

PACCAR

2020 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.

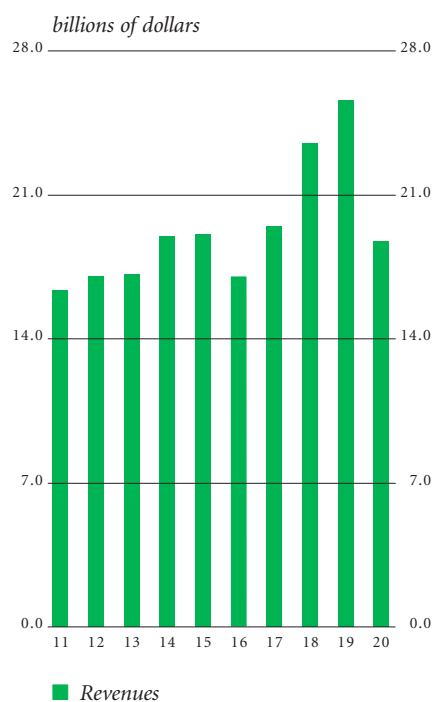
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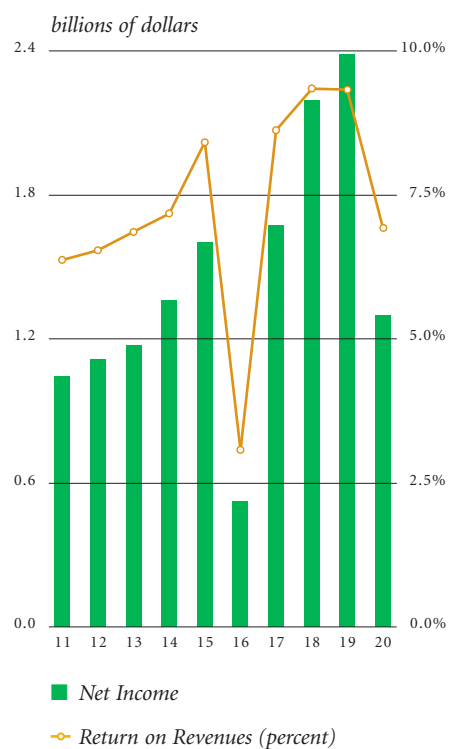
FINANCIAL HIGHLIGHTS

| | 2020 | 2019 |
|-----------------------------------------------|------------------------------------------|-------------|
| | <i>(millions, except per share data)</i> | |
| Truck, Parts and Other Net Sales and Revenues | \$ 17,154.3 | \$ 24,119.7 |
| Financial Services Revenues | 1,574.2 | 1,480.0 |
| <i>Total Revenues</i> | 18,728.5 | 25,599.7 |
| <i>Net Income</i> | 1,298.4 | 2,387.9 |
| <i>Total Assets:</i> | | |
| Truck, Parts and Other | 12,460.2 | 12,289.7 |
| Financial Services | 15,799.8 | 16,071.4 |
| <i>Financial Services Debt</i> | 10,853.3 | 11,222.7 |
| <i>Stockholders' Equity</i> | 10,390.0 | 9,706.1 |
| <i>Per Common Share:</i> | | |
| Net Income: | | |
| Basic | \$ 3.74 | \$ 6.88 |
| Diluted | 3.74 | 6.87 |
| Cash Dividends Declared Per Share | 1.98 | 3.58 |

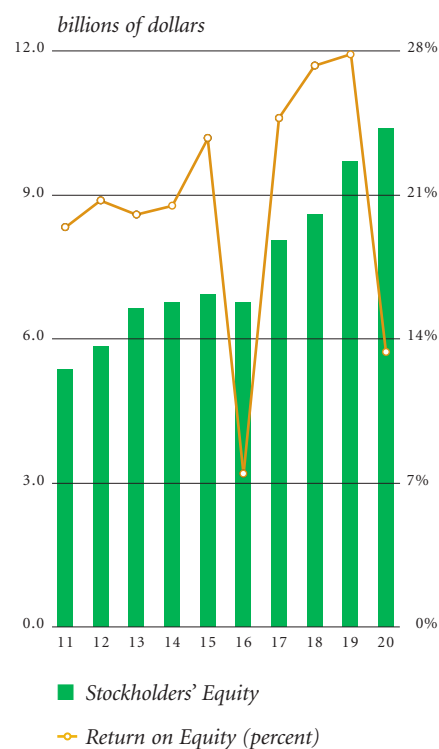
REVENUES



NET INCOME



STOCKHOLDERS' EQUITY





PACCAR is celebrating 115 years of success and delivered very good revenues and profits to its shareholders in 2020, despite the impact of the global pandemic. This is the 82nd consecutive year of earning a net profit — a notable record considering the cyclicity of the capital goods market. In response to the serious challenges of the virus, PACCAR initiated prompt and thorough actions to reconfigure its manufacturing facilities, parts distribution centers, and offices to ensure the health and safety of our employees.

PACCAR achieved very good financial results by continuing to focus on the premium segment of our industry. The company has enhanced its leadership in developing products and services that reflect the rapidly changing world with the development of e-commerce, zero emission vehicles, and autonomous trucks. In addition, PACCAR Parts and PACCAR Financial have introduced many technology initiatives to streamline customer connectivity.

The company is an environmental leader and is partnering with industry groups to reduce the effects of climate change. PACCAR continues to emphasize “zero waste to landfill”, solar power generation, water recycling, and increasing the recyclable material content in its trucks.

PACCAR’s strong year in 2020 is due to many positive factors including excellent Kenworth and Peterbilt market share in North America and DAF’s strong performance in the European truck market. Customers renewed their fleets to take advantage of the reliability and operating efficiency of new DAF, Kenworth, and Peterbilt trucks. PACCAR Parts delivered excellent aftermarket results reflecting new sales initiatives, a growing population of integrated and connected PACCAR vehicles, and more TRP stores. PACCAR Financial Services, including PacLease, had a very good year, generating strong new business volume. PACCAR benefits from its global diversification, industry leading independent dealer organizations and increased investments in all segments of the business.

PACCAR’s superb credit rating of A+/A1 results from consistent profitability, a strong balance sheet, and excellent cash flow. Our shareholders have enjoyed very good returns, with total shareholder return of 12% in 2020, annual regular dividend growth of 13% in the last ten years and a \$0.70 per share extra dividend paid in early 2021.

On behalf of our shareholders and employees, I would like to thank Chuck Williamson for his fifteen years of outstanding leadership on the Board. Chuck was our lead director for six years and chaired several of our committees. I am pleased that the Directors have nominated Ganesh Ramaswamy to the Board of Directors, effective upon election by the shareholders on April 27, 2021.

PACCAR is committed to a strong, diverse and inclusive culture and the company’s excellent financial results reflect its human centered philosophy. I would like to thank our employees for their commitment in this past challenging year, their many ideas and suggestions to maintain the regular cadence in our daily operations and their personal outreach to local communities. Their volunteering and financial support was inspirational to everyone in our company and the communities in which we live and work.



Mark Pigott

MARK C. PIGOTT
Executive Chairman
February 17, 2021

4 PACCAR had a very good year in 2020, generating strong revenues and profits as well as industry leading operating margins. Revenues were \$18.73 billion and net income was \$1.30 billion with an after-tax return on revenue of 6.9%. The company has earned an annual net income for 82 consecutive years. PACCAR's financial results reflect the company's premium-quality trucks, powertrains, aftermarket parts business, financial services and technology leadership.

I am proud of PACCAR's employees who did an excellent job creating and maintaining safety protocols that allowed the company to support our customers during the global pandemic. The results reflect the efforts of our dedicated employees who deliver industry leading product quality, innovation and outstanding efficiency in all operating environments.

PACCAR's financial strength enabled the company to invest \$843.4 million in capital projects and research and development to enhance its manufacturing capability, expand its range of vehicles and engines, develop advanced vehicle technologies and strengthen its aftermarket transportation solutions.

PACCAR delivered 133,300 trucks to its customers, and sold \$3.91 billion of aftermarket parts. PACCAR's excellent credit ratings of A+/A1 supported PACCAR Financial Services' new loan and lease volume of \$5.02 billion. Class 8 truck industry retail sales in North America, including Mexico, were 235,000 vehicles in 2020 compared to 336,000 the prior year. The European 16+ tonne market in 2020 was 230,000 vehicles compared to 320,000 in 2019. PACCAR customers are generating good profits due to strong freight tonnage, low fuel prices and the superior operating efficiency provided by Kenworth, Peterbilt and DAF trucks.

PACCAR's strong financial performance in 2020 benefited from PACCAR Parts' pre-tax profits of \$799.3 million and PACCAR Financial Services' pre-tax profits of \$223.1 million. After-tax return on beginning stockholders' equity was an industry leading 13.4% in 2020. Year-end stockholders' equity was a record \$10.39 billion. PACCAR's financial performance has enabled the company to declare \$7.4 billion in dividends during the last ten years.

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 \$7.3 billion in the last decade in new and expanded environmentally friendly manufacturing and distribution facilities, advanced new vehicle models, and innovative technologies such as advanced powertrains, zero emissions vehicles, autonomous driving and connected services. PACCAR's investments create transportation solutions that provide our customers the highest levels of safety and reliability along with the lowest total cost of operation.

In 2020, capital investments were \$569.5 million and research and development expenses were \$273.9 million. Kenworth, Peterbilt and DAF invested in efficient, high-quality robotic assembly equipment to support the growing demand for PACCAR's industry leading trucks and engines. Kenworth and Peterbilt have installed 256,000 PACCAR engines since the PACCAR MX engine range was introduced in 2010. Engine manufacturing capacity was increased in the company's Columbus, Mississippi engine factory. PACCAR's most recent investments in advanced manufacturing are the construction of a new state-of-the-art robotic paint facility at the Kenworth Chillicothe, Ohio facility and a new cab build and cab trim factory at the DAF facility in Westerlo, Belgium.

PACCAR's three global embedded software development centers located in the U.S., Europe and India are creating customer-focused solutions in the areas of autonomous vehicle development, connectivity and advanced vehicle controls. PACCAR announced a partnership with Aurora, a leading autonomous driving company, to collaborate on the development of autonomous trucks. All Peterbilt, Kenworth and DAF trucks provide industry leading connected services for our customers. PACCAR is partnering with the Department of Energy on a "Super Truck" program with a goal of delivering a 100% improvement in freight efficiency.

PACCAR is a leader in the development of battery-electric, hybrid and hydrogen fuel cell vehicles. Kenworth, Peterbilt and DAF zero emissions vehicles have driven nearly 500,000 miles and the three truck divisions are accepting customer orders for battery-electric medium- and heavy-duty trucks. In 2020, PACCAR expanded its support of zero emissions vehicles and began selling battery-electric chargers to support our dealers and customers. As the company is developing zero emissions powertrain technologies, diesel is expected to remain the most efficient and cost-effective powertrain technology in heavy truck applications for the foreseeable future.

In Asia, PACCAR purchases components and continues to evaluate opportunities to increase participation in these truck markets.

CONTINUOUS IMPROVEMENT — Six Sigma, Industry 4.0 and lean process development are integrated into all business activities at PACCAR and have been adopted in all PACCAR factories as well as at hundreds of the company's suppliers, dealers and customers. Six Sigma is critical in the development of new product designs, customer services and manufacturing processes. Six Sigma and other PACCAR capabilities leverage advanced data analytics, machine learning and artificial intelligence tools to increase efficiency and quality. Thousands of PACCAR employees have been trained in Six Sigma and have implemented over 66,000 projects. Since 1997, PACCAR has delivered billions of dollars in Six Sigma savings in all areas of the company.

INFORMATION TECHNOLOGY — PACCAR's Information Technology Division (ITD) is an industry leader in innovative digital technology solutions that enhance the quality of PACCAR business processes and products. Kenworth, Peterbilt and DAF use these solutions to provide customized connected vehicle solutions for their customers, dealers and suppliers. In 2020, Peterbilt and Kenworth expanded their connected vehicle service capabilities to allow for over-the-air parameter updates that enhance customer uptime and efficiency. The ITD team maintains a rigorous focus on ensuring PACCAR's leadership in vehicle and infrastructure security.

TRUCKS — U.S. and Canadian Class 8 truck industry retail sales in 2020 were 217,000 units and the Mexican market totaled 18,000 units. European industry 16+ tonne truck registrations were 230,000 units. The 2020 truck markets recovered rapidly from the second quarter global pandemic disruption, returning to normal levels in the third and fourth quarters.

PACCAR's Class 8 retail sales share in the U.S. and Canada increased to 30.1% compared to 30.0% a year earlier, while DAF market share grew to 16.3% from 16.2% in the 16+ tonne truck market in Europe.

Industry Class 6 and 7 truck retail sales in the U.S. and Canada were 75,000 units. The European 6 to 16-tonne market was 41,000 units.

PACCAR's market share in the U.S. and Canada medium-duty truck segment grew from 17.2% to a record 22.6%. DAF's share of the European medium-duty truck market was 9.5% in 2020 compared to 9.7% in 2019. PACCAR delivered 25,900 medium-duty trucks to its customers in 2020.

PACCAR Mexico grew heavy-duty market share to 36.1% compared to 35.1% a year earlier. PACCAR Mexico launched new heavy- and medium-duty products, including the Kenworth T880 low roof car hauler and the 12-speed PACCAR transmission.

DAF Brasil grew its 16+ tonne market share from 4.3% in 2019 to 5.7% in 2020. PACCAR Parts opened a new parts distribution center in Ponta Grossa, Brasil to further enhance the support of its dealers and customers.

PACCAR Australia had an excellent year with combined Kenworth and DAF heavy-duty market share growing to 24.5% from 21.9%. In 2020, Kenworth launched the new state-of-the-art T410 SAR model and DAF launched the new LF, CF and XF trucks into the Australian marketplace.

A tremendous team effort by the company's employees and dealer network contributed to industry leading truck, parts and other gross margins of 12.1%. A combination of new technology, process improvements, data analytics and collaboration with suppliers enabled PACCAR facilities to establish records for factory and distribution center safety and quality.

PACCAR continues to be a leader in diversity and inclusion and the PACCAR corporate office, Peterbilt, Kenworth, PACCAR Parts and Dynacraft were each recognized as top workplaces for women by the Women in Trucking Association.

