $19.9. Because the corresponding deferred tax asset is not realizable, the Company recorded an offsetting valuation allowance.

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 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 will adopt this ASU on a modified retrospective basis on January 1, 2018.

The most significant effect of the standard relates to trucks sold in Europe that are subject to a residual value guarantee (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, revenues will 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. The Company expects the overall effects on revenues to not be significant, as the increase in revenues from immediate recognition will largely be offset by reduced amortization of RVG revenue that had been deferred under the prior standard. Upon adoption of the new standard, total RVG assets will decrease by approximately $497 million and the related liability will decrease by approximately $520 million. The cumulative effect adjustment will increase Retained earnings by approximately $17 million, net of tax. Also as required by the new standard, the Company will recognize an asset for the value of expected returned aftermarket parts which had previously been netted with the related liabilities. The new standard also requires new and expanded footnote disclosures.

In addition to ASU 2016-16 disclosed above, the Company adopted the following standards effective January 1, 2017, none of which had a material impact on the Company's consolidated financial statements.

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

* The Company early adopted in 2017.

** The Company adopted on the effective date of January 1, 2017.

The FASB also issued the following standards, which are not expected to have a material impact on the Company's consolidated financial statements.

STANDARD	DESCRIPTION	EFFECTIVE DATE
2016-01*	*Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.*	January 1, 2018
2016-15*	*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.*	January 1, 2018
2017-12**	*Derivative and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.*	January 1, 2019

* The Company will adopt on the effective date.

** The Company expects to early adopt on January 1, 2018.

B. INVESTMENTS IN MARKETABLE DEBT SECURITIES

Marketable debt securities consisted of the following at December 31:

2017	**AMORTIZED COST**	**UNREALIZED GAINS**	**UNREALIZED LOSSES**	**FAIR VALUE**
U.S. tax-exempt securities	**$ 537.9**		**$ 2.4**	**$ 535.5**
U.S. corporate securities	**89.7**	**$ .2**	**.2**	**89.7**
U.S. government and agency securities	**48.9**		**.2**	**48.7**
Non-U.S. corporate securities	**459.4**	**1.3**	**1.4**	**459.3**
Non-U.S. government securities	**91.5**	**.3**	**.1**	**91.7**
Other debt securities	**142.8**	**.1**	**.7**	**142.2**
	$ 1,370.2	**$ 1.9**	**$ 5.0**	**$ 1,367.1**

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

The cost of marketable debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Amortization, accretion, interest and dividend income and realized gains and losses are included in investment income. The cost of securities sold is based on the specific identification method. Gross realized gains were $1.4, $4.4 and $2.6, and gross realized losses were $.5, $.1 and $.8 for the years ended December 31, 2017, 2016 and 2015, respectively.

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

At December 31,	**2017**		2016	
	LESS THAN TWELVE MONTHS	**TWELVE MONTHS OR GREATER**	LESS THAN TWELVE MONTHS	TWELVE MONTHS OR GREATER
Fair value	**$ 908.5**	**$ 18.4**	$ 615.5	
Unrealized losses	**4.8**	**.2**	3.7	

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, 2017 were as follows:

Maturities:	AMORTIZED COST	FAIR VALUE
Within one year	$ 413.7	$ 413.3
One to five years	939.6	936.9
More than ten years	16.9	16.9
	$ 1,370.2	$ 1,367.1

December 31, 2017, 2016 and 2015 (currencies in millions)

C. INVENTORIES

Inventories include the following:

At December 31,	**2017**	2016
Finished products	**$ 515.7**	$ 452.3
Work in process and raw materials	**586.2**	444.7
	1,101.9	897.0
Less LIFO reserve	**(173.5)**	(169.2)
	$ 928.4	$ 727.8

Inventories valued using the LIFO method comprised 47% and 49% of consolidated inventories before deducting the LIFO reserve at December 31, 2017 and 2016, respectively.

D. FINANCE AND OTHER RECEIVABLES

Finance and other receivables include the following:

At December 31,	**2017**	2016
Loans	**$ 4,147.8**	$ 3,948.6
Direct financing leases	**3,211.7**	2,798.0
Sales-type finance leases	**781.1**	867.3
Dealer wholesale financing	**1,880.6**	1,528.5
Operating lease receivables and other	**161.1**	150.9
Unearned interest: Finance leases	**(368.0)**	(344.7)
	$ 9,814.3	$ 8,948.6
Less allowance for losses:		
Loans and leases	**(101.9)**	(97.1)
Dealer wholesale financing	**(6.0)**	(5.5)
Operating lease receivables and other	**(9.3)**	(8.6)
	$ 9,697.1	$ 8,837.4

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, 2018	LOANS	FINANCE LEASES
2018	$ 1,351.5	$ 1,226.7
2019	1,088.1	959.6
2020	857.2	716.6
2021	542.0	440.6
2022	242.9	217.8
Thereafter	66.1	90.6
	$ 4,147.8	$ 3,651.9

Estimated residual values included with finance leases amounted to $340.9 in 2017 and $239.1 in 2016. 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:

	2017				
	DEALER		CUSTOMER		
	WHOLESALE	RETAIL	RETAIL	OTHER*	TOTAL
Balance at January 1	**$ 5.5**	**$ 9.6**	**$ 87.5**	**$ 8.6**	**$ 111.2**
Provision for losses		**(.3)**	**21.1**	**1.5**	**22.3**
Charge-offs			**(24.8)**	**(1.9)**	**(26.7)**
Recoveries			**5.0**	**.3**	**5.3**
Currency translation and other	**.5**	**.1**	**3.7**	**.8**	**5.1**
Balance at December 31	**$ 6.0**	**$ 9.4**	**$ 92.5**	**$ 9.3**	**$ 117.2**

	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

* Operating lease and other trade receivables.

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

	DEALER		CUSTOMER	
At December 31, 2017	WHOLESALE	RETAIL	RETAIL	TOTAL
Recorded investment for impaired finance receivables evaluated individually	**$ .1**	**$ 4.0**	**$ 50.8**	**$ 54.9**
Allowance for impaired finance receivables determined individually	**.1**		**6.6**	**6.7**
Recorded investment for finance receivables evaluated collectively	**1,880.5**	**1,354.7**	**6,363.1**	**9,598.3**
Allowance for finance receivables determined collectively	**5.9**	**9.4**	**85.9**	**101.2**

December 31, 2017, 2016 and 2015 (currencies in millions)

At December 31, 2016	DEALER WHOLESALE	DEALER RETAIL	CUSTOMER 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

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

At December 31,	**2017**	2016
Dealer:		
Wholesale	**$ .1**	$ .1
Customer retail:		
Fleet	**44.4**	49.5
Owner/operator	**6.0**	6.9
	$ 50.5	$ 56.5

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, 2017 and December 31, 2016 was not significantly different than the unpaid principal balance.