PACCAR's innovation and manufacturing expertise continued to be recognized as the industry leader in 2020. Kenworth and Peterbilt received a total of five "*Manufacturing Leadership Awards*" from the National Association of Manufacturers. The DAF XF truck earned the "*Fleet Truck of the Year 2020*" in the U.K. The DAF CF and XF model ranges won prestigious Australian international "*Good Design Awards*" for their 'outstanding design and innovation.' DAF Leyland received the prestigious "*Queen's Award for Enterprise in International Trade 2020*" for increasing export revenues by almost 50% over the last three years.

PACCAR PARTS — PACCAR Parts delivered excellent revenues of \$3.91 billion and achieved strong pre-tax profits of \$799.3 million as dealers and customers increasingly adopted the innovative e-commerce platforms and global fleet service programs that offer online purchasing, national pricing and centralized billing. PACCAR Parts is the primary source for aftermarket parts and services for PACCAR vehicles, and supplies its TRP-branded parts for all makes of trucks, trailers and buses. PACCAR dealers expanded TRP aftermarket parts retail stores to 233 locations in 42 countries. Over seven million heavy-duty trucks operate in North America and Europe. This 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 cyclical nature of truck sales.

PACCAR Parts continues to enhance logistics performance to dealers and customers and opened new distribution centers in Las Vegas, Nevada and Ponta Grossa, Brazil and is currently constructing a new parts distribution facility in Louisville, Kentucky.

FINANCIAL SERVICES — PACCAR Financial Services' (PFS) conservative business approach, coupled with PACCAR's superb credit rating of A+/A1 and the strength of the dealer network, enabled PFS to grow retail market share to 28.3% from 24.5%. Pre-tax profits were \$223.1 million in 2020. PACCAR issued \$1.99 billion in medium-term notes at attractive rates during the year. PFS has operations covering 26 countries on four continents. The global breadth of PFS and its rigorous credit application process support a portfolio of 203,000 trucks and trailers, with total assets of \$15.80 billion. PACCAR Financial and PACCAR Leasing are the preferred funding sources for DAF, Peterbilt and Kenworth trucks in the markets where PFS operates. PFS has ten strategically located used truck centers including three new centers that opened in Denton, Texas, Prague, Czech Republic and Lyon, France. PFS successfully increased the number of premium DAF, Kenworth and Peterbilt used trucks sold from 14,500 in 2019 to a record 19,800 in 2020.

PACCAR Leasing (PacLease) celebrated its 40-year anniversary and is one of the largest full-service truck rental and leasing operations in North America, Germany and Australia. PacLease placed nearly 5,600 new PACCAR vehicles in service. The PacLease fleet consisted of over 38,000 vehicles at the end of 2020.

ENVIRONMENTAL LEADERSHIP — PACCAR is a global environmental leader. Many of PACCAR's manufacturing facilities have earned ISO 14001 environmental certification. The company's manufacturing facilities continued to enhance their zero-waste-to-landfill programs during the year. PACCAR is a member of the environmental reporting firm CDP, which evaluates and scores companies on how effectively they are addressing climate change and the environment. PACCAR earned an "A-" score in 2020, which places it in the top 15% of the over 9,500 reporting

companies from around the world, and for the past six years has earned an “A” or “A-” score. PACCAR announced that it will establish new emissions reduction targets in partnership with the Science Based Targets Initiative (SBTi) to create a clear path to reduce greenhouse gas emissions.

A LOOK AHEAD — PACCAR employees around the world enable the company to distinguish itself as a global leader in trucks, technology, financial services and the aftermarket parts business. The economic outlook for 2021 is for growth of 4-5% in North and South America and Europe. The U.S. and Canada Class 8 truck market in 2021 is projected to increase and be in the range of 250,000–280,000 vehicles. Retail sales for Class 6-7 trucks are expected to be between 80,000–100,000 vehicles. The European truck market is also forecast to strengthen in 2021 with 16+ tonne vehicle registrations in the range of 250,000–280,000 vehicles and medium-duty trucks in the range of 45,000–50,000 units.

PACCAR Parts’ best-in-class technology and services, the large vehicle parc and strong freight demand in North America and Europe are expected to provide increased parts deliveries in the company’s aftermarket parts business. PACCAR Financial is expected to continue to perform well due to its strong market share performance and growing economies.

PACCAR provides the industry’s most desirable and efficient vehicles, operates modern high technology factories and delivers superb customer service in parts and financial services. PACCAR is investing in the development of aerodynamic trucks, zero emissions and diesel powertrains, advanced driver assistance systems, autonomous driving technologies, next generation truck connectivity and data analytics. These capabilities and investments provide a clear path to future success. PACCAR is well positioned and committed to generating outstanding results for its customers and shareholders.

PRESTON FEIGHT

Chief Executive Officer

February 17, 2021



PACCAR Executive Operating Committee

First Row Left to Right: David Danforth, Kyle Quinn, Harrie Schippers, Lily Ley, Jack LeVier, Michael Barkley.

Second Row Left to Right: Mike Walton, Kevin Baney, Mike Dozier, Darrin Siver, Preston Feight, Todd Hubbard,

Harry Wolters, Jason Skoog, Marco Davila.

** Masks were briefly removed to take this photo.*



Kenworth achieved record share of 15.8 percent in the heavy-duty market and 11.7 percent share in the medium-duty market in 2020. Kenworth introduced its zero emission Class 8 T680E and medium-duty K270E and K370E battery-electric vehicles.

The Kenworth T680E Class 8 electric truck has an estimated operating range of 150 miles and leverages the excellent performance, reliability and cab comfort of the Kenworth T680 on-highway flagship model. The K270E and K370E medium-duty electric trucks offer integrated, state-of-the-art electric powertrains and are ideal for local pickup and delivery, as well as urban operations.

Kenworth’s advanced technologies team has developed a hydrogen fuel cell electric vehicle (FCEV) for regional operations. A Kenworth T680 FCEV successfully reached the 14,115-foot summit of Pikes Peak – “America’s Mountain”.

Kenworth customers have 140,000 Class 8 and medium-duty trucks that utilize the Kenworth *TruckTech+* connected vehicle system to provide superior vehicle diagnostics and service event management. The system also delivers real-time over-the-air updates to improve engine operating performance and optimize customer uptime and productivity.

Kenworth Chillicothe earned two “*Manufacturing Leadership Awards*” from the National Association of Manufacturers (NAM) and the “*Encouraging Environmental Excellence ‘E3’ Gold*” Award from the Ohio Environmental Protection Agency in 2020. Kenworth Renton built alternative fuel and zero emission trucks, and contributed to PACCAR’s environmental excellence through its zero-waste-to-landfill achievement. The PACCAR Ste-Thérèse plant achieved a 2020 “*Manufacturing Leadership Award*” from NAM in recognition of its engineering and production technology advancements.

Kenworth dealers invested \$152 million in world-class facilities and the dealer network has 431 locations in the United States and Canada. 136 Kenworth dealership locations attained the prestigious Kenworth PremierCare® Gold certification by providing outstanding parts and service experiences to maximize customer uptime.

The Women in Trucking Association recognized Kenworth as a 2020 “*Top Company for Women to Work for in Transportation*”. A Kenworth T680 with the PACCAR Powertrain transported the U.S. Capitol Christmas Tree for the annual tree-lighting ceremony. The Kenworth T680 also served as the “*Transition Trucking: Driving for Excellence*” award for America’s top rookie military veteran who transitioned from active duty to driving for a commercial fleet.



Kenworth’s first battery-electric vehicle, the T680E, exemplifies Kenworth’s commitment to providing industry leading technology. The T680E redefines efficiency with a fully integrated electric powertrain and superior aerodynamics, lowering operating costs. The T680E sets the standard for driver comfort, delivering the same world-class driving experience of the T680 on-highway flagship model.



DAF Trucks N.V. achieved 16.3 percent market share in the European 16+ tonne truck market in 2020. DAF expanded its environmental leadership by announcing production of the zero emission CF Electric vehicle for urban and regional vocations.

DAF increased market share in the 16+ tonne segment to 16.3 percent with market leadership in the United Kingdom, the Netherlands, Poland, Portugal, Hungary and Bulgaria. DAF is the European leader in tractors and the leading import brand in France and Germany. DAF increased its market share to 11.5 percent in the heavy-duty rigids segment.

DAF customers enjoyed the benefits of the CF Hybrid truck that employs its zero emission battery technology when driving in city areas and applies its clean diesel engine on long distance routes. DAF announced production of the new CF Electric truck, offering an electric range of 200 kilometers.

DAF produced its 250,000th Super Space Cab, the industry standard in spaciousness and driver comfort. A new generation of the Advanced Emergency Braking System (AEBS-3) contributes to enhanced road safety and illustrates DAF's technology leadership.

DAF sold nearly 6,000 trucks outside the EU in 2020 and introduced its latest generation trucks in Taiwan (Euro 6) and Brasil (Euro 5). DAF delivered the 10,000th locally assembled truck in Taiwan, where it is the heavy-duty market leader among European manufacturers. DAF's independent global dealer network opened 45 new locations expanding its worldwide network to over 1,100, with new dealerships in Europe, South America, Asia and Africa.



DAF opened used truck centers in Lyon, France and Prague, Czech Republic to strengthen its used truck network and meet the growing market demand for pre-owned DAF trucks throughout Europe.

PACCAR Parts' TRP all-makes aftermarket parts program consists of over 134,000 truck, bus and trailer parts and is supported by DAF's worldwide dealer network. DAF dealers opened 19 new TRP stores in Europe, South America, Asia and Africa, bringing the total to 111.

The United Kingdom Motor Transport Awards honored the DAF XF flagship model as the "Fleet Truck of the Year 2020". In Australia, the DAF CF and XF model ranges received prestigious "Good Design Awards" for outstanding design and innovation. The leading Fleet Transport Magazine in Ireland voted DAF the "Irish Fleet Brand of the Year 2021". DAF Trucks received the "Incentive Trophy" from the Dutch Lung Alliance for its exemplary position in providing factory employees a safe working environment.

DAF is finalizing construction of an environmentally leading €200 million cab body and trim facility at its Westerlo, Belgium plant that will increase production capacity and deliver world-class quality. This state-of-the-art facility will be operational in 2021. DAF also enhanced the functionality of the *DAF Connect* online fleet management system to maximize vehicle uptime and reduce operational costs for customers.

The award-winning DAF CF excels in versatility and offers the perfect solution for every transport application, ranging from urban delivery to heavy construction. It offers DAF customers industry leading quality, efficiency and driver comfort.



Peterbilt celebrated 40 years in Denton, TX and announced its zero emission Models 579EV, 520EV and 220EV for production in 2021. Peterbilt achieved a 14.3 percent share in the Class 8 market and set a record with medium-duty market share of 10.9 percent.

The Peterbilt Denton plant celebrated its 40th Anniversary in 2020. The Denton facility is 600,000 square-feet and has built 644,000 Peterbilt trucks since 1980. The state-of-the-art facility has implemented innovative production initiatives, including Peterbilt's first collaborative robot, connected manufacturing technology and advanced emissions control technology. The plant produced the 10,000th Model 579 UltraLoft – an industry benchmark in performance, efficiency and driver comfort.

Peterbilt announced availability of the zero emission battery-electric Models 579EV, 520EV and 220EV. The Model 579EV is designed for regional operation and provides unparalleled Peterbilt comfort and performance.

The Peterbilt Electric Model 520EV delivers excellent performance for the refuse industry and features a quiet 72 db operation and the capability to complete up to 1,100 bin pickups on a single charge. The Model 220EV features the maneuverability and comfort of a cab-over configuration and is ideal for pick-up and delivery, beverage distribution and other urban and regional applications.



Peterbilt achieved 14.3 percent Class 8 market share and had record medium-duty share of 10.9 percent, with sales of the cab-over Model 220 and its conventional Models 337 and 348. Peterbilt earned an industry leading and record Class 8 vocational/refuse share of 21.8 percent, powered by the rugged Model 567 and Low Cab Forward Model 520 refuse truck.

Peterbilt introduced PACCAR over-the-air updates that enable the secure download and installation of truck engine software. The over-the-air process is supported by a mobile app and the PACCAR Solutions web portal.

Peterbilt certified 148 of its dealer locations as Platinum Service Centers, denoting the highest level of technician training and best-in-class facilities. Peterbilt also launched *Peterbilt.tech*, a new website designed to recruit and train the next generation of Peterbilt dealer service technicians.

Peterbilt added five dealer locations during 2020 and grew its sales and service dealer network to a record 405 locations throughout North America, including 22 TRP stores. The Peterbilt dealer network invested \$115 million in new and upgraded facilities.

The Women in Trucking Association recognized Peterbilt as a “*Top Company for Women to Work for in Transportation*” in 2020 for the third year in a row. Peterbilt earned an “*Outstanding Leadership Investment*” award from the Denton Economic Development Partnership. Peterbilt also achieved two prestigious “*Manufacturing Leadership Awards*” from the National Association of Manufacturers in recognition of the plant’s leadership in manufacturing and Peterbilt’s efforts in diversity.

PACCAR Australia launched the new DAF Euro 6 model range and the Kenworth T410SAR in 2020. PACCAR has delivered more than 71,000 Kenworth and DAF vehicles operating in one of the world's most demanding environments.

PACCAR extended its market leadership in Australia, with Kenworth achieving 19.9 percent market share and DAF increasing to a record 4.5 percent. PACCAR achieved 16.5 percent market share in New Zealand, supported by an industry leading 26 dealer locations, and has the largest dealer network in Papua New Guinea. DAF introduced the new Euro 6 XF, CF and LF Models in Australia and New Zealand and Kenworth launched the T410SAR with the PACCAR MX-13 engine. PACCAR Australia continued construction on its 100,000 square-foot expansion to the Bayswater factory, scheduled for completion in 2021.

PACCAR Financial Australia financed a record 38 percent of new Kenworth and DAF trucks in 2020 and provided outstanding support to PACCAR Australia customers. PacLease expanded to 19 locations, delivering rental, full-service lease and contract maintenance programs to Kenworth and DAF customers. PACCAR Parts Australia increased its TRP all-makes truck and trailer parts business by 22 percent and its Fleet Services program sales by 37 percent, growing parts revenue to records. The 92 Kenworth and DAF dealer locations across Australia, New Zealand and Papua New Guinea provide customers with exceptional service.



Kenworth trucks are designed and manufactured in Australia to perform in some of the most demanding applications in the world. The Model T360 is designed for high productivity and maneuverability in urban environments while enhancing Kenworth's excellent reputation for superior product quality, comfort and visibility.

PACCAR Mexico (KENMEX) expanded its market leadership in 2020, achieving an industry leading 36.1 percent share of the Class 8 market in Mexico.