At December 31, 2017	**DEALER WHOLESALE**	**DEALER RETAIL**	**CUSTOMER RETAIL FLEET**	**CUSTOMER RETAIL OWNER/ OPERATOR**	**TOTAL**
Impaired loans with a specific reserve	**$ .1**		**$ 18.8**	**$ 1.0**	**$ 19.9**
Associated allowance	**(.1)**		**(3.0)**	**(.2)**	**(3.3)**
			$ 15.8	**$ .8**	**$ 16.6**
Impaired loans with no specific reserve		**$ 3.9**	**13.1**	**.2**	**17.2**
Net carrying amount of impaired loans		**$ 3.9**	**$ 28.9**	**$ 1.0**	**$ 33.8**
Average recorded investment	**$ .1**	**$ 4.0**	**$ 31.3**	**$ 1.8**	**$ 37.2**

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

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

	2017	2016	2015
Interest income recognized:			
Customer retail - fleet	**$ 1.6**	$ 1.1	$ 1.4
Customer retail - owner/operator	**.1**	.4	.4
	$ 1.7	$ 1.5	$ 1.8

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, 2017	**WHOLESALE**	**RETAIL**	**FLEET**	**OWNER/ OPERATOR**	**TOTAL**
Performing	**$ 1,874.5**	**$ 1,354.7**	**$ 5,290.3**	**$ 1,005.2**	**$ 9,524.7**
Watch	**6.0**		**62.9**	**4.7**	**73.6**
At-risk	**.1**	**4.0**	**44.7**	**6.1**	**54.9**
	$ 1,880.6	**$ 1,358.7**	**$ 5,397.9**	**$ 1,016.0**	**$ 9,653.2**

	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

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, 2017	**WHOLESALE**	**RETAIL**	**FLEET**	**OWNER/ OPERATOR**	**TOTAL**
Current and up to 30 days past due	**$ 1,880.5**	**$ 1,358.7**	**$ 5,365.7**	**$ 1,007.4**	**$ 9,612.3**
31 - 60 days past due			**14.7**	**4.0**	**18.7**
Greater than 60 days past due	**.1**		**17.5**	**4.6**	**22.2**
	$ 1,880.6	**$ 1,358.7**	**$ 5,397.9**	**$ 1,016.0**	**$ 9,653.2**

	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

Troubled Debt Restructurings: The balance of TDRs was $37.9 and $43.1 at December 31, 2017 and December 31, 2016, 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:

	2017		2016	
	RECORDED INVESTMENT		RECORDED INVESTMENT	
	PRE-MODIFICATION	**POST-MODIFICATION**	PRE-MODIFICATION	POST-MODIFICATION
Fleet	**$ 19.9**	**$ 19.9**	$ 27.2	$ 27.2
Owner/operator	**.6**	**.6**	4.4	4.4
	$ 20.5	**$ 20.5**	$ 31.6	$ 31.6

The effect on the allowance for credit losses from such modifications was not significant at December 31, 2017 and 2016.

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:

	2017	2016
Fleet	**$ 4.7**	$ .3
Owner/operator	**.2**	.4
	$ 4.9	$ .7

There were $1.4 and $4.8 of finance receivables modified as TDRs during the previous twelve months that subsequently defaulted and were charged off for the year ended December 31, 2017 and 2016, respectively.

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, 2017 and 2016 was $13.1 and $25.4, respectively. Proceeds from the sales of repossessed assets were $58.3, $51.7 and $48.0 for the years ended December 31, 2017, 2016 and 2015, 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,	**2017**	2016	**2017**	2016
Equipment on operating leases	**$ 1,615.5**	$ 1,282.3	**$ 4,066.3**	$ 3,640.6
Less allowance for depreciation	**(349.8)**	(268.4)	**(1,190.0)**	(1,016.7)
	$ 1,265.7	$ 1,013.9	**$ 2,876.3**	$ 2,623.9

Annual minimum lease payments due on Financial Services operating leases beginning January 1, 2018 are $628.5, $433.2, $267.1, $138.2, $49.4 and $9.6 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,	**2017**	2016
Residual value guarantees	**$ 909.8**	$ 699.2
Deferred lease revenues	**429.2**	373.4
	$ 1,339.0	$ 1,072.6

The deferred lease revenue is amortized on a straight-line basis over the RVG contract period. At December 31, 2017, the annual amortization of deferred revenues beginning January 1, 2018 is $188.9, $123.8, $69.5, $42.3, $4.5 and $.2 thereafter. Annual maturities of the RVGs beginning January 1, 2018 are $287.8, $269.9, $209.5, $79.8, $54.2 and $8.6 thereafter.

F. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include the following:

At December 31,	USEFUL LIVES	**2017**	2016
Land		**$ 263.3**	$ 221.2
Buildings and improvements	10 - 40 years	**1,315.1**	1,134.1
Machinery, equipment and production tooling	3 - 12 years	**3,782.1**	3,285.2
Construction in progress		**253.8**	352.8
		5,614.3	4,993.3
Less allowance for depreciation		**(3,149.9)**	(2,733.3)
		$ 2,464.4	$ 2,260.0

G. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER

Accounts payable, accrued expenses and other include the following:

At December 31,	**2017**	2016
Truck, Parts and Other:		
Accounts payable	**$ 1,154.7**	$ 938.6
Product support liabilities	**372.1**	344.2
Accrued expenses	**401.4**	233.1
Accrued capital expenditures	**120.1**	111.2
Salaries and wages	**238.9**	194.8
Other	**282.3**	212.2
	$ 2,569.5	$ 2,034.1

H. PRODUCT SUPPORT LIABILITIES

Changes in product support liabilities are summarized as follows:

WARRANTY RESERVES	**2017**	2016	2015
Balance at January 1	**$ 282.1**	$ 346.2	$ 310.8
Cost accruals	**242.1**	211.9	294.8
Payments	**(236.8)**	(255.7)	(228.8)
Change in estimates for pre-existing warranties	**(2.0)**	(7.3)	(21.3)
Currency translation	**13.4**	(13.0)	(9.3)
Balance at December 31	**$ 298.8**	$ 282.1	$ 346.2

DEFERRED REVENUES ON EXTENDED WARRANTIES AND R&M CONTRACTS	2017	2016	2015
Balance at January 1	**$ 573.5**	$ 524.8	$ 462.0
Deferred revenues	**371.8**	347.6	333.0
Revenues recognized	**(328.2)**	(274.3)	(248.4)
Currency translation	**36.8**	(24.6)	(21.8)
Balance at December 31	**$ 653.9**	$ 573.5	$ 524.8

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

	WARRANTY RESERVES		DEFERRED REVENUES	
At December 31,	**2017**	2016	**2017**	2016
Truck, Parts and Other:				
Accounts payable, accrued expenses and other	**$ 176.0**	$ 181.4	**$ 196.1**	$ 162.8
Other liabilities	**122.8**	100.7	**441.0**	395.7
Financial Services:				
Deferred taxes and other liabilities			**16.8**	15.0
	$ 298.8	$ 282.1	**$ 653.9**	$ 573.5

I. BORROWINGS AND CREDIT ARRANGEMENTS

Financial Services borrowings include the following:

	2017		2016	
At December 31,	**EFFECTIVE RATE**	**BORROWINGS**	EFFECTIVE RATE	BORROWINGS
Commercial paper	**1.3%**	**$ 2,723.7**	.7%	$ 2,242.5
Bank loans	**6.9%**	**210.2**	5.5%	205.0
		2,933.9		2,447.5
Term notes	**1.7%**	**5,945.5**	1.5%	6,027.7
	1.7%	**$ 8,879.4**	1.4%	$ 8,475.2

Commercial paper and term notes borrowings were $8,669.2 and $8,270.2 at December 31, 2017 and 2016, respectively. Unamortized debt issuance costs, unamortized discounts and the net effect of fair value hedges were $(20.9) and $(19.3) at December 31, 2017 and 2016, respectively. The effective rate is the weighted average rate as of December 31, 2017 and 2016 and includes the effects of interest-rate contracts.

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

Beginning January 1, 2018	COMMERCIAL PAPER	BANK LOANS	TERM NOTES	TOTAL
2018	$ 2,725.5	$ 57.1	$ 1,693.1	$ 4,475.7
2019		27.8	1,785.4	1,813.2
2020		74.8	1,610.3	1,685.1
2021		50.5	575.8	626.3
2022			300.0	300.0
	$ 2,725.5	$ 210.2	$ 5,964.6	$ 8,900.3

Interest paid on borrowings was $127.4, $108.2, and $101.3 in 2017, 2016 and 2015, respectively. For the years ended December 31, 2017, 2016 and 2015, the Company capitalized interest on borrowings of nil for all periods presented, 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, 2017 was $4,450.0. The registration expires in November 2018 and does not limit the principal amount of debt securities that may be issued during that period. PFC intends to renew the registration in 2018.

As of December 31, 2017, the Company's European finance subsidiary, PACCAR Financial Europe, had €1,343.6 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 2017 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, 2017, 6,250.0 pesos remained available for issuance.

The Company has line of credit arrangements of $3,520.0, of which $3,306.8 were unused at December 31, 2017. Included in these arrangements are $3,000.0 of syndicated bank facilities, of which $1,000.0 expires in June 2018, $1,000.0 expires in June 2021 and $1,000.0 expires in June 2022. 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, 2017.

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, 2018, annual minimum rent payments under non-cancelable operating leases having initial or remaining terms in excess of one year are $23.0, $14.6, $10.3, $6.5, $4.4 and $2.6 thereafter. For the years ended December 31, 2017, 2016 and 2015, total rental expenses under all leases amounted to $30.1, $28.8 and $30.5, respectively.

K. COMMITMENTS AND CONTINGENCIES

At December 31, 2017, PACCAR had standby letters of credit and surety bonds totaling $26.3, from third party financial institutions, in the normal course of business, which guarantee various insurance, financing and other activities. At December 31, 2017, PACCAR's financial services companies, in the normal course of business, had outstanding commitments to fund new loan and lease transactions amounting to $928.6. The commitments generally expire in 90 days. The Company had other commitments, primarily to purchase production inventory, equipment and energy amounting to $243.9, $71.6, $69.1, $62.3, $60.5 and nil for 2018, 2019, 2020, 2021, 2022 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, 2017, 2016 and 2015 were $1.9, $2.2 and $2.0, 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 lawsuits have been filed against the Company, DAF and certain DAF subsidiaries and other truck manufacturers. Others may bring EC related claims and lawsuits against the Company or its

subsidiaries. While the Company believes it has meritorious defenses, such claims and lawsuits 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 also a defendant in various other 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 other 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 2017, 2016 and 2015 of $.8, $2.0 and $3.3, 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 $70.6 to its pension plans in 2017 and $185.7 in 2016. The Company expects to contribute in the range of $70.0 to $100.0 to its pension plans in 2018, of which $21.2 is estimated to satisfy minimum funding requirements. Annual benefits expected to be paid beginning January 1, 2018 are $84.4, $87.1, $94.0, $99.9, $106.2 and for the five years thereafter, a total of $609.7.