PACCAR Mexico produces a broad range of Kenworth and Peterbilt Class 5-8 vehicles for North, Central, and South America in its state-of-the-art 590,000 square-foot production facilities in Mexicali, Mexico. KENMEX produced 12,500 vehicles in 2020, including 4,500 exports to the U.S. and Canadian markets. KENMEX has installed over 6,600 PACCAR MX engines in Kenworth vehicles. KENMEX continues to invest in new heavy- and medium-duty products, battery-electric vehicle production and industry leading production facilities. KENMEX has invested more than \$75 million in new products and facilities over the last five years.

KENMEX launched new products in 2020, including the Kenworth T880 Flat Low Roof and the 12-speed PACCAR Transmission, which delivers up to a four percent fuel economy improvement when combined with the PACCAR MX-13 Euro 5 engine. KENMEX introduced the *TruckTech+* software update system for PACCAR MX engines, making Kenworth the first manufacturer to deliver over-the-air engine updates in Mexico. PACCAR Financial Mexico and PacLease Mexicana financed over 63 percent of Kenworth truck retail sales in Mexico. KENMEX dealers have invested over \$55 million in the last five years, further enhancing the market leading quality and customer service at 131 dealer locations and 1,018 service bays throughout Mexico.



The Kenworth T370 is known for its excellent performance in vocational applications and is one of the most versatile trucks for local and regional delivery in Mexico. The T370 delivers the best power-to-weight ratio in the industry when equipped with the PACCAR PX-7 engine.

Leyland Trucks, the United Kingdom’s leading truck manufacturer, celebrated significant milestones in production and delivered 14,250 DAF vehicles to customers across Europe, Asia, Australia, the Middle East and the Americas.

Leyland’s highly efficient 710,000 square-foot manufacturing facility features a technologically advanced production system, which incorporates a robotic chassis paint facility and delivers engineering designs and assembly instructions electronically. Leyland assembles the full DAF product range of LF, CF and XF models for right- and left-hand drive markets.

Leyland celebrated many production highlights, including manufacturing the 100,000th DAF CF/XF and the 200,000th DAF LF. Leyland also delivered its 10,000th PACCAR bodied vehicle, and its body program was recognized as a Finalist in the Commercial Motors U.K. Awards. Leyland implemented new cab and engine logistic systems to improve efficiency and quality in production while garnering a “ROSPA Patron’s Award” for 25 years of Gold level safety achievements. Leyland earned the prestigious “Queen’s Award for Enterprise” in international trade for the sixth time in recognition of increasing export revenues by almost 50 percent over the last three years. DAF achieved its market leadership in the U.K. for the 25th consecutive year and the United Kingdom Motor Transport Awards honored the DAF XF as the “Fleet Truck of the Year” for the second year in a row.



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 over 100 countries on six continents. In 2020, PACCAR expanded its business in South America, Asia and Africa.

DAF Brasil has produced over 12,000 trucks as it celebrates its seventh year of operation. DAF Brasil achieved a record 8.6 percent market share in the Brazilian 40+ tonne truck segment and successfully introduced the new DAF XF range. DAF dealers in Brasil have invested over \$85 million in 44 service locations. PACCAR opened a new Parts Distribution Center in Ponta Grossa, Brasil in 2020 to enhance DAF and Kenworth dealers' parts availability in South America.

DAF introduced a new generation of Euro 3 and Euro 5 trucks in Africa and the Middle East. DAF enhanced its market leadership in Taiwan, where it launched a new generation of Euro 6 trucks. The state-of-the-art production facility in Taichung, Taiwan assembled its 10,000th DAF truck. DAF is the market leader in the 6 to 16-tonne market in Israel.

DAF sold over 2,000 PACCAR engines to leading manufacturers of coaches, buses and special vehicles worldwide. The PACCAR MX-13 engine was introduced in the Pierce firefighting vehicles manufactured by the Oshkosh Corporation in the U.S. The PACCAR India Technical Center provides information technology, engineering, and purchasing expertise to PACCAR operations worldwide.

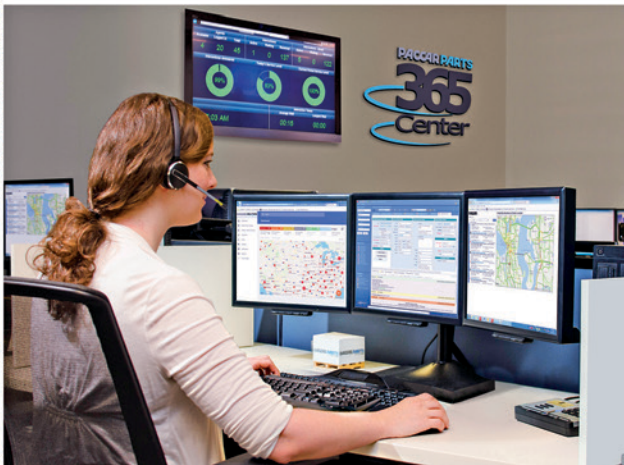


The DAF assembly facility in Taiwan builds the full range of DAF XF, CF and LF models. DAF Brasil has produced over 12,000 trucks as it celebrates seven years of operation. PACCAR engineering teams in India support the PACCAR truck divisions around the world. PACCAR engines power buses throughout Europe and Asia.

PACCAR Parts achieved a pre-tax profit of \$799 million and worldwide revenue of \$3.91 billion in 2020, and delivered 1.9 million parts shipments to over 2,200 DAF, Kenworth, Peterbilt and TRP locations.

PACCAR Parts drives uptime for customers with technology solutions that include the PACCAR Parts 365 Center and Fleet Services program, which supports over 1,900 commercial fleets operating more than 1.1 million vehicles. PACCAR Parts launched the next generation of its industry leading e-commerce program, *Online Parts Counter* (OPC), which allows customers 24/7 online access to more than 1.5 million aftermarket parts and generates 4.1 million order lines per year. PACCAR Parts has nearly 50,000 customers utilizing OPC, which earns them Kenworth *Privileges*, Peterbilt *Preferred*, DAF *MAX* and TRP *Performance* loyalty benefits.

PACCAR Parts operates 18 Parts Distribution Centers (PDCs) globally with 3.1 million square-foot of warehouse space, driving world-class part availability greater than 98 percent. PACCAR Parts opened new PDCs in Las Vegas, Nevada and Ponta Grossa, Brasil in 2020 and is constructing a new PDC in Louisville, Kentucky. PACCAR Parts’ successful TRP aftermarket brand provides parts for all makes and models of trucks, trailers, buses and engines by offering over 134,000 part numbers. In 2020, TRP aftermarket parts retail stores expanded to a record 233 locations in 42 countries.



TRP aftermarket parts retail stores expanded to a record 233 locations. PACCAR Parts’ eCommerce program allows customers 24/7 access. PACCAR Parts’ 365 Center supports customers with roadside assistance, powertrain support and service management. PACCAR Parts’ 18 global distribution centers and industry leading technology deliver best-in-class customer service.

The PACCAR Engine Company is celebrating 10 years of manufacturing in Columbus, Mississippi. PACCAR MX engines are installed in all DAF 16+ tonne vehicles and over 40 percent of Kenworth and Peterbilt Class 8 vehicles in North America.

PACCAR is one of the premier diesel engine manufacturers in the world with over 800,000 square-feet of production facilities in Columbus, Mississippi, Eindhoven, the Netherlands and Ponta Grossa, Brasil. PACCAR's MX-13 and MX-11 engines provide customers with excellent fuel economy and superior durability. PACCAR has delivered over 1.7 million engines, with the Columbus engine facility manufacturing over 245,000 engines since its opening in 2010. PACCAR has two world-class research and development centers, operating 47 advanced engine test cells and a climatic chassis dynamometer to enhance its engine and powertrain design.

The PACCAR 12-speed automated transmission and PACCAR 40K axle complement PACCAR MX engines by providing an industry leading integrated powertrain which reduces weight by 500 pounds and was installed in 22 percent of Kenworth and Peterbilt on-highway trucks. Advanced powertrain research and development activities are focused on zero emission all-electric vehicles and fuel cell hybrids, as well as natural gas hybrids with near-zero emissions.



The PACCAR engine factory provides technology leadership in commercial vehicle powertrain production. PACCAR Powertrains are installed in DAF, Kenworth and Peterbilt vehicles worldwide, where they have earned a reputation for superior reliability, durability and operating efficiency.

PACCAR Financial Services (PFS) supports the sale of PACCAR trucks worldwide.

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PFS grew retail market share to 28.3 percent and earned pre-tax profits of \$223 million in 2020.

The PFS portfolio is comprised of 203,000 trucks and trailers, with total assets of \$15.8 billion. PACCAR’s excellent balance sheet, complemented by its A+/A1 credit rating, enabled PFS to issue \$2.0 billion in three-, four-, and five-year medium-term notes in 2020. PFS supports the sale of Kenworth, Peterbilt and DAF trucks in 26 countries on four continents. PFS sold a record 19,800 pre-owned PACCAR trucks worldwide in 2020, and expanded its used truck centers by opening locations in Lyon, France, Denton, Texas, and Prague, Czech Republic.

PACCAR Financial Corp. (PFC) financed 76 percent of dealers’ new truck inventory and 23.4 percent of Kenworth and Peterbilt Class 8 trucks in the U.S. and Canada. PFC funded over 90 percent of retail financing through its industry leading *e-contract* and *e-signature* platform. PFC utilizes data analytics to enhance collection practices to maintain excellent portfolio performance. PACCAR Financial Brasil supports the growth of DAF Brasil by providing retail financing for 29 percent of the DAF trucks sold in Brasil. PACCAR Financial Europe (PFE) has \$4.1 billion in assets and provides financial services to DAF dealers and customers in 18 European countries. PFE financed 29 percent of new DAF vehicles in 2020.



PACCAR Financial facilitates the sale of premium-quality new and used 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 31st consecutive year of profitability as it celebrated its 40th anniversary with a worldwide fleet of over 38,000 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 and complete transportation solutions. In 2020, PacLease delivered nearly 5,600 Kenworth, Peterbilt and DAF vehicles to customers in North America, Europe and Australia through its global network of 571 locations. The PacLease fleet added its 2,500th vehicle equipped with the PACCAR Integrated Powertrain, which combines the fuel efficiency and reliability of the PACCAR MX engine and the durability of the PACCAR Transmission.

PacLease introduced “voice guided” preventive maintenance to improve dealer technician efficiency. Utilizing a wireless headset and microphone, the system guides a technician through a customized, step-by-step process of performing preventative maintenance service on a truck, improving process completion time by 20 percent.

PacLease Mexico delivered 987 vehicles and is the largest Class 8 full-service lease provider in Mexico with a fleet of 7,300 trucks and trailers. PacLease Australia expanded to 19 locations and offers the industry’s widest network coverage in Australia. PacLease Europe operates a fleet of over 2,300 DAF trucks and trailers. PacLease University, the training program for the franchise lease and rental sales professionals trained over 400 people in 2020.



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 Technical Centers’ world-class design, simulation and validation capabilities accelerate product development on technologies such as zero emission, autonomous and connected vehicles. The Technical Centers also ensure that PACCAR continues to deliver the highest-quality trucks and powertrains in the industry.

PACCAR’s Technical Centers in Europe, North America and India provide technical leadership in product development, validation and innovation. Engineers, scientists and technicians with expertise in powertrain and vehicle development accelerate the launch of new technologically advanced products.

Technical Center computer simulation tools, laboratories and test tracks develop and validate emerging technologies to support PACCAR products, including hydrogen fuel cell and electric powertrains, autonomous driving, and connectivity to other road users and surrounding infrastructure. Data analytics tools based on machine learning provide faster response times and proactively recommend maintenance schedules to enhance the daily performance of PACCAR vehicles. The climatic chassis dynamometer simulates driving at a wide range of temperatures, road speeds, grades or altitudes. 3-D rapid prototyping capability, including printing metal prototypes, drives product innovation.



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 that enhance the quality of PACCAR business processes and products. These technologies systematically connect PACCAR with its customers, dealers and suppliers.

PACCAR ITD and Quality Assurance utilized HoloLens technology and Augmented Reality (AR) to conduct truck quality audits with teams located in different geographic regions. HoloLens technology enables a factory employee wearing an AR headset to work in conjunction with a remote Quality Assurance team to perform a virtual audit. The process utilizes hands-free “see-what-I-see capability” with voice interaction and AR visual images.

PACCAR Parts’ global IT teams delivered enhanced e-commerce capabilities, such as investments in *Online Parts Counter* (OPC) to provide benefits to dealers across the globe. North America released the next generation *Online Parts Counter* with an easy-to-use order application built on the PACCAR digital platform. The new application provides improved dealer loyalty programs and fleet customer business system connections.

PACCAR ITD is developing and operating connected truck services for customers across the globe. These services can be managed as subscriptions through PACCAR’s e-commerce platform.



PACCAR is a leader in applied technology including: Customer Technology Center; Augmented Reality training guides use a full scale hologram; Connected Truck services increase uptime and productivity; and Digital Services enhance the customer experience.

The PACCAR Foundation has contributed over \$200 million to educational, social services and arts organizations since 1951.

PACCAR’s philanthropy reflects its global business reach. PACCAR donates generously to education, the arts and social services in locations in which its employees work and live worldwide.

PACCAR’s philanthropy recognizes that education is the key to providing a life full of opportunities. PACCAR’s grants to universities through scholarships and professorships fund research in science and business and build world-class facilities for students and faculty, including Stanford University, the University of Washington and Cambridge University.

PACCAR’s philanthropy is also focused on health and social well-being, including funding cancer research and the United Way. PACCAR employees contribute their time and resources as volunteers and fundraisers for organizations worldwide.

PACCAR recently contributed \$1.5 million to nonprofit organizations that promote diverse and inclusive communities, including UNCF, Special Olympics USA Games, YWCA, Landesa, Northwest African American Museum and Lighthouse for the Blind. PACCAR and its employees donated over \$2 million in 2020 to assist communities impacted by the COVID-19 pandemic.



PACCAR philanthropy supports institutions in many locales: PACCAR Medical Education Center, Chillicothe, Ohio; Northwest African American Museum, Seattle, Washington; Hospital da Criança João Vargas, Ponta Grossa, Brasil; PACCAR Manufacturing Technology Laboratory, Mississippi State University.

PACCAR’s strategy for environmental leadership is to invest in technologically advanced products and energy efficient, sustainable operations.

PACCAR has earned an “A” or “A-” rating for six consecutive years in the Carbon Disclosure Project (CDP) Evaluation by delivering a comprehensive environmental program. PACCAR’s 2020 “A-” rating places the company in the top 15 percent of over 9,500 companies reporting to CDP.