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, 2017	**TARGET**	**LEVEL 1**	**LEVEL 2**	**TOTAL**	**MEASURED AT NAV**	**TOTAL**
Equities:						
U.S. equities					**$ 768.5**	**$ 768.5**
Global equities					**866.8**	**866.8**
Total equities	**50 - 70%**				**1,635.3**	**1,635.3**
Fixed income:						
U.S. fixed income		**$ 223.3**	**$ 238.2**	**$ 461.5**	**$ 416.0**	**$ 877.5**
Non-U.S. fixed income			**27.4**	**27.4**	**299.4**	**326.8**
Total fixed income	**30 - 50%**	**223.3**	**265.6**	**488.9**	**715.4**	**1,204.3**
Cash and other		**9.2**	**70.1**	**79.3**	**.7**	**80.0**
Total plan assets		**$ 232.5**	**$ 335.7**	**$ 568.2**	**$ 2,351.4**	**$ 2,919.6**

		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

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

At December 31,	**2017**	2016
Weighted average assumptions:		
Discount rate	**3.3%**	3.7%
Rate of increase in future compensation levels	**3.9%**	3.9%
Assumed long-term rate of return on plan assets	**6.4%**	6.4%

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

	2017	2016
Change in projected benefit obligation:		
Benefit obligation at January 1	**$ 2,505.6**	$ 2,306.0
Service cost	**92.9**	88.6
Interest cost	**81.1**	94.3
Benefits paid	**(82.6)**	(80.2)
Actuarial loss	**154.7**	186.4
Currency translation and other	**68.6**	(90.6)
Participant contributions	**.4**	1.1
Projected benefit obligation at December 31	**$ 2,820.7**	$ 2,505.6
Change in plan assets:		
Fair value of plan assets at January 1	**$ 2,494.1**	$ 2,219.0
Employer contributions	**70.6**	185.7
Actual return on plan assets	**369.8**	254.5
Benefits paid	**(82.6)**	(80.2)
Currency translation and other	**67.3**	(86.0)
Participant contributions	**.4**	1.1
Fair value of plan assets at December 31	**$ 2,919.6**	$ 2,494.1
Funded status at December 31	**$ 98.9**	$ (11.5)

	2017	2016
Amounts recorded on balance sheet:		
Other noncurrent assets	**$ 228.9**	$ 107.2
Other liabilities	**130.0**	118.7
Accumulated other comprehensive loss:		
Actuarial loss	**372.9**	410.6
Prior service cost	**2.6**	3.4
Net initial transition amount	**.1**	.1

Of the December 31, 2017 amounts in accumulated other comprehensive loss, $30.4 of unrecognized actuarial loss and $1.3 of unrecognized prior service cost are expected to be amortized into net pension expense in 2018.

The accumulated benefit obligation for all pension plans of the Company was $2,492.4 and $2,215.3 at December 31, 2017 and 2016, respectively.

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

At December 31,	**2017**	2016
Projected benefit obligation	**$ 142.5**	$ 110.2
Accumulated benefit obligation	**124.0**	100.4
Fair value of plan assets	**23.5**	9.3

The components of pension expense are as follows:

Year Ended December 31,	**2017**	2016	2015
Service cost	$ **92.9**	$ 88.6	$ 91.3
Interest on projected benefit obligation	**81.1**	94.3	92.2
Expected return on assets	**(159.7)**	(141.7)	(140.8)
Amortization of prior service costs	**1.2**	1.2	1.3
Recognized actuarial loss	**25.4**	27.7	41.1
Curtailment gain			(.1)
Net pension expense	$ **40.9**	$ 70.1	$ 85.0

On January 1, 2017, the Company changed 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 and is being accounted for prospectively. This change lowered net 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		
			2017	2016	2015
Metal and Electrical Engineering Industry Pension Fund		135668	$ **25.0**	$ 23.1	$ 23.0
Western Metal Industry Pension Plan	91-6033499	001	**1.4**	1.5	2.1
Other plans			**.8**	.7	.9
			$ **27.2**	$ 25.3	$ 26.0

The Company contributions shown in the table above approximates the multi-employer pension expense for each of the years ended December 31, 2017, 2016 and 2015, 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 2017. 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 101.5% at December 31, 2017, 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, 2017, 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 7% and 8% of the total contributions to the plan for the years ended December 31, 2017 and 2016, 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 2017, 2016 and 2015. Other plans are located in Australia, Brasil, Canada, the Netherlands, Belgium and Germany. Expenses for these plans were $37.9, $34.1 and $36.1 in 2017, 2016 and 2015, 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,	**2017**	2016	2015
Domestic	**$ 1,347.8**	$ 1,190.7	$ 1,581.6
Foreign	**825.5**	(60.3)	755.5
	$ 2,173.3	$ 1,130.4	$ 2,337.1

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

Year Ended December 31,	**2017**	2016	2015
Current provision:			
Federal	**$ 397.7**	$ 322.9	$ 521.8
State	**63.8**	41.7	61.1
Foreign	**210.5**	213.2	205.4
	672.0	577.8	788.3
Deferred provision (benefit):			
Federal	**(173.8)**	31.5	(57.8)
State	**2.3**	4.8	5.3
Foreign	**(2.4)**	(5.4)	(2.7)
	(173.9)	30.9	(55.2)
	$ 498.1	$ 608.7	$ 733.1

Tax benefits recognized for net operating loss carryforwards were $4.3, $1.2 and $.6 for the years ended 2017, 2016 and 2015, respectively.

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

	2017	2016	2015
Statutory rate	**35.0%**	35.0%	35.0%
Effect of:			
Rate change on deferred taxes	**(14.0)**		
Transition tax	**6.0**		
Non-deductible EC charge		25.8	
State	**1.8**	2.9	2.1
Federal domestic production deduction	**(1.1)**	(2.6)	(1.8)
Tax on foreign earnings	**(4.0)**	(7.4)	(2.7)
Other, net	**(.8)**	.1	(1.2)
	22.9%	53.8%	31.4%

On December 22, 2017, the U.S. enacted new federal income tax legislation, the Tax Cuts and Jobs Act ("the Tax Act"). The Act lowered the U.S. statutory income tax rate from 35% to 21%, imposed a one-time transition tax on the Company's foreign earnings, which previously had been deferred from U.S. income tax and created a modified territorial system. As a result, the Company recorded a provisional amount of $304.0 of deferred tax benefits, due to the re-measurement of net deferred tax liabilities at the new lower statutory tax rate. In addition, the Company recorded a provisional amount of $130.6 of tax expense on the Company's foreign earnings, which previously had been deferred from U.S. income tax. These provisional amounts may change in 2018, as new information becomes available, as the Tax Act continues to be interpreted and as new technical guidance is issued. The Company will

finalize certain tax positions upon filing its 2017 U.S. income tax returns. The Company will then conclude whether the associated provisional amounts require further adjustment. Based on the Company's current operations, the Company does not expect its future foreign earnings will be subject to significant U.S. federal income tax as a result of the new modified territorial system.