PACCAR announced that it will establish new emissions reduction targets in partnership with the Science Based Targets Initiative to create a clearly defined path to reduce greenhouse gas emissions, with the goal to help limit global warming to below two degrees Celsius compared to pre-industrial levels.

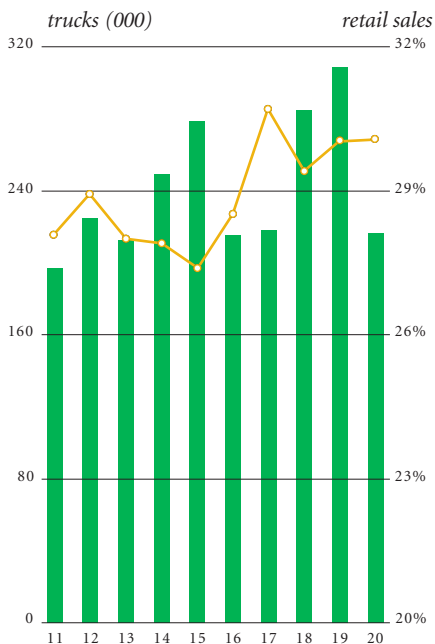
PACCAR is a leader in the development of alternative powertrains including battery-electric, fuel cell, hybrid and natural gas commercial vehicles. Kenworth, Peterbilt and DAF zero emission trucks will begin production in the second quarter of 2021. Kenworth, Peterbilt and DAF diesel trucks have reduced fuel consumption and CO₂ emissions up to 15 percent compared with 2014 vehicles.

PACCAR is an environmental leader in its global factory operations, with over 80 percent of PACCAR’s manufacturing facilities being zero-waste-to-landfill and over 90 percent being ISO 14001 certified. PACCAR reduced greenhouse gas emissions by 38 percent in facilities from 2013 to 2019 on a per dollar of revenue basis.



A battery-electric Peterbilt 579EV and a fuel cell electric Kenworth T680 became the first Class 8 zero emission vehicles to drive to the 14,115 foot summit of Pikes Peak in Colorado. Both vehicles displayed superb power and exhibited excellent drivability over the 156 turns and switchbacks during the 4,700-foot elevation gain to the summit.

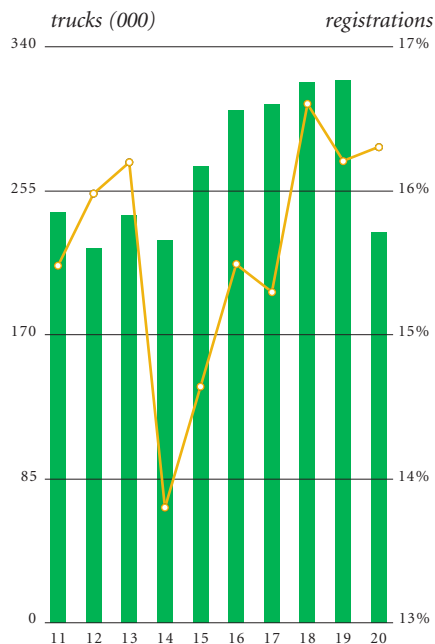
U.S. AND CANADA CLASS 8 MARKET SHARE



■ Total U.S. and Canada Class 8 Units

○ PACCAR Market Share (percent)

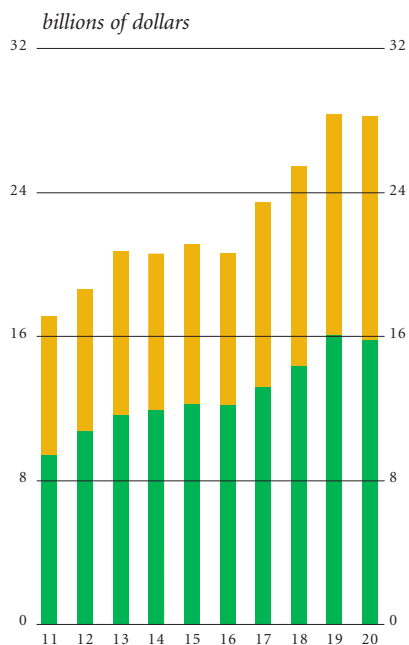
WESTERN AND CENTRAL EUROPE 16+ TONNE MARKET SHARE



■ Total Western and Central Europe 16+ Tonne Units

○ PACCAR Market Share (percent)

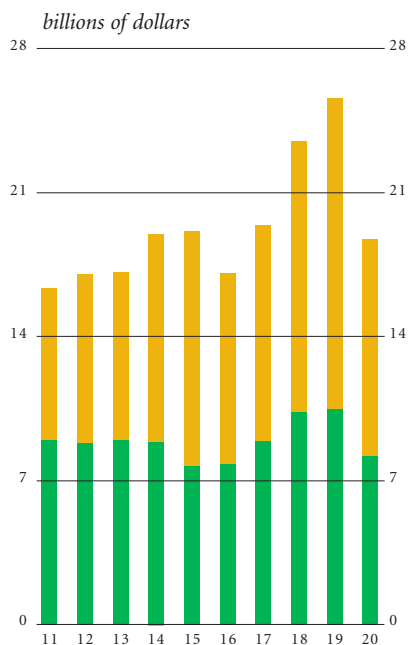
TOTAL ASSETS



■ Truck, Parts and Other

■ Financial Services

GEOGRAPHIC REVENUE

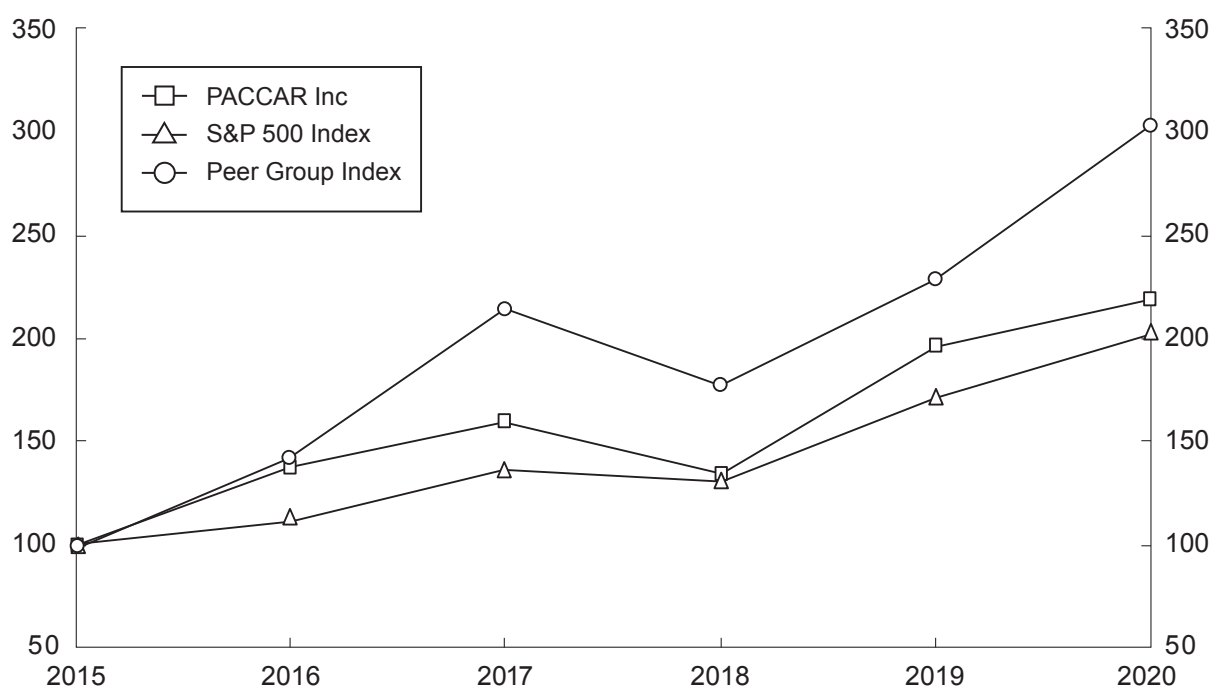


■ United States

■ Rest of World

STOCKHOLDER RETURN PERFORMANCE GRAPH

The following line graph compares the yearly percentage change in the cumulative total stockholder return on the Company’s common stock, to the cumulative total return of the Standard & Poor’s Composite 500 Stock Index and the return of the industry peer groups of companies identified in the graph (the “Peer Group Index”) for the last five fiscal years ended December 31, 2020. 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. The comparison assumes that \$100 was invested December 31, 2015, in the Company’s common stock and in the stated indices and assumes reinvestment of dividends.



| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------|------|--------|--------|--------|--------|--------|
| PACCAR Inc | 100 | 138.38 | 158.89 | 134.55 | 195.16 | 218.07 |
| S&P 500 Index | 100 | 111.96 | 136.40 | 130.42 | 171.49 | 203.04 |
| Peer Group Index | 100 | 142.24 | 214.65 | 177.39 | 227.93 | 302.22 |

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.

PACCAR's financial results for year ended December 31, 2020 were impacted by the COVID-19 pandemic, with the most significant impact in the quarter ended June 30, 2020. The Company's truck and engine production was suspended at its factories worldwide starting March 24, 2020. Truck and engine production restarted in Europe and Australia on April 20, 2020, and factories gradually resumed operations in North America and Brasil in early May. In the third quarter the Company resumed production at rates sufficient to accommodate demand while maintaining appropriate health and safety protocols. Effects of the pandemic included reduced truck deliveries, increased costs associated with the suspension of production, lower aftermarket parts sales and higher provision for losses on Financial Services receivables. Increased costs related to the suspension and subsequent resumption of production primarily included reduced labor efficiency, costs to prepare factories for safe re-opening and reduced factory utilization. The Company implemented cost saving measures to partially offset the increased costs. During the pandemic, the Company's Parts segment continues to provide aftermarket support through its parts distribution centers, and the Financial Services segment continues to provide financing, leasing services and related support to customers.

2020 Financial Highlights

- Worldwide net sales and revenues were \$18.73 billion in 2020 compared to \$25.60 billion in 2019 due to lower truck revenues.
- Truck sales were \$13.16 billion in 2020 compared to \$19.99 billion in 2019 primarily due to lower truck deliveries in the U.S. and Canada and Europe.
- Parts sales were \$3.91 billion in 2020 compared to \$4.02 billion in 2019 primarily due to lower demand in the U.S. and Canada.
- Financial Services revenues were \$1.57 billion in 2020 compared to \$1.48 billion in 2019. The increase was primarily the result of higher used truck sales in Europe.
- In 2020, PACCAR earned net income for the 82nd consecutive year. Net income was \$1.30 billion (\$3.74 per diluted share) in 2020 compared to \$2.39 billion (\$6.87 per diluted share) in 2019 primarily reflecting lower Truck operating results.
- Capital investments were \$569.5 million in 2020 compared to \$743.9 million in 2019 reflecting continued investments in the Company's manufacturing facilities, new product development and enhanced aftermarket support.
- After-tax return on beginning equity (ROE) was 13.4% in 2020 compared to 27.8% in 2019.
- Research and development (R&D) expenses were \$273.9 million in 2020 compared to \$326.6 million in 2019.

PACCAR signed a global strategic agreement with Aurora, a leader in autonomous driving technologies, to develop autonomous Peterbilt 579 and Kenworth T680 trucks. The partnership will integrate PACCAR's autonomous vehicle platform with the Aurora self-driving technologies to deliver enhanced safety and operational efficiency to customers. Kenworth T680 and Peterbilt 579 trucks utilizing the Aurora Driver are expected to be delivered in the next several years.

A Kenworth T680 fuel cell electric vehicle and a battery electric Peterbilt 579EV became the first Class 8 zero emissions vehicles to drive to the 14,115 foot summit of Pikes Peak in Colorado, demonstrating superb power and excellent drivability. More than 60 hybrid and zero emissions vehicles are currently in customer testing, which have traveled nearly 500,000 miles. Kenworth K270E and T680E, Peterbilt 579EV, 220EV and 520EV, and DAF CF Electric zero emissions trucks became available for customers to order in the third quarter of 2020. The Company anticipates electric vehicle production may be a few hundred units in 2021.

Kenworth and Toyota Motor North America are collaborating on a project to develop Kenworth T680 zero emissions trucks powered by hydrogen fuel cell electric powertrains.

PACCAR Parts continues to add global parts distribution capacity to further enhance parts availability to its customers. A new 260,000 square-foot distribution center will open in Louisville, Kentucky next year.

PACCAR has been honored as a global leader in environmental practices by reporting firm CDP, earning a score of “A-” in 2020, which places PACCAR in the top 15% of over 9,500 reporting companies which disclose data about their environmental programs to CDP for independent assessment. Environmental leadership is one of PACCAR’s core values, and the Company has earned an “A” or “A-” rating for six consecutive years.

PACCAR Inc, Kenworth, Peterbilt, PACCAR Parts and Dynacraft were each honored by the Women in Trucking Association (WIT) as a 2020 “Top Company for Women to Work for in Transportation”. The recognition was for fostering gender diversity, flexible hours, competitive compensation and benefits, training, professional development and career advancement opportunities.

PACCAR Financial Services (PFS) recently opened used truck centers in Lyon, France, Denton, Texas, and Prague, Czech Republic, and plans to open a used truck facility in Madrid, Spain in 2021.

The PFS group of companies has operations covering four continents and 26 countries. The global breadth of PFS and its rigorous credit application process support a portfolio of loans and leases with total assets of \$15.80 billion. PFS issued \$1.99 billion in medium-term notes during 2020 to support portfolio growth and repay maturing debt.

Truck Outlook

The Company suspended truck production worldwide on March 24, 2020, due to the COVID-19 pandemic, with production resuming at all facilities by early May. The Company adjusted its manufacturing facilities for social distancing and implemented deep cleaning procedures. Initial truck production rates at all facilities were lower than those in effect at the time of the worldwide closure. In the fourth quarter, production rates had returned to pre-pandemic levels. Future production volumes will depend on market demand for trucks, parts availability from the Company’s suppliers and further government directives related to the COVID-19 pandemic.

Assuming no significant impacts from a resurgence of the COVID-19 pandemic, truck industry retail sales in the U.S. and Canada in 2021 are expected to be 250,000 to 280,000 units compared to 216,500 in 2020. In Europe, the 2021 truck industry registrations for over 16-tonne vehicles are expected to be 250,000 to 280,000 units compared to 230,400 in 2020. In South America, heavy-duty truck industry registrations in 2021 are projected to be 100,000 to 110,000 units as compared to 93,000 in 2020.

Parts Outlook

The Company continues to provide strong aftermarket support to enable the shipment of essential goods and services to communities around the world while following social distancing and hygiene protocols. Strengthening economies and higher truck traffic in the second half of the year resulted in increased demand for aftermarket parts as compared to the first half of the year. In 2021, PACCAR Parts sales are expected to increase 7-9% from 2020 levels. If economic conditions were to worsen, lower freight volumes could reduce the demand for replacement parts, resulting in lower parts revenues and operating results.

Financial Services Outlook

Based on the truck market outlook, average earning assets in 2021 are expected to increase 4-6% compared to 2020. Current high 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 2021 are expected to be \$575 to \$625 million, and R&D is expected to be \$350 to \$375 million. The Company is investing for medium- and long-term growth in aerodynamic truck models, integrated powertrains including diesel, electric, hybrid, and hydrogen fuel cell technologies, as well as advanced driver assistance and autonomous systems, connected vehicle services and next-generation manufacturing and distribution capabilities.

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

RESULTS OF OPERATIONS:

The Company's results of operations for the years ended December 31, 2020 and 2019 are presented below. For information on the year ended December 31, 2018, refer to Part II, Item 7 in the 2019 Annual Report on Form 10-K.

(\$ in millions, except per share amounts)

| Year Ended December 31, | 2020 | 2019 |
|------------------------------------|-------------|-------------|
| Net sales and revenues: | | |
| Truck | \$ 13,164.8 | \$ 19,989.5 |
| Parts | 3,912.9 | 4,024.9 |
| Other | 76.6 | 105.3 |
| Truck, Parts and Other | 17,154.3 | 24,119.7 |
| Financial Services | 1,574.2 | 1,480.0 |
| | \$ 18,728.5 | \$ 25,599.7 |
| Income (loss) before income taxes: | | |
| Truck | \$ 581.4 | \$ 1,904.9 |
| Parts | 799.3 | 830.8 |
| Other | 18.2 | (17.7) |
| Truck, Parts and Other | 1,398.9 | 2,718.0 |
| Financial Services | 223.1 | 298.9 |
| Investment income | 35.9 | 82.3 |
| Income taxes | (359.5) | (711.3) |
| Net Income | \$ 1,298.4 | \$ 2,387.9 |
| Diluted earnings per share | \$ 3.74 | \$ 6.87 |

| | | |
|------------------------------|------|------|
| After-tax return on revenues | 6.9% | 9.3% |
|------------------------------|------|------|

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.

2020 Compared to 2019:

Truck

The Company's Truck segment accounted for 70% of revenues in 2020 compared to 78% in 2019.

The Company's new truck deliveries are summarized below:

| Year Ended December 31, | 2020 | 2019 | % CHANGE |
|--------------------------------------------|---------|---------|----------|
| U.S. and Canada | 73,300 | 117,200 | (37) |
| Europe | 42,900 | 59,900 | (28) |
| Mexico, South America, Australia and other | 17,100 | 21,700 | (21) |
| Total units | 133,300 | 198,800 | (33) |

The decrease in new truck deliveries worldwide in 2020 compared to 2019 was driven primarily by lower build rates caused by lower demand partially as a result of the COVID-19 pandemic.

Market share data discussed below is provided by third party sources and is measured by either registrations or retail sales for the Company's dealer network as a percentage of total registrations or retail sales depending on the geographic market. In the U.S. and Canada, market share is based on retail sales. In Europe, market share is based primarily on registrations.

In 2020, industry retail sales in the heavy-duty market in the U.S. and Canada decreased to 216,500 units from 308,800 units in 2019. The Company's heavy-duty truck retail market share was 30.1% in 2020 compared to 30.0% in 2019. The medium-duty market was 74,500 units in 2020 compared to 114,200 units in 2019. The Company's medium-duty market share was 22.6% in 2020 compared to 17.2% in 2019.

The over 16-tonne truck market in Europe in 2020 decreased to 230,400 units from 320,200 units in 2019, and DAF's market share was 16.3% in 2020 compared to 16.2% in 2019. The 6 to 16-tonne market in 2020 decreased to 41,400 units from 53,600 units in 2019. DAF's market share in the 6 to 16-tonne market in 2020 was 9.5% compared to 9.7% in 2019.

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

| (\$ in millions) Year Ended December 31, | 2020 | 2019 | % CHANGE |
|---------------------------------------------|--------------------|--------------------|-------------|
| Truck net sales and revenues: | | | |
| U.S. and Canada | \$ 8,062.0 | \$ 13,106.5 | (38) |
| Europe | 3,419.3 | 4,797.6 | (29) |
| Mexico, South America, Australia and other | 1,683.5 | 2,085.4 | (19) |
| | \$ 13,164.8 | \$ 19,989.5 | (34) |
| Truck income before income taxes | \$ 581.4 | \$ 1,904.9 | (69) |

| | | |
|----------------------------|------|------|
| Pre-tax return on revenues | 4.4% | 9.5% |
|----------------------------|------|------|

The Company's worldwide truck net sales and revenues decreased to \$13.16 billion in 2020 from \$19.99 billion in 2019 due to lower truck deliveries in all markets, though primarily the U.S. and Canada and Europe. Truck segment income before income taxes and pretax return on revenues reflect the impact of lower truck unit deliveries and lower margins, driven primarily by reduced demand and the worldwide truck plant closures as a result of the COVID-19 pandemic.

The major factors for the Truck segment changes in net sales and revenues, cost of sales and revenues and gross margin between 2020 and 2019 are as follows:

| (\$ in millions) | NET SALES AND REVENUES | COST OF SALES AND REVENUES | GROSS MARGIN |
|----------------------------------------------------------|------------------------------|----------------------------------|------------------|
| 2019 | \$ 19,989.5 | \$ 17,562.6 | \$ 2,426.9 |
| (Decrease) increase | | | |
| Truck sales volume | (6,738.2) | (5,504.2) | (1,234.0) |
| Average truck sales prices | (44.5) | | (44.5) |
| Average per truck material, labor and other direct costs | | 271.5 | (271.5) |
| Factory overhead and other indirect costs | | (200.8) | 200.8 |
| Extended warranties, operating leases and other | (78.3) | 8.2 | (86.5) |
| Currency translation | 36.3 | 34.4 | 1.9 |
| Total decrease | (6,824.7) | (5,390.9) | (1,433.8) |
| 2020 | \$ 13,164.8 | \$ 12,171.7 | \$ 993.1 |

- Truck sales volume primarily reflects lower unit deliveries in the U.S. and Canada (\$5.01 billion sales and \$4.05 billion cost of sales), Europe (\$1.42 billion sales and \$1.19 billion cost of sales) and Mexico (\$254.1 million sales and \$211.0 million cost of sales), due to reduced retail demand and the impact of the worldwide production suspension due to the COVID-19 pandemic.

- Average truck sales prices decreased sales by \$44.5 million, primarily due to lower price realization in North America and Europe.
- Average cost per truck increased cost of sales by \$271.5 million, primarily reflecting higher accruals for product support costs and increased labor costs from lower volumes and inefficiencies related to the COVID-19 pandemic.
- Factory overhead and other indirect costs decreased \$200.8 million, primarily due to lower costs for labor, repair and maintenance and depreciation, partially offset by increased costs associated with the COVID-19 pandemic.
- Extended warranties, operating leases and other revenues decreased by \$78.3 million primarily due to lower revenues from operating leases as a result of a decreasing portfolio and lower revenues from dealer support services, partially offset by higher revenues from extended warranty contracts. Cost of sales and revenues increased by \$8.2 million primarily due to higher costs on extended warranty contracts and higher impairments and losses on used trucks in Europe, partially offset by lower costs from operating leases and dealer support services.
- The currency translation effect on sales and cost of sales primarily reflects an increase in the value of the euro relative to the U.S. dollar, partially offset by a decline in the value of the Brazilian real and the Canadian dollar.
- Truck gross margins decreased to 7.5% in 2020 from 12.1% in 2019, primarily due to the factors noted above.

Truck selling, general and administrative expenses (SG&A) for 2020 decreased to \$210.9 million from \$269.7 million in 2019. The decrease was primarily due to lower sales and marketing costs (\$30.1 million), salaries and related expenses (\$22.7 million) and travel expenses (\$17.3 million). As a percentage of sales, Truck SG&A increased to 1.6% in 2020 from 1.3% in 2019 due to lower net sales, partially offset by lower spending.

Parts

The Company's Parts segment accounted for 21% of revenues in 2020 compared to 16% in 2019.

(\$ in millions)

| <i>Year Ended December 31,</i> | 2020 | 2019 | % CHANGE |
|--------------------------------------------|-------------------|------------|----------|
| Parts net sales and revenues: | | | |
| U.S. and Canada | \$ 2,664.9 | \$ 2,731.7 | (2) |
| Europe | 896.1 | 908.5 | (1) |
| Mexico, South America, Australia and other | 351.9 | 384.7 | (9) |
| | \$ 3,912.9 | \$ 4,024.9 | (3) |
| Parts income before income taxes | \$ 799.3 | \$ 830.8 | (4) |
| Pre-tax return on revenues | 20.4% | 20.6% | |

The Company's worldwide parts net sales and revenues decreased to \$3.91 billion in 2020 from \$4.02 billion in 2019 due to lower sales volume, partially offset by higher prices. The decrease in Parts segment income before income taxes and pre-tax return on revenues in 2020 was primarily due to lower volume and margins. Parts income before income taxes in 2020 included a \$10.2 million gain on the sale of the prior Las Vegas parts distribution facility which was replaced by a new larger facility. The gain was recorded in the second quarter in Interest and other (income), net on the Consolidated Statement of Income.

The major factors for the Parts segment changes in net sales and revenues, cost of sales and revenues and gross margin between 2020 and 2019 are as follows:

| (\$ in millions) | NET SALES AND REVENUES | COST OF SALES AND REVENUES | GROSS MARGIN |
|-----------------------------------------------|------------------------------|----------------------------------|-------------------|
| 2019 | \$ 4,024.9 | \$ 2,906.8 | \$ 1,118.1 |
| (Decrease) increase | | | |
| Aftermarket parts volume | (220.1) | (149.1) | (71.0) |
| Average aftermarket parts sales prices | 96.8 | | 96.8 |
| Average aftermarket parts direct costs | | 60.8 | (60.8) |
| Warehouse and other indirect costs | | 17.8 | (17.8) |
| Currency translation | 11.3 | 6.5 | 4.8 |
| Total decrease | (112.0) | (64.0) | (48.0) |
| 2020 | \$ 3,912.9 | \$ 2,842.8 | \$ 1,070.1 |

- Aftermarket parts sales volume decreased by \$220.1 million and related cost of sales decreased by \$149.1 million primarily due to lower demand in the U.S. and Canada.
- Average aftermarket parts sales prices increased sales by \$96.8 million primarily due to higher price realization in North America.
- Average aftermarket parts direct costs increased \$60.8 million due to higher material costs.
- Warehouse and other indirect costs increased \$17.8 million, primarily due to higher salaries and related expenses.
- The currency translation effect on sales and cost of sales primarily reflects an increase in the value of the euro relative to the U.S. dollar, partially offset by a decrease in the value of the Brazilian real.
- Parts gross margins in 2020 decreased to 27.3% from 27.8% in 2019 due to the factors noted above.

Parts SG&A expense for 2020 decreased to \$192.7 million compared to \$207.8 million in 2019 primarily due to lower salaries and related expenses, lower travel expenses and lower sales and marketing costs. As a percentage of sales, Parts SG&A decreased to 4.9% in 2020 from 5.2% in 2019, primarily due to lower spending, partially offset by lower net sales.

Financial Services

The Company's Financial Services segment accounted for 8% of revenues in 2020 compared to 6% in 2019.

| (\$ in millions) | | | |
|---------------------------------------|-------------|-------------|----------|
| Year Ended December 31, | 2020 | 2019 | % CHANGE |
| New loan and lease volume: | | | |
| U.S. and Canada | \$ 3,027.0 | \$ 3,425.8 | (12) |
| Europe | 1,204.1 | 1,349.5 | (11) |
| Mexico, Australia and other | 787.6 | 857.7 | (8) |
| | \$ 5,018.7 | \$ 5,633.0 | (11) |
| New loan and lease volume by product: | | | |
| Loans and finance leases | \$ 3,975.0 | \$ 4,277.1 | (7) |
| Equipment on operating lease | 1,043.7 | 1,355.9 | (23) |
| | \$ 5,018.7 | \$ 5,633.0 | (11) |
| New loan and lease unit volume: | | | |
| Loans and finance leases | 36,100 | 38,000 | (5) |
| Equipment on operating lease | 10,700 | 13,700 | (22) |
| | 46,800 | 51,700 | (9) |
| Average earning assets: | | | |
| U.S. and Canada | \$ 9,011.3 | \$ 8,837.7 | 2 |
| Europe | 3,560.2 | 3,547.6 | |
| Mexico, Australia and other | 1,782.4 | 1,895.5 | (6) |
| | \$ 14,353.9 | \$ 14,280.8 | 1 |
| Average earning assets by product: | | | |
| Loans and finance leases | \$ 9,123.8 | \$ 8,758.8 | 4 |
| Dealer wholesale financing | 2,101.4 | 2,428.8 | (13) |
| Equipment on lease and other | 3,128.7 | 3,093.2 | 1 |
| | \$ 14,353.9 | \$ 14,280.8 | 1 |
| Revenues: | | | |
| U.S. and Canada | \$ 785.0 | \$ 810.1 | (3) |
| Europe | 562.2 | 409.3 | 37 |
| Mexico, Australia and other | 227.0 | 260.6 | (13) |
| | \$ 1,574.2 | \$ 1,480.0 | 6 |
| Revenues by product: | | | |
| Loans and finance leases | \$ 457.8 | \$ 470.2 | (3) |
| Dealer wholesale financing | 69.6 | 112.8 | (38) |
| Equipment on lease and other | 1,046.8 | 897.0 | 17 |
| | \$ 1,574.2 | \$ 1,480.0 | 6 |
| Income before income taxes | \$ 223.1 | \$ 298.9 | (25) |

New loan and lease volume was \$5.02 billion in 2020 compared to \$5.63 billion in 2019, primarily reflecting lower truck deliveries worldwide, partially offset by higher finance market share. PFS finance market share of new PACCAR truck sales was 28.3% in 2020 compared to 24.5% in 2019.