As noted above, as of December 31, 2017, the Company has provided a U.S. transition tax of $130.6 on all of the Company's foreign earnings. Included in domestic taxable income for 2016 and 2015 are $180.4 and $249.7 of foreign earnings, respectively, which are not indefinitely reinvested, for which domestic taxes of $7.1 and $12.2, respectively, were provided to account for the difference between the domestic and foreign tax rate on those earnings.

At December 31, 2017, the Company had net operating loss carryforwards of $399.4, of which $271.3 related to foreign subsidiaries and $128.1 related to states in the U.S. The related deferred tax asset was $94.6, for which a $78.3 valuation allowance has been provided. The carryforward periods range from three 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,	**2017**	2016
Assets:		
Accrued expenses	**$ 183.9**	$ 239.2
Net operating loss and tax credit carryforwards	**102.1**	84.4
Postretirement benefit plans		11.7
Allowance for losses on receivables	**35.6**	41.2
Goodwill and intangibles	**34.4**	1.3
Other	**89.2**	105.1
	445.2	482.9
Valuation allowance	**(118.6)**	(64.5)
	326.6	418.4
Liabilities:		
Financial Services leasing depreciation	**(608.2)**	(808.7)
Depreciation and amortization	**(165.1)**	(246.1)
Postretirement benefit plans	**(39.5)**	
Other	**(28.8)**	(35.3)
	(841.6)	(1,090.1)
Net deferred tax liability	**$ (515.0)**	$ (671.7)

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

At December 31,	**2017**	2016
Truck, Parts and Other:		
Other noncurrent assets, net	**$ 71.0**	$ 119.5
Other liabilities	**(1.9)**	(6.3)
Financial Services:		
Other assets	**45.2**	74.6
Deferred taxes and other liabilities	**(629.3)**	(859.5)
Net deferred tax liability	**$ (515.0)**	$ (671.7)

Cash paid for income taxes was $661.4, $499.4 and $879.7 in 2017, 2016 and 2015, respectively.

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

	2017	2016	2015
Balance at January 1	**$ 17.3**	$ 19.1	$ 12.0
Additions for tax positions related to the current year	**5.6**	3.9	10.3
Additions for tax positions related to prior years			
Reductions for tax positions related to prior years		(.3)	(2.0)
Reductions related to settlements		(5.4)	
Lapse of statute of limitations			(1.2)
Balance at December 31	**$ 22.9**	$ 17.3	$ 19.1

The Company had $22.9, $17.3 and $19.1 of unrecognized tax benefits, of which $16.8, $13.9 and $9.9 would impact the effective tax rate, if recognized, as of December 31, 2017, 2016 and 2015, respectively.

The Company recognized $.2, $1.9 and $1.9 of income related to interest in 2017, 2016 and 2015, respectively. Accrued interest expense and penalties were $1.1, $.9 and $2.8 as of December 31, 2017, 2016 and 2015, respectively. Interest and penalties are classified as income taxes in the Consolidated Statements of Income.

The Company believes it is reasonably possible that approximately $1.8 of unrecognized tax benefits, resulting primarily from intercompany transactions, will be resolved within the next twelve months from Competent Authority negotiations between tax authorities of two jurisdictions. The Company does not expect the net impact of these negotiations to be material to its effective tax rate. As of December 31, 2017, the United States Internal Revenue Service has completed examinations of the Company's tax returns for all years through 2012, 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 2017.

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, 2017	**$ (4.3)**	**$ (.3)**	**$ (414.1)**	**$ (709.4)**	**$ (1,128.1)**
Recorded into AOCI	**(91.6)**	**(1.1)**	**20.4**	**292.0**	**219.7**
Reclassified out of AOCI	**97.1**	**(.4)**	**18.1**		**114.8**
Net other comprehensive income (loss)	**5.5**	**(1.5)**	**38.5**	**292.0**	**334.5**
Balance at December 31, 2017	**$ 1.2**	**$ (1.8)**	**$ (375.6)**	**$ (417.4)**	**$ (793.6)**

	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)

December 31, 2017, 2016 and 2015 (currencies in millions)

	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)

Reclassifications out of AOCI during the years ended December 31, 2017, 2016 and 2015 are as follows:

		AMOUNT RECLASSIFIED OUT OF AOCI		
AOCI COMPONENTS	LINE ITEM IN THE CONSOLIDATED STATEMENTS OF INCOME	**2017**	2016	2015
Unrealized (gains) and losses on derivative contracts:				
Truck, Parts and Other				
Foreign-exchange contracts	Net sales and revenues	**$ 12.1**	$ (27.9)	$ (.1)
	Cost of sales and revenues	**3.9**	.6	3.4
	Interest and other expense, net	**1.8**	1.3	(4.1)
Financial Services				
Interest-rate contracts	Interest and other borrowing expenses	**115.6**	36.8	(28.5)
	Pre-tax expense increase (reduction)	**133.4**	10.8	(29.3)
	Tax (benefit) expense	**(36.3)**	(8.9)	8.5
	After-tax expense increase (reduction)	**97.1**	1.9	(20.8)
Unrealized (gains) and losses on marketable debt securities:				
Marketable debt securities	Investment income	**(.6)**	(3.7)	(2.1)
	Tax expense	**.2**	1.0	.6
	After-tax income increase	**(.4)**	(2.7)	(1.5)
Pension plans:				
Truck, Parts and Other				
Actuarial loss	Cost of sales and revenues	**12.3**	13.6	22.4
	Selling, general and administrative	**12.3**	13.0	17.1
		24.6	26.6	39.5
Prior service costs	Cost of sales and revenues	**1.0**	.9	1.0
	Selling, general and administrative	**.2**	.3	.2
		1.2	1.2	1.2
Financial Services				
Actuarial loss	Selling, general and administrative	**.8**	1.1	1.7
	Pre-tax expense increase	**26.6**	28.9	42.4
	Tax benefit	**(8.5)**	(10.0)	(14.8)
	After-tax expense increase	**18.1**	18.9	27.6
Total reclassifications out of AOCI		**$ 114.8**	$ 18.1	$ 5.3

Other Capital Stock Changes: The Company purchased treasury shares of nil, 1.4 million and 3.8 million in 2017, 2016 and 2015, respectively. The Company retired treasury shares of nil in 2017, 1.4 million in 2016 and 4.6 million in 2015.