PFS revenues increased to \$1.57 billion in 2020 from \$1.48 billion in 2019. The increase was primarily due to higher used truck sales in Europe, partially offset by lower portfolio yields reflecting lower U.S. market interest rates. The effects of currency translation decreased PFS revenues by \$7.3 million in 2020, primarily due to a weaker Mexican peso and Brazilian real, partially offset by a stronger euro.

PFS income before income taxes decreased to \$223.1 million in 2020 from \$298.9 million in 2019, primarily due to lower used truck results, lower yields and a higher provision for credit losses, partially offset by lower SG&A expenses. The effects of translating weaker foreign currencies to the U.S. dollar decreased PFS income before taxes by \$9.3 million in 2020.

Included in Financial Services “Other Assets” on the Company’s Consolidated Balance Sheets are used trucks held for sale, net of impairments, of \$375.8 million at December 31, 2020 and \$391.4 million at December 31, 2019. These trucks are primarily units returned from matured operating leases in the ordinary course of business, and also include trucks acquired from repossessions, through acquisitions of used trucks in trades related to new truck sales and trucks returned from residual value guarantees (RVGs).

The Company recognized losses on used trucks, excluding repossessions, of \$88.2 million in 2020 compared to \$57.5 million in 2019, including losses on multiple unit transactions of \$38.6 million in 2020 compared to \$19.1 million in 2019. Used truck losses related to repossessions, which are recognized as credit losses, were insignificant for 2020 and 2019.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between 2020 and 2019 are outlined below:

| (\$ in millions) | INTEREST AND FEES | INTEREST AND OTHER BORROWING EXPENSES | FINANCE MARGIN |
|--------------------------------|----------------------|------------------------------------------|-------------------|
| 2019 | \$ 583.0 | \$ 230.5 | \$ 352.5 |
| Increase (decrease) | | | |
| Average finance receivables | 3.0 | | 3.0 |
| Average debt balances | | 1.2 | (1.2) |
| Yields | (47.1) | | (47.1) |
| Borrowing rates | | (35.8) | 35.8 |
| Currency translation and other | (11.5) | (3.8) | (7.7) |
| Total decrease | (55.6) | (38.4) | (17.2) |
| 2020 | \$ 527.4 | \$ 192.1 | \$ 335.3 |

- Average finance receivables increased \$51.4 million (excluding foreign exchange effects) in 2020 as a result of retail portfolio new business volume exceeding collections, partially offset by lower dealer wholesale balances.
- Average debt balances increased \$12.4 million (excluding foreign exchange effects) in 2020. The higher average debt balances reflect funding for a higher average earning assets portfolio.
- Lower portfolio yields (4.7% in 2020 compared to 5.2% in 2019) decreased interest and fees by \$47.1 million. The lower portfolio yields were primarily due to lower market rates in North America.
- Lower borrowing rates (1.8% in 2020 compared to 2.2% in 2019) were primarily due to lower debt market rates in North America.
- The currency translation effects reflect a decrease in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso and the Brazilian real.

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

| (\$ in millions) | 2020 | 2019 |
|---------------------------------------------------|-------------------|-----------------|
| <i>Year Ended December 31,</i> | | |
| Operating lease and rental revenues | \$ 832.0 | \$ 831.0 |
| Used truck sales | 194.8 | 43.9 |
| Insurance, franchise and other revenues | 20.0 | 22.1 |
| Operating lease, rental and other revenues | \$ 1,046.8 | \$ 897.0 |
| Depreciation of operating lease equipment | \$ 651.9 | \$ 605.4 |
| Vehicle operating expenses | 152.4 | 143.8 |
| Cost of used truck sales | 200.1 | 45.9 |
| Insurance, franchise and other expenses | 3.6 | 3.1 |
| Depreciation and other expenses | \$ 1,008.0 | \$ 798.2 |

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between 2020 and 2019 are outlined below:

| (\$ in millions) | OPERATING LEASE, RENTAL AND OTHER REVENUES | DEPRECIATION AND OTHER EXPENSES | LEASE MARGIN |
|----------------------------------|-----------------------------------------------|------------------------------------|-----------------|
| 2019 | \$ 897.0 | \$ 798.2 | \$ 98.8 |
| Increase (decrease) | | | |
| Used truck sales | 151.0 | 154.2 | (3.2) |
| Results on returned lease assets | | 28.7 | (28.7) |
| Average operating lease assets | (1.4) | .9 | (2.3) |
| Revenue and cost per asset | (2.0) | 17.5 | (19.5) |
| Currency translation and other | 2.2 | 8.5 | (6.3) |
| Total increase (decrease) | 149.8 | 209.8 | (60.0) |
| 2020 | \$ 1,046.8 | \$ 1,008.0 | \$ 38.8 |

- A higher sales volume of used trucks received on trade and upon RVG contract expiration increased operating lease, rental and other revenues by \$151.0 million and increased depreciation and other expenses by \$154.2 million.
- Results on returned lease assets increased depreciation and other expenses by \$28.7 million primarily due to higher impairments in the U.S. and Europe and higher losses on sales of returned lease units in the U.S.
- Average operating lease assets increased \$9.8 million (excluding foreign exchange effects), which increased related depreciation and other expenses by \$.9 million. Revenues decreased by \$1.4 million due to lower rental income per unit in Europe.
- Revenue per asset decreased \$2.0 million primarily due to lower fleet utilization. Cost per asset increased \$17.5 million due to higher operating lease impairments in Europe, higher depreciation expense and higher 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 the Mexican peso.

Financial Services SG&A expense decreased to \$122.2 million in 2020 from \$137.0 million in 2019. The decrease was due to lower salaries and related expenses as a result of cost controls and lower travel expenses. As a percentage of revenues, Financial Services SG&A decreased to 7.8% in 2020 from 9.3% in 2019.

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

| (\$ in millions) | 2020 | | 2019 | |
|-----------------------------|-------------------------------------------|--------------------|-------------------------------------------|--------------------|
| | PROVISION FOR LOSSES ON RECEIVABLES | NET CHARGE-OFFS | PROVISION FOR LOSSES ON RECEIVABLES | NET CHARGE-OFFS |
| U.S. and Canada | \$ 16.2 | \$ 13.8 | \$ 13.5 | \$ 14.0 |
| Europe | 5.1 | 3.2 | (3.2) | (.8) |
| Mexico, Australia and other | 7.5 | 5.3 | 5.1 | 4.2 |
| | \$ 28.8 | \$ 22.3 | \$ 15.4 | \$ 17.4 |

The provision for losses on receivables increased to \$28.8 million in 2020 from \$15.4 million in 2019, primarily driven by growth in the loans and finance leases portfolio and challenging economic conditions related to the COVID-19 pandemic. In addition, the provision for losses in 2019 also included recoveries on charged-off accounts 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 a loan or finance lease for credit reasons and grants a concession, the modification is classified as a troubled debt restructuring (TDR).

The post-modification balances of accounts modified during the years ended December 31, 2020 and 2019 are summarized below:

| (\$ in millions) | 2020 | | 2019 | |
|------------------------|-------------------------|--------------------------|-------------------------|--------------------------|
| | AMORTIZED COST BASIS | % OF TOTAL PORTFOLIO* | AMORTIZED COST BASIS | % OF TOTAL PORTFOLIO* |
| Commercial | \$ 244.4 | 2.5% | \$ 316.4 | 3.5% |
| Insignificant delay | 2,545.3 | 26.0% | 83.2 | .9% |
| Credit - no concession | 120.2 | 1.2% | 23.3 | .3% |
| Credit - TDR | 74.7 | .8% | 2.5 | |
| | \$ 2,984.6 | 30.5% | \$ 425.4 | 4.7% |

* Amortized cost basis immediately after modification as a percentage of the year-end retail portfolio balance.

In 2020, total modification activity significantly increased compared to 2019. The decrease in modifications for Commercial reasons primarily reflects lower volumes of refinancing. The increase in modifications for Insignificant delay reflects fleet customers requesting payment relief for up to three months related to the COVID-19 pandemic. The increase in modifications for Credit - no concession is primarily due to higher volumes of refinancing and requests for payment relief in Europe, the U.S. and Mexico. Credit - TDR modifications increased to \$74.7 million in 2020 from \$2.5 million in 2019 primarily due to two fleet customers in the U.S. and four fleet customers in Mexico.

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

| At December 31, | 2020 | 2019 |
|-----------------------------------------------------------------|------|------|
| Percentage of retail loan and lease accounts 30+ days past due: | | |
| U.S. and Canada | .1% | .4% |
| Europe | .9% | .7% |
| Mexico, Australia and other | 1.7% | 2.0% |
| Worldwide | .5% | .7% |

Accounts 30+ days past due decreased to .5% at December 31, 2020 from .7% at December 31, 2019. 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 \$18.6 million and \$1.7 million of accounts worldwide during the fourth quarter of 2020 and the fourth quarter of 2019, 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:

| <i>At December 31,</i> | 2020 | 2019 |
|---------------------------------------------------------------------------|-------------|-------------|
| Pro forma percentage of retail loan and lease accounts 30+ days past due: | | |
| U.S. and Canada | .1% | .4% |
| Europe | 1.5% | .7% |
| Mexico, Australia and other | 1.9% | 2.1% |
| Worldwide | .6% | .7% |

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, 2020 and 2019. The effect on the allowance for credit losses from such modifications was not significant at December 31, 2020 and 2019.

The Company's 2020 and 2019 annualized pre-tax return on average assets for Financial Services was 1.4% and 2.0%, respectively.

Other

Other includes the winch business as well as sales, income and expenses not attributable to a reportable segment. Other also includes non-service cost components of pension expense and a portion of corporate expense. Other sales represent less than 1% of consolidated net sales and revenues for 2020 and 2019. Other SG&A decreased to \$55.6 million in 2020 from \$84.0 million in 2019 primarily due to lower compensation costs reflecting stringent cost controls and lower travel expenses.

Other income (loss) before tax was \$18.2 million in 2020 compared to \$(17.7) million in 2019. The income in 2020 compared to loss in 2019 was primarily due to lower salaries and related expenses, lower expected costs to resolve certain environmental matters and lower travel expenses, partially offset by lower results from the winch business.

Investment income decreased to \$35.9 million in 2020 from \$82.3 million in 2019, primarily due to lower yields on U.S. investments due to lower market interest rates.

Income Taxes

In 2020, the effective tax rate was 21.7% compared to 23.0% in 2019. The lower effective tax rate in 2020 was primarily due to the change in mix of income generated in jurisdictions with lower tax rates in 2020 as compared to 2019.

(\$ in millions)

| <i>Year Ended December 31,</i> | 2020 | 2019 |
|-----------------------------------------|-------------------|-------------|
| Domestic income before taxes | \$ 1,122.9 | \$ 2,201.1 |
| Foreign income before taxes | 535.0 | 898.1 |
| Total income before taxes | \$ 1,657.9 | \$ 3,099.2 |
| Domestic pre-tax return on revenues | 10.8% | 14.5% |
| Foreign pre-tax return on revenues | 6.4% | 8.6% |
| Total pre-tax return on revenues | 8.9% | 12.1% |

In 2020, both domestic and foreign income before income taxes and pre-tax return on revenues decreased primarily due to lower revenues and lower margins from truck operations.

LIQUIDITY AND CAPITAL RESOURCES:

(\$ in millions)

At December 31,

| | 2020 | 2019 |
|----------------------------|-------------------|-------------------|
| Cash and cash equivalents | \$ 3,539.6 | \$ 4,175.1 |
| Marketable debt securities | 1,429.0 | 1,162.1 |
| | \$ 4,968.6 | \$ 5,337.2 |

The Company's total cash and marketable debt securities at December 31, 2020 decreased \$368.6 million from the balances at December 31, 2019 due to a decrease in cash and cash equivalents, primarily reflecting \$1,239.8 million of dividends paid during 2020, partially offset by other cash flows as described below.

The change in cash and cash equivalents is summarized below:

(\$ in millions)

Year Ended December 31,

| | 2020 | 2019 |
|------------------------------------------------------|-------------------|-------------------|
| Operating activities: | | |
| Net income | \$ 1,298.4 | \$ 2,387.9 |
| Net income items not affecting cash | 1,097.7 | 1,190.1 |
| Pension contributions | (184.9) | (35.7) |
| Changes in operating assets and liabilities, net | 776.0 | (682.0) |
| Net cash provided by operating activities | 2,987.2 | 2,860.3 |
| Net cash used in investing activities | (1,875.8) | (2,207.4) |
| Net cash (used in) provided by financing activities | (1,808.5) | 83.4 |
| Effect of exchange rate changes on cash | 61.6 | 2.9 |
| Net (decrease) increase in cash and cash equivalents | (635.5) | 739.2 |
| Cash and cash equivalents at beginning of the year | 4,175.1 | 3,435.9 |
| Cash and cash equivalents at end of the year | \$ 3,539.6 | \$ 4,175.1 |

Operating activities: Cash provided by operations increased by \$126.9 million to \$2.99 billion in 2020 from \$2.86 billion in 2019. The increase reflects \$1,391.4 million from wholesale receivables on new trucks as there was a cash inflow of \$871.2 million in 2020 versus a cash outflow of \$520.2 million in 2019. Higher operating cash flows reflect an increase of \$144.2 million from used truck inventories as there was a cash inflow in 2020 (\$65.1 million) compared to a cash outflow in 2019 (\$79.1 million) and \$194.1 million from accounts receivable as collections exceeded sales in 2020 (\$121.8 million) compared to sales exceeding collections in 2019 (\$72.3 million). The higher operating cash inflows were partially offset by lower net income of \$1,089.5 million and a higher outflow for product support liabilities of \$255.7 million as payments exceeded accruals by \$89.1 million in 2020 and accruals exceeded payments by \$166.6 million in 2019. Additionally, there were higher cash outflows for pension contributions of \$149.2 million and higher net purchases of inventories of \$72.8 million as there were \$48.2 million in net purchases in 2020 and \$24.6 million in net inventory reductions in 2019.

Investing activities: Cash used in investing activities decreased by \$331.6 million to \$1,875.8 million in 2020 from \$2,207.4 million in 2019. Lower net cash used in investing activities reflects lower cash used in the acquisition of equipment for operating leases of \$308.8 million. In addition there was \$101.0 million of higher proceeds from dealer wholesale receivables on used trucks as cash receipts exceeded cash outflows in 2020 (\$53.3 million) compared to originations exceeding cash receipts in 2019 (\$47.7 million). The lower cash usage was partially offset by higher net purchases of marketable securities of \$109.5 million in 2020 compared to 2019.