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, 2017, the notional amount of the Company's interest-rate contracts was $2,878.4. Notional maturities for all interest-rate contracts are $978.5 for 2018, $911.2 for 2019, $436.9 for 2020, $392.3 for 2021, $126.8 for 2022, and $32.7 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, 2017, the notional amount of the outstanding foreign-exchange contracts was $480.4. 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,	**2017**		2016	
	ASSETS	**LIABILITIES**	ASSETS	LIABILITIES
Derivatives designated under hedge accounting:				
Interest-rate contracts:				
Financial Services:				
Other assets	**$ 53.3**		$ 109.7	
Deferred taxes and other liabilities		**$ 98.3**		$ 46.3
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**3.8**		3.9	
Accounts payable, accrued expenses and other		**1.9**		1.9
	$ 57.1	**$ 100.2**	$ 113.6	$ 48.2
Economic hedges:				
Interest-rate contracts:				
Financial Services:				
Deferred taxes and other liabilities				$ .1
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**$ .6**		$ .8	
Accounts payable, accrued expenses and other		**$ .6**		.3
Financial Services:				
Other assets	**.1**		4.0	
Deferred taxes and other liabilities		**2.2**		.7
	$ .7	**$ 2.8**	$ 4.8	$ 1.1
Gross amounts recognized in Balance Sheet	**$ 57.8**	**$ 103.0**	$ 118.4	$ 49.3
Less amounts not offset in financial instruments:				
Truck, Parts and Other:				
Foreign-exchange contracts	**(.4)**	**(.4)**	(1.0)	(1.0)
Financial Services:				
Interest-rate contracts	**(8.7)**	**(8.7)**	(15.4)	(15.4)
Foreign-exchange contracts			(.1)	(.1)
Pro forma net amount	**$ 48.7**	**$ 93.9**	$ 101.9	$ 32.8

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,	**2017**	2016	2015
Interest-rate swaps	**$ 2.3**	$ 5.5	$ (.9)
Term notes	**(1.5)**	(6.4)	.2

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 9.6 years. For the periods ended December 31, 2017, 2016 and 2015, 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 income (loss) (OCI):

Year Ended December 31,	**2017**		2016		2015	
	INTEREST-RATE CONTRACTS	**FOREIGN-EXCHANGE CONTRACTS**	INTEREST-RATE CONTRACTS	FOREIGN-EXCHANGE CONTRACTS	INTEREST-RATE CONTRACTS	FOREIGN-EXCHANGE CONTRACTS
(Loss) gain recognized in OCI:						
Truck, Parts and Other		**$ (17.4)**		$ 24.4		$ 4.9
Financial Services	**$ (108.1)**		$ (30.9)		$ 33.8	
	$ (108.1)	**$ (17.4)**	$ (30.9)	$ 24.4	$ 33.8	$ 4.9

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

Year Ended December 31,	**2017**		2016		2015	
	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		**$ 12.1**		$ (27.9)		$ (.1)
Cost of sales and revenues		**3.9**		.6		3.4
Interest and other expense, net		**1.8**		1.3		(4.1)
Financial Services:						
Interest and other borrowing expenses	**$ 115.6**		$ 36.8		$ (28.5)	
	$ 115.6	**$ 17.8**	$ 36.8	$ (26.0)	$ (28.5)	$ (.8)

The amount of gain recorded in AOCI at December 31, 2017 that is estimated to be reclassified into earnings in the following 12 months if interest rates and exchange rates remain unchanged is approximately $3.7, 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 nil for the year ended December 31, 2017, a loss of $.3 for the year ended December 31, 2016 and nil for the year ended December 31, 2015.

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

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

Year Ended December 31,	**2017**		2016		2015	
	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		**$ .3**		.4		$ (.7)
Interest and other expense, net		**2.1**		14.9		3.0
Financial Services:						
Interest and other borrowing expenses	**$ (.1)**	**49.1**	$ .1	(28.4)		(7.6)
Selling, general and administrative		**.5**		1.8		(2.3)
	$ (.1)	**$ 52.0**	$ .1	$ (11.7)		$ (7.6)

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, 2017. 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, 2017	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		**$ 535.5**	**$ 535.5**
U.S. corporate securities		**89.7**	**89.7**
U.S. government and agency securities	**$ 48.7**		**48.7**
Non-U.S. corporate securities		**459.3**	**459.3**
Non-U.S. government securities		**91.7**	**91.7**
Other debt securities		**142.2**	**142.2**
Total marketable debt securities	**$ 48.7**	**$ 1,318.4**	**$ 1,367.1**
Derivatives			
Cross currency swaps		**$ 44.2**	**$ 44.2**
Interest-rate swaps		**9.1**	**9.1**
Foreign-exchange contracts		**4.5**	**4.5**
Total derivative assets		**$ 57.8**	**$ 57.8**
Liabilities:			
Derivatives			
Cross currency swaps		**$ 93.0**	**$ 93.0**
Interest-rate swaps		**5.3**	**5.3**
Foreign-exchange contracts		**4.7**	**4.7**
Total derivative liabilities		**$ 103.0**	**$ 103.0**

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

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,	**2017**		2016	
	CARRYING AMOUNT	**FAIR VALUE**	CARRYING AMOUNT	FAIR VALUE
Assets:				
Financial Services fixed rate loans	**$ 3,793.8**	**$ 3,804.8**	$ 3,607.4	$ 3,638.4
Liabilities:				
Financial Services fixed rate debt	**5,397.6**	**5,387.0**	4,915.2	4,929.3

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 less estimated forfeitures based on historical experience. 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, 2017, the maximum number of shares available for future grants was 14.0 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.

	2017	2016	2015
Risk-free interest rate	**1.97%**	1.37%	1.35%
Expected volatility	**23%**	26%	28%
Expected dividend yield	**3.1%**	4.0%	3.4%
Expected term	**5 years**	5 years	5 years
Weighted average grant date fair value of options per share	**$ 10.56**	$ 7.51	$ 10.98

The fair value of options granted was $6.4, $6.0 and $6.3 for the years ended December 31, 2017, 2016 and 2015, respectively. The fair value of options vested during the years ended December 31, 2017, 2016 and 2015 was $5.2, $7.8 and $9.5, respectively.