Financing activities: Cash used in financing activities increased \$1,891.9 million to \$1,808.5 million in 2020 compared to cash provided by financing activities of \$83.4 million in 2019. In 2020, the Company issued \$2,150.1 million of term debt, repaid term debt of \$1,898.5 million and decreased its outstanding commercial paper and short-term bank loans by \$831.9 million. In 2019, the Company issued \$2,504.3 million of term debt, repaid term debt of \$1,790.0 million and increased its outstanding commercial paper and short-term bank loans by \$557.1 million. This resulted in cash used by borrowing activities of \$580.3 million in 2020, \$1,851.7 million lower than the cash provided by borrowing activities of \$1,271.4 million in 2019. The Company paid \$1,239.8 million in dividends in 2020 compared to \$1,138.6 million in 2019 due to a higher extra dividend paid in January 2020. In addition, the Company repurchased .7 million shares of common stock for \$42.1 million in 2020 compared to the purchase of 1.7 million shares for \$110.2 million in 2019.

Credit Lines and Other:

The Company has line of credit arrangements of \$3.52 billion, of which \$3.29 billion were unused at December 31, 2020. Included in these arrangements are \$3.00 billion of committed bank facilities, of which \$1.00 billion expires in June 2021, \$1.00 billion expires in June 2023 and \$1.00 billion expires in June 2024. The Company intends to extend or replace these credit facilities on or before expiration to maintain 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 committed bank facilities for the year ended December 31, 2020.

On December 4, 2018, PACCAR's Board of Directors approved the repurchase of up to \$500.0 million of the Company's outstanding common stock. As of December 31, 2020, the Company has repurchased \$110.0 million of shares under the December 4, 2018 authorization. The Company has temporarily suspended its repurchases as a result of the economic uncertainty related to the COVID-19 pandemic.

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 manufacturing property, plant and equipment in 2020 were \$558.8 million compared to \$734.0 million in 2019. Over the past decade, the Company's combined investments in worldwide capital projects and R&D totaled \$7.20 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 2021 are expected to be \$575 to \$625 million, and R&D is expected to be \$350 to \$375 million. The Company is investing for medium- and long-term growth in aerodynamic truck models, integrated powertrains including diesel, electric, hybrid, and hydrogen fuel cell technologies, as well as advanced driver assistance and autonomous systems, connected vehicle services and next-generation manufacturing and distribution capabilities.

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.

In November 2018, 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, 2020 was \$6.00 billion. In February 2021, PFC issued \$400.0 million of medium-term notes under this registration. The registration expires in November 2021 and does not limit the principal amount of debt securities that may be issued during that period.

As of December 31, 2020, the Company's European finance subsidiary, PACCAR Financial Europe, had €1.60 billion available for issuance under a €2.50 billion medium-term note program listed on the Euro MTF Market of the Luxembourg Stock Exchange. This program replaced an expiring program in the second quarter of 2020 and is renewable annually through the filing of a new listing.

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, 2020, 6.84 billion pesos were available for issuance.

In August 2018, the Company's Australian subsidiary, PACCAR Financial Pty. Ltd. (PFPL), registered a medium-term note program. The program does not limit the principal amount of debt securities that may be issued under the program. The total amount of medium-term notes outstanding for PFPL as of December 31, 2020 was 450.0 million Australian dollars.

The Company believes its cash balances and investments, collections on existing finance receivables, committed bank facilities, 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. In the event of a decrease in the Company's credit ratings or a disruption in the financial markets, the Company may not be able to refinance its maturing debt in the financial markets. In such circumstances, the Company would be exposed to liquidity risk to the degree that the timing of debt maturities differs from the timing of receivable collections from customers. The Company believes its various sources of liquidity, including committed bank facilities, would continue to provide it with sufficient funding resources to service its maturing debt obligations.

Commitments

The following summarizes the Company's contractual cash commitments at December 31, 2020:

| (\$ in millions) | MATURITY | | | | TOTAL |
|----------------------|------------------|------------|-----------|----------------------|-------------|
| | WITHIN 1 YEAR | 1-3 YEARS | 3-5 YEARS | MORE THAN 5 YEARS | |
| Borrowings* | \$ 5,396.0 | \$ 4,604.4 | \$ 865.6 | | \$ 10,866.0 |
| Purchase obligations | 91.6 | 75.4 | .4 | | 167.4 |
| Interest on debt** | 114.6 | 103.6 | 15.4 | | 233.6 |
| Lease liabilities | 14.3 | 16.8 | 5.7 | \$ 6.0 | 42.8 |
| Other obligations | 37.6 | 5.5 | 1.1 | | 44.2 |
| | \$ 5,654.1 | \$ 4,805.7 | \$ 888.2 | \$ 6.0 | \$ 11,354.0 |

* Commercial paper included in borrowings is at par value.

** Interest on floating-rate debt is based on the applicable market rates at December 31, 2020.

Total cash commitments for borrowings and interest on term debt were \$11.10 billion and were related to the Financial Services segment. As described in Note J of the consolidated financial statements, borrowings consist primarily of term notes and commercial paper issued by the Financial Services segment. The Company expects to fund its maturing Financial Services debt obligations principally from funds provided by collections from customers on loans and lease contracts, as well as from the proceeds of commercial paper and medium-term note borrowings. Purchase obligations are the Company's contractual commitments to acquire future production inventory and capital equipment. Other obligations primarily include commitments to purchase energy.

The Company's other commitments include the following at December 31, 2020:

| (\$ in millions) | COMMITMENT EXPIRATION | | | | TOTAL |
|----------------------------|-----------------------|-----------|-----------|----------------------|------------|
| | WITHIN 1 YEAR | 1-3 YEARS | 3-5 YEARS | MORE THAN 5 YEARS | |
| Loan and lease commitments | \$ 823.4 | | | | \$ 823.4 |
| Residual value guarantees | 633.0 | \$ 709.2 | \$ 158.7 | \$ 42.2 | 1,543.1 |
| Letters of credit | 9.3 | .1 | .2 | .7 | 10.3 |
| | \$ 1,465.7 | \$ 709.3 | \$ 158.9 | \$ 42.9 | \$ 2,376.8 |

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

IMPACT OF ENVIRONMENTAL MATTERS:

The Company, its competitors and industry in general are subject to various domestic and foreign requirements relating to the environment. The Company believes its policies, practices and procedures are designed to prevent unreasonable risk of environmental damage and that its handling, use and disposal of hazardous or toxic substances have been in accordance with environmental laws and regulations 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, 2020 and 2019 were \$1.9 million and \$1.3 million, 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 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 F of the consolidated financial statements. In determining its estimate of the residual value of such vehicles, the Company considers the length of the lease term, the truck model, the expected usage of the truck and anticipated market demand. Operating lease terms generally range from three to five years. The resulting residual values on operating leases generally range between 30% and 70% of the original equipment cost. If the sales price of a truck 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 2020 and 2019, market values on equipment returning upon operating lease maturity were generally lower than the residual values on the equipment, resulting in an increase in depreciation expense of \$99.9 million and \$65.8 million, respectively.

At December 31, 2020, 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 \$2.42 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 additional depreciation expense of approximately \$80.7 million in 2021, \$70.6 in 2022, \$55.6 in 2023, \$22.6 in 2024 and \$12.9 in 2025 and thereafter.

Allowance for Credit Losses

The allowance for credit losses related to the Company's loans and finance leases is disclosed in Note E 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 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 amortized cost basis, 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 and economic forecasts information discussed below.

The Company evaluates finance receivables that are not individually impaired and share similar risk characteristics 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, current market conditions, and expected changes in future macroeconomic conditions that affect collectability. Historical credit loss information provides relevant information of expected credit losses. The historical information used includes assumptions regarding the likelihood of collecting current and past due accounts, repossession rates, and the recovery rate on the underlying collateral based on used truck values and other pledged collateral or recourse.

The Company 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 based on current market conditions and other factors impacting the creditworthiness of the Company's borrowers and their ability to repay. Adjustments to historical loss information are made for changes in forecasted economic conditions that are specific to the industry and markets in which the Company conducts business. The Company utilizes economic forecasts from third party sources and determines expected losses based on historical experience under similar market conditions. 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 expected 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 and future 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 70%. Over the past two years, the Company's year-end 30+ days past due accounts have ranged between .5% and .7% 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 2 to 37 basis points of receivables. At December 31, 2020, 30+ days past dues were .5%. If past dues were 100 basis points higher or 1.5% as of December 31, 2020, the Company's estimate of credit losses would likely have increased by a range of \$2 to \$36 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 I of the consolidated financial statements. The expenses related to product warranty are estimated and recorded at the time products are sold based on historical and current data and reasonable expectations for the future regarding the frequency and cost of warranty claims, net of recoveries.

Management takes actions to minimize warranty costs through quality-improvement programs; however, actual claim costs incurred could materially differ from the estimated amounts and require adjustments to the reserve. Historically those adjustments have not been material. Over the past two years, warranty expense as a percentage of Truck, Parts and Other net sales and revenues has ranged between 1.7% and 2.2%. If the 2020 warranty expense had been .2% higher as a percentage of net sales and revenues in 2020, warranty expense would have increased by approximately \$34 million.

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 or tariffs 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; pandemics; litigation, including EC settlement-related claims; or legislative and governmental regulations. A more detailed description of these and other risks is included under the heading Part I, Item 1A, “Risk Factors” and in Note L in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

CONSOLIDATED STATEMENTS OF INCOME

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| Year Ended December 31, | 2020 | 2019 | 2018 |
|-------------------------------------------------------------|------------------------------------------|-------------------|-------------------|
| | <i>(millions, except per share data)</i> | | |
| TRUCK, PARTS AND OTHER: | | | |
| Net sales and revenues | \$ 17,154.3 | \$ 24,119.7 | \$ 22,138.6 |
| Cost of sales and revenues | 15,076.4 | 20,555.6 | 18,925.0 |
| Research and development | 273.9 | 326.6 | 306.1 |
| Selling, general and administrative | 459.2 | 561.5 | 524.9 |
| Interest and other (income), net | (54.1) | (42.0) | (60.8) |
| | <u>15,755.4</u> | <u>21,401.7</u> | <u>19,695.2</u> |
| <i>Truck, Parts and Other Income Before Income Taxes</i> | 1,398.9 | 2,718.0 | 2,443.4 |
| FINANCIAL SERVICES: | | | |
| Interest and fees | 527.4 | 583.0 | 497.7 |
| Operating lease, rental and other revenues | 1,046.8 | 897.0 | 859.4 |
| Revenues | <u>1,574.2</u> | <u>1,480.0</u> | <u>1,357.1</u> |
| Interest and other borrowing expenses | 192.1 | 230.5 | 186.9 |
| Depreciation and other expenses | 1,008.0 | 798.2 | 728.0 |
| Selling, general and administrative | 122.2 | 137.0 | 119.8 |
| Provision for losses on receivables | 28.8 | 15.4 | 16.5 |
| | <u>1,351.1</u> | <u>1,181.1</u> | <u>1,051.2</u> |
| <i>Financial Services Income Before Income Taxes</i> | 223.1 | 298.9 | 305.9 |
| Investment income | 35.9 | 82.3 | 60.9 |
| <i>Total Income Before Income Taxes</i> | 1,657.9 | 3,099.2 | 2,810.2 |
| Income taxes | 359.5 | 711.3 | 615.1 |
| <i>Net Income</i> | \$ 1,298.4 | \$ 2,387.9 | \$ 2,195.1 |
| Net Income Per Share | | | |
| Basic | \$ 3.74 | \$ 6.88 | \$ 6.25 |
| Diluted | \$ 3.74 | \$ 6.87 | \$ 6.24 |
| Weighted Average Number of Common Shares Outstanding | | | |
| Basic | 346.8 | 346.9 | 351.0 |
| Diluted | <u>347.4</u> | <u>347.5</u> | <u>351.8</u> |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| <i>Year Ended December 31,</i> | 2020 | 2019 | 2018 |
|---------------------------------------------------|-------------------|-------------------|-------------------|
| | | <i>(millions)</i> | |
| Net income | \$ 1,298.4 | \$ 2,387.9 | \$ 2,195.1 |
| Other comprehensive income: | | | |
| Unrealized (losses) gains on derivative contracts | | | |
| Net (loss) gain arising during the period | (105.3) | (76.1) | 121.6 |
| Tax effect | 26.9 | 19.1 | (30.7) |
| Reclassification adjustment | 87.6 | 51.7 | (121.5) |
| Tax effect | (23.1) | (12.0) | 31.0 |
| | (13.9) | (17.3) | .4 |
| Unrealized gains on marketable debt securities | | | |
| Net holding gain | 13.6 | 11.6 | .2 |
| Tax effect | (3.3) | (2.9) | (.1) |
| Reclassification adjustment | (2.4) | (.4) | (.2) |
| Tax effect | .6 | .1 | .1 |
| | 8.5 | 8.4 | |
| Pension plans | | | |
| Net loss arising during the period | (132.4) | (74.8) | (114.0) |
| Tax effect | 28.4 | 18.0 | 27.2 |
| Reclassification adjustment | 57.3 | 21.9 | 36.7 |
| Tax effect | (13.7) | (5.0) | (8.7) |
| | (60.4) | (39.9) | (58.8) |
| Foreign currency translation gain (loss) | 115.6 | 47.2 | (213.3) |
| Net other comprehensive income (loss) | 49.8 | (1.6) | (271.7) |
| <i>Comprehensive Income</i> | \$ 1,348.2 | \$ 2,386.3 | \$ 1,923.4 |

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

ASSETS

| <i>December 31,</i> | 2020 | 2019 |
|--------------------------------------------------------------------------------------------------------------------|--------------------|-------------|
| | <i>(millions)</i> | |
| TRUCK, PARTS AND OTHER: | | |
| <i>Current Assets</i> | | |
| Cash and cash equivalents | \$ 3,405.0 | \$ 4,007.3 |
| Trade and other receivables, net (allowance for losses: 2020 - \$.6, 2019 - \$.6) | 1,197.5 | 1,306.1 |
| Marketable debt securities (amortized cost: 2020 - \$1,409.7, 2019 - \$1,154.0; allowance for credit losses: none) | 1,429.0 | 1,162.1 |
| Inventories, net | 1,221.9 | 1,153.2 |
| Other current assets | 515.6 | 388.0 |
| <i>Total Truck, Parts and Other Current Assets</i> | 7,769.0 | 8,016.7 |
| Equipment on operating leases, net | 421.9 | 545.5 |
| Property, plant and equipment, net | 3,270.4 | 2,883.8 |
| Other noncurrent assets, net | 998.9 | 843.7 |
| <i>Total Truck, Parts and Other Assets</i> | 12,460.2 | 12,289.7 |
| FINANCIAL SERVICES: | | |
| Cash and cash equivalents | 134.6 | 167.8 |
| Finance and other receivables, net (allowance for losses: 2020 - \$127.0, 2019 - \$112.4) | 11,820.7 | 12,086.0 |
| Equipment on operating leases, net | 3,162.8 | 3,102.6 |
| Other assets | 681.7 | 715.0 |
| <i>Total Financial Services Assets</i> | 15,799.8 | 16,071.4 |
| | \$ 28,260.0 | \$ 28,361.1 |