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

	2017	2016	2015
Intrinsic value of options exercised	**$ 22.0**	$ 10.4	$ 14.1
Cash received from stock option exercises	**40.0**	29.4	21.8
Tax benefit related to stock award exercises	**4.9**	1.0	3.5
Stock based compensation	**12.7**	13.1	14.6
Tax benefit related to stock based compensation	**4.6**	4.7	5.1

The summary of options as of December 31, 2017 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	**4,466,900**	**$ 48.15**		
Granted	**605,300**	**67.63**		
Exercised	**(895,100)**	**44.74**		
Cancelled	**(120,900)**	**56.28**		
Options outstanding at December 31	**4,056,200**	**$ 51.57**	**5.73**	**$ 79.1**
Vested and expected to vest	**3,949,100**	**$ 51.31**	**5.65**	**$ 78.1**
Exercisable	**2,295,200**	**$ 45.79**	**3.84**	**$ 58.0**

* **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, 2017 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	**198,400**	**$ 55.27**
Granted	**119,200**	**67.48**
Vested	**(105,900)**	**59.24**
Nonvested awards outstanding at December 31	**211,700**	**$ 60.16**

* **Weighted Average**

As of December 31, 2017, there was $5.5 of total unrecognized compensation cost related to nonvested stock options, which is recognized over a remaining weighted average vesting period of 1.45 years. Unrecognized compensation cost related to nonvested restricted stock awards of $1.9 is expected to be recognized over a remaining weighted average vesting period of 1.31 years.

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

Year Ended December 31,	**2017**	2016	2015
Additional shares	**1,038,400**	694,700	906,100
Antidilutive options	**696,400**	1,943,500	1,180,400

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 nil, $.4 and $.5 for 2017, 2016 and 2015, respectively.

Geographic Area Data	**2017**	2016	2015
Net sales and revenues:			
United States	**$ 10,530.1**	$ 9,221.3	$ 11,408.3
Europe	**5,354.6**	4,903.3	4,515.9
Other	**3,571.7**	2,908.7	3,190.9
	$ 19,456.4	$ 17,033.3	$ 19,115.1
Property, plant and equipment, net:			
United States	**$ 1,238.1**	$ 1,187.0	$ 1,140.5
The Netherlands	**464.5**	406.7	438.7
Other	**761.8**	666.3	597.2
	$ 2,464.4	$ 2,260.0	$ 2,176.4
Equipment on operating leases, net:			
United States	**$ 1,530.8**	$ 1,458.0	$ 1,287.9
Germany	**385.1**	318.3	321.9
United Kingdom	**343.1**	309.7	321.3
Mexico	**316.1**	304.8	330.0
Other	**1,566.9**	1,247.0	1,111.9
	$ 4,142.0	$ 3,637.8	$ 3,373.0

December 31, 2017, 2016 and 2015 (currencies in millions)

Business Segment Data	**2017**	2016	2015
Net sales and revenues:			
Truck	**$ 15,543.7**	$ 13,652.7	$ 15,568.6
Less intersegment	**(768.9)**	(885.4)	(786.1)
External customers	**14,774.8**	12,767.3	14,782.5
Parts	**3,380.2**	3,052.9	3,104.7
Less intersegment	**(53.2)**	(47.2)	(44.6)
External customers	**3,327.0**	3,005.7	3,060.1
Other	**85.7**	73.6	100.2
	18,187.5	15,846.6	17,942.8
Financial Services	**1,268.9**	1,186.7	1,172.3
	$ 19,456.4	$ 17,033.3	$ 19,115.1
Income before income taxes:			
Truck	**$ 1,296.9**	$ 1,125.8	$ 1,440.3
Parts	**614.2**	543.8	555.6
Other*	**(37.1)**	(873.3)	(43.2)
	1,874.0	796.3	1,952.7
Financial Services	**264.0**	306.5	362.6
Investment income	**35.3**	27.6	21.8
	$ 2,173.3	$ 1,130.4	$ 2,337.1
Depreciation and amortization:			
Truck	**$ 468.2**	$ 432.8	$ 399.8
Parts	**8.1**	7.3	6.2
Other	**18.1**	15.8	14.9
	494.4	455.9	420.9
Financial Services	**613.1**	537.2	486.2
	$ 1,107.5	$ 993.1	$ 907.1
Expenditures for long-lived assets:			
Truck	**$ 769.7**	$ 735.6	$ 660.0
Parts	**23.4**	16.9	24.9
Other	**54.0**	25.5	17.7
	847.1	778.0	702.6
Financial Services	**1,008.0**	1,214.4	1,044.4
	$ 1,855.1	$ 1,992.4	$ 1,747.0
Segment assets:			
Truck	**$ 5,159.7**	$ 4,429.4	$ 4,472.3
Parts	**950.7**	805.1	793.3
Other	**505.6**	287.0	211.6
Cash and marketable securities	**3,621.9**	2,922.6	3,378.0
	10,237.9	8,444.1	8,855.2
Financial Services	**13,202.3**	12,194.8	12,254.6
	$ 23,440.2	$ 20,638.9	$ 21,109.8

* 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, 2017, 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, 2017.

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

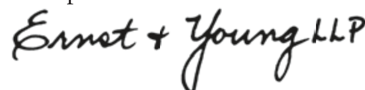
The Board of Directors and Stockholders of PACCAR Inc

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of PACCAR Inc (the "Company") as of December 31, 2017 and 2016, 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, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, 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) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, 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, 2018, expressed an unqualified opinion thereon.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.



We have served as the Company's auditor since 1945
Seattle, Washington

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

Opinion on Internal Control over Financial Reporting

We have audited PACCAR Inc's internal control over financial reporting as of December 31, 2017, 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). In our opinion, PACCAR Inc (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the accompanying consolidated balance sheets of PACCAR Inc as of December 31, 2017 and 2016, 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, 2017, and the related notes and our report dated February 21, 2018, expressed an unqualified opinion thereon.

Basis for Opinion

The Company'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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

Seattle, Washington
February 21, 2018

Ernst & Young LLP

SELECTED FINANCIAL DATA

	2017	2016	2015	2014	2013
		(millions except per share data)			
Truck, Parts and Other Net Sales and Revenues	**$ 18,187.5**	$ 15,846.6	$ 17,942.8	$ 17,792.8	$ 15,948.9
Financial Services Revenues	**1,268.9**	1,186.7	1,172.3	1,204.2	1,174.9
Total Revenues	**$ 19,456.4**	$ 17,033.3	$ 19,115.1	$ 18,997.0	$ 17,123.8
Net Income	**$ 1,675.2**	$ 521.7	$ 1,604.0	$ 1,358.8	$ 1,171.3
Adjusted Net Income*	**1,501.8**	1,354.7			
Net Income Per Share:					
Basic	**4.76**	1.49	4.52	3.83	3.31
Diluted	**4.75**	1.48	4.51	3.82	3.30
Adjusted Diluted*	**4.26**	3.85			
Cash Dividends Declared Per Share	**2.19**	1.56	2.32	1.86	1.70
Total Assets:					
Truck, Parts and Other	**10,237.9**	8,444.1	8,855.2	8,701.5	9,095.4
Financial Services	**13,202.3**	12,194.8	12,254.6	11,917.3	11,630.1
Truck, Parts and Other Long-Term Debt					150.0
Financial Services Debt	**8,879.4**	8,475.2	8,591.5	8,230.6	8,274.2
Stockholders' Equity	**8,050.5**	6,777.6	6,940.4	6,753.2	6,634.3

* See Reconciliation of GAAP to Non-GAAP Financial Measures for 2017 and 2016 on page 46, and see Note M on pages 75-77 and 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 1,587 record holders of the common stock at December 31, 2017.

	2017			2016		
	DIVIDENDS	**STOCK PRICE**		DIVIDENDS	STOCK PRICE	
QUARTER	**DECLARED**	**HIGH**	**LOW**	DECLARED	HIGH	LOW
First	**$ .24**	**$70.12**	**$64.61**	$ .24	$55.60	$43.46
Second	**.25**	**69.17**	**61.93**	.24	60.86	48.17
Third	**.25**	**73.29**	**62.72**	.24	60.75	49.35
Fourth	**.25**	**75.68**	**66.33**	.24	68.50	53.38
Year-End Extra	**1.20**			.60		

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)			
2017				
Truck, Parts and Other:				
Net sales and revenues	**$ 3,935.7**	**$ 4,397.9**	**$ 4,731.5**	**$ 5,122.4**
Cost of sales and revenues	**3,382.2**	**3,755.2**	**4,046.8**	**4,409.5**
Research and development	**61.0**	**66.1**	**67.0**	**70.6**
Financial Services:				
Revenues	**302.2**	**306.3**	**328.2**	**332.2**
Interest and other borrowing expenses	**34.1**	**37.4**	**38.3**	**39.8**
Depreciation and other expenses	**179.7**	**172.8**	**186.2**	**188.8**
Net Income	**310.3**	**373.0**	**402.7**	**589.2**
Adjusted Net Income *				**415.8**
Net Income Per Share: **				
Basic	**$ .88**	**$ 1.06**	**$ 1.14**	**$ 1.67**
Diluted	**.88**	**1.06**	**1.14**	**1.67**
Adjusted Diluted *				**1.18**
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		

* See Reconciliation of GAAP to Non-GAAP Financial Measures for 2017 and 2016 on page 46.

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

(currencies in millions)

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

Fair Value Gains (Losses)		**2017**		2016
CONSOLIDATED:				
Assets				
Cash equivalents and marketable debt securities	**$**	**(21.0)**	$	(20.0)
FINANCIAL SERVICES:				
Assets				
Fixed rate loans		**(69.7)**		(68.3)
Liabilities				
Fixed rate term debt		**99.1**		95.0
Interest-rate swaps		**15.0**		4.8
Total	**$**	**23.4**	$	11.5

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 $55.7 related to contracts outstanding at December 31, 2017, compared to a loss of $31.5 at December 31, 2016. These amounts would be largely offset by changes in the values of the underlying hedged exposures.

OFFICERS

Mark C. Pigott
Executive Chairman

Ronald E. Armstrong
Chief Executive Officer

Harrie C.A.M. Schippers
President and
Chief Financial Officer

Gary L. Moore
Executive Vice President

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

David J. Danforth
Vice President

Marco A. Davila
Vice President

C. Michael Dozier
Vice President

R. Preston Feight
Vice President

Douglas S. Grandstaff
Vice President and General Counsel

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

Irene E. Song
Corporate Secretary

DIRECTORS

Mark C. Pigott
Executive Chairman
PACCAR Inc (3)

Ronald E. Armstrong
Chief Executive Officer
PACCAR Inc

Dame Alison J. Carnwath
Chairman
Land Securities Group PLC (1, 4)

Franklin L. Feder (Effective 4/30/2018)
Former Chief Executive Officer
Alcoa Latin America (1)

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 (Retires 4/29/2018)
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

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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
Brisbane, Australia
Budapest, Hungary
Eindhoven, The Netherlands
Lancaster, Pennsylvania
Las Vegas, Nevada
Leyland, Lancashire, UK
Madrid, Spain
Montreal, Canada
Moscow, Russia
Oklahoma City, Oklahoma
Panama City, Panama
Ponta Grossa, Brasil
Renton, Washington
Rockford, Illinois
San Luis Potosí, Mexico

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

Factories:
Algona, Washington
Louisville, Kentucky
Plano, Texas

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
12479 Farm to Market Road
Mount Vernon, Washington
98273

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

PACCAR Innovation Center
1277 Reamwood Avenue
Sunnyvale, CA 94089

PACCAR India Technical Center
IT3, 3rd Floor, Blue Ridge SEZ, S
123, Rajiv Gandhi Info Tech Park
Hinjewadi, Phase -1, Pune 411057

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.
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5600 PT Eindhoven
The Netherlands

PACCAR Financial México, S.A. de C.V.
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Castro 2000
Mexicali, Baja California
Mexico

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

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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
Manama, Bahrain
Moscow, Russia
Shanghai, People's Republic of China

STOCKHOLDERS' INFORMATION

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PACCAR Building
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Bellevue, Washington
98004

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Bellevue, Washington
98009

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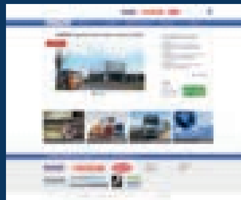
Facsimile
425.468.8216

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 2017 Annual Report and the 2018 Proxy Statement are available on PACCAR's website at www.paccar.com/2018annualmeeting

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
May 1, 2018, 10:30 a.m.
Meydenbauer Center
11100 N.E. 6th St.
Bellevue, Washington
98004

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