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

| <i>December 31,</i> | 2020 | 2019 |
|---------------------------------------------------------------------------------------------------------------|--------------------|-------------------|
| | | <i>(millions)</i> |
| TRUCK, PARTS AND OTHER: | | |
| <i>Current Liabilities</i> | | |
| Accounts payable, accrued expenses and other | \$ 3,413.9 | \$ 3,194.2 |
| Dividend payable | 242.6 | 796.5 |
| <i>Total Truck, Parts and Other Current Liabilities</i> | 3,656.5 | 3,990.7 |
| | | |
| Residual value guarantees and deferred revenues | 457.4 | 587.3 |
| Other liabilities | 1,487.2 | 1,435.1 |
| <i>Total Truck, Parts and Other Liabilities</i> | 5,601.1 | 6,013.1 |
| | | |
| FINANCIAL SERVICES: | | |
| Accounts payable, accrued expenses and other | 561.0 | 629.0 |
| Commercial paper and bank loans | 3,344.4 | 4,110.2 |
| Term notes | 7,508.9 | 7,112.5 |
| Deferred taxes and other liabilities | 854.6 | 790.2 |
| <i>Total Financial Services Liabilities</i> | 12,268.9 | 12,641.9 |
| | | |
| 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 346.6 million and 346.3 million shares | 346.6 | 346.3 |
| Additional paid-in capital | 88.5 | 61.4 |
| Retained earnings | 11,005.2 | 10,398.5 |
| Accumulated other comprehensive loss | (1,050.3) | (1,100.1) |
| <i>Total Stockholders' Equity</i> | 10,390.0 | 9,706.1 |
| | \$ 28,260.0 | \$ 28,361.1 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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| Year Ended December 31, | 2020 | 2019 | 2018 |
|------------------------------------------------------------------------------|-------------------|------------|------------|
| | | (millions) | |
| OPERATING ACTIVITIES: | | | |
| Net Income | \$ 1,298.4 | \$ 2,387.9 | \$ 2,195.1 |
| <i>Adjustments to reconcile net income to cash provided by operations:</i> | | | |
| Depreciation and amortization: | | | |
| Property, plant and equipment | 249.6 | 322.2 | 337.6 |
| Equipment on operating leases and other | 799.4 | 755.1 | 716.5 |
| Provision for losses on financial services receivables | 28.8 | 15.4 | 16.5 |
| Deferred taxes | (.5) | 70.8 | 17.5 |
| Other, net | 20.4 | 26.6 | 35.1 |
| Pension contributions | (184.9) | (35.7) | (88.9) |
| <i>Change in operating assets and liabilities:</i> | | | |
| Decrease (increase) in assets other than cash and cash equivalents: | | | |
| Receivables: | | | |
| Trade and other receivables | 121.8 | (72.3) | (299.1) |
| Wholesale receivables on new trucks | 871.2 | (520.2) | (512.3) |
| Inventories | (48.2) | 24.6 | (332.7) |
| Other assets, net | (133.8) | (365.4) | (187.0) |
| (Decrease) increase in liabilities: | | | |
| Accounts payable and accrued expenses | (53.6) | (27.6) | 528.9 |
| Residual value guarantees and deferred revenues | (127.8) | (179.7) | 275.0 |
| Other liabilities, net | 146.4 | 458.6 | 290.1 |
| <i>Net Cash Provided by Operating Activities</i> | 2,987.2 | 2,860.3 | 2,992.3 |
| INVESTING ACTIVITIES: | | | |
| Originations of retail loans and finance leases | (3,917.3) | (4,081.8) | (3,858.9) |
| Collections on retail loans and finance leases | 3,252.0 | 3,388.8 | 2,914.0 |
| Net decrease (increase) in wholesale receivables on used equipment | 53.3 | (47.7) | (.9) |
| Purchases of marketable debt securities | (842.4) | (850.6) | (615.9) |
| Proceeds from sales and maturities of marketable debt securities | 597.8 | 715.5 | 931.5 |
| Payments for property, plant and equipment | (550.4) | (574.0) | (457.6) |
| Acquisitions of equipment for operating leases | (1,088.0) | (1,396.8) | (1,494.7) |
| Proceeds from asset disposals | 601.9 | 638.1 | 653.7 |
| Other, net | 17.3 | 1.1 | (1.9) |
| <i>Net Cash Used in Investing Activities</i> | (1,875.8) | (2,207.4) | (1,930.7) |
| FINANCING ACTIVITIES: | | | |
| Payments of cash dividends | (1,239.8) | (1,138.6) | (804.3) |
| Purchases of treasury stock | (42.1) | (110.2) | (354.4) |
| Proceeds from stock compensation transactions | 53.7 | 60.8 | 19.3 |
| Net (decrease) increase in commercial paper, short-term bank loans and other | (831.9) | 557.1 | 625.9 |
| Proceeds from term debt | 2,150.1 | 2,504.3 | 2,339.9 |
| Payments on term debt | (1,898.5) | (1,790.0) | (1,755.3) |
| <i>Net Cash (Used in) Provided by Financing Activities</i> | (1,808.5) | 83.4 | 71.1 |
| Effect of exchange rate changes on cash | 61.6 | 2.9 | (61.5) |
| <i>Net (Decrease) Increase in Cash and Cash Equivalents</i> | (635.5) | 739.2 | 1,071.2 |
| Cash and cash equivalents at beginning of year | 4,175.1 | 3,435.9 | 2,364.7 |
| Cash and cash equivalents at end of year | \$ 3,539.6 | \$ 4,175.1 | \$ 3,435.9 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| <i>December 31,</i> | 2020 | 2019 | 2018 |
|----------------------------------------------------------------------------------------------------|------------------------------------------|------------|------------|
| | <i>(millions, except per share data)</i> | | |
| COMMON STOCK, \$1 PAR VALUE: | | | |
| Balance at beginning of year | \$ 346.3 | \$ 346.6 | \$ 351.8 |
| Treasury stock retirement | (.7) | (1.7) | (5.8) |
| Stock compensation | 1.0 | 1.4 | .6 |
| Balance at end of year | 346.6 | 346.3 | 346.6 |
| ADDITIONAL PAID-IN CAPITAL: | | | |
| Balance at beginning of year | 61.4 | 69.4 | 123.2 |
| Treasury stock retirement | (41.4) | (85.7) | (88.3) |
| Stock compensation and tax benefit | 68.5 | 77.7 | 34.5 |
| Balance at end of year | 88.5 | 61.4 | 69.4 |
| TREASURY STOCK, AT COST: | | | |
| Balance at beginning of year | | | |
| Purchases, shares: 2020 - .71; 2019 - 1.68; 2018 - 5.85 | (42.1) | (110.2) | (354.4) |
| Retirements | 42.1 | 110.2 | 354.4 |
| Balance at end of year | | | |
| RETAINED EARNINGS: | | | |
| Balance at beginning of year | 10,398.5 | 9,275.4 | 8,369.1 |
| Net income | 1,298.4 | 2,387.9 | 2,195.1 |
| Cash dividends declared on common stock, per share: 2020 - \$1.98; 2019 - \$3.58; 2018 - \$3.09 | (687.1) | (1,242.0) | (1,078.8) |
| Treasury stock retirement | | (22.8) | (260.3) |
| Cumulative effect of change in accounting principles | (4.6) | | 50.3 |
| Balance at end of year | 11,005.2 | 10,398.5 | 9,275.4 |
| ACCUMULATED OTHER COMPREHENSIVE LOSS: | | | |
| Balance at beginning of year | (1,100.1) | (1,098.5) | (793.6) |
| Other comprehensive income (loss) | 49.8 | (1.6) | (271.7) |
| Reclassifications to retained earnings in accordance with ASU 2018-02 | | | (33.2) |
| Balance at end of year | (1,050.3) | (1,100.1) | (1,098.5) |
| <i>Total Stockholders' Equity</i> | \$ 10,390.0 | \$ 9,706.1 | \$ 8,592.9 |

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020, 2019 and 2018 (currencies in millions)

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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, the 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: The Company enters into sales contracts with customers associated with purchases of the Company's products and services including trucks, parts, product support, and other related services. Generally, the Company recognizes revenue for the amount of consideration it will receive for delivering a product or service to a customer. Revenue is recognized when the customer obtains control of the product or receives benefits of the service. The Company excludes sales taxes, value added taxes and other related taxes assessed by government agencies from revenue. There are no significant financing components included in product or services revenue since generally customers pay shortly after the products or services are transferred. In the Truck and Parts segment, when the Company grants extended payment terms on selected receivables and charges interest, interest income is recognized when earned.

The Company recognizes truck and parts sales as revenue when control of the products is transferred to customers which generally occurs upon shipment, except for certain truck sales which are subject to a residual value guarantee (RVG) by the Company. The standard payment term for trucks and aftermarket parts is typically within 30 days, but the Company may grant extended payment terms on selected receivables. The Company recognizes revenue for the invoice amount adjusted for estimated sales incentives and returns. Sales incentives and returns are estimated based on historical experience and are adjusted to current period revenue when the most likely amount of consideration the Company expects to receive changes or becomes fixed. Truck and part sales include a standard product warranty which is included in cost of sales. The Company has elected to treat delivery services as a fulfillment activity with revenues recognized when the customer obtains control of the product. Delivery revenue is included in revenues and the related costs are included in cost of sales. As a practical expedient, the Company is not disclosing truck order backlog, as a significant majority of the backlog has a duration of less than one year.

Truck sales with RVGs that allow customers the option to return their truck are accounted for as a sale when the customer does not have an economic incentive to return the truck to the Company, or as an operating lease when the customer does have an economic incentive to return the truck. The estimate of customers' economic incentive to return the trucks is based on an analysis of historical guaranteed buyback value and estimated market value. When truck sales with RVGs are accounted for as a sale, revenue is recognized when the truck is transferred to the customer less an amount for expected returns. Expected return rates are estimated by using a historical weighted average return rate over a seven-year period. The estimated value of the truck assets to be returned and the related return liabilities at December 31, 2020 were \$627.9 and \$664.1, respectively, compared to \$473.0 and \$503.4 at December 31, 2019, respectively. The Company's total commitment to acquire trucks at a guaranteed value for contracts accounted for as a sale was \$1,184.7 at December 31, 2020.

Revenues from extended warranties, operating leases and other include optional extended warranty and repair and maintenance (R&M) service contracts which can be purchased for periods generally ranging up to five years. The Company defers revenue based on stand-alone observable selling prices when it receives payments in advance and generally recognizes the revenue on a straight-line basis over the warranty or R&M contract periods. See Note I, Product Support Liabilities, in the Notes to the Consolidated Financial Statements for further information. Also included are

December 31, 2020, 2019 and 2018 (currencies in millions)

truck sales with an RVG accounted for as an operating lease. A liability is created for the residual value obligation with the remainder of the proceeds recorded as deferred revenue. The deferred revenue is recognized on a straight-line basis over the guarantee period, which typically ranges from three to five years. Total operating lease income from truck sales with RVGs for the years ended December 31, 2020, 2019 and 2018 was \$104.2, \$159.7 and \$152.6, respectively.

Aftermarket parts sales allow for returns which are estimated at the time of sale based on historical data. At December 31, 2020, the estimated value of the returned goods asset and the related return liability were \$62.2 and \$142.0, respectively, compared to \$56.3 and \$126.3 at December 31, 2019, respectively. Parts dealer services and other revenues are recognized as services are performed.

Revenue from winch sales and other is primarily derived from the industrial winch business. Winch sales are recognized when the product is transferred to a customer, which generally occurs upon shipment. Also within this category are other revenues not attributable to a reportable segment.

Financial Services: The Company's Financial Services segment products include loans to customers collateralized by the vehicles being financed, finance leases to lease equipment to retail customers and dealers, dealer wholesale financing which includes floating-rate wholesale loans to PACCAR dealers for new and used trucks, and operating leases which include rentals on Company owned equipment. 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 using the straight-line method which approximates the interest method.

Operating lease rental revenue is recognized on a straight-line basis over the term of the lease. Customer contracts may include additional services such as excess mileage, repair and maintenance and other services on which revenue is recognized when earned. The Company's full-service lease arrangements bundle these additional services. Rents for full-service lease contracts are allocated between lease and non-lease components based on the relative stand-alone price of each component. Taxes, such as sales and use and value added, which are collected by the Company from a customer, are excluded from the measurement of lease income and expenses. Rental revenues for the years ended December 31, 2020, 2019 and 2018 were \$802.3, \$798.2 and \$797.1, respectively. Depreciation and related leased unit operating expenses were \$776.5, \$721.6 and \$686.9 for the years ended December 31, 2020, 2019 and 2018, 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, 2020 or December 31, 2019. 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.

Finance leases are secured by the trucks and related equipment being leased and the lease terms generally range from three to five years depending on the type and use of the equipment. The lessee is required to either purchase the equipment or guarantee to the Company a stated residual value upon the disposition of the equipment at the end of the finance lease term.

Operating lease terms generally range from three to five years. At the end of the operating lease term, the lessee has the option to return the equipment to the Company or purchase the equipment at its fair market value.

The Company determines its estimate of the residual value of leased vehicles by considering the length of the lease term, the truck model, the expected usage of the truck and anticipated market demand. If the sales price of the truck at the end 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.

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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 and may include an allowance for credit losses. Changes in the allowance for credit losses are recognized in the current period earnings and any unrealized gains or losses, net of tax, are 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 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 the result of credit losses or unrealized losses. In assessing credit losses, 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. The Company considers its intent for selling the security and whether it is more likely than not the Company will be able to hold the security until the recovery of any credit losses and unrealized losses. Charges against the allowance for credit losses occur when a security with credit losses is sold or the Company no longer intends to hold that security.

Receivables:

Trade and Other Receivables: The Company's trade and other receivables are recorded at cost, net of allowances. At December 31, 2020 and 2019, respectively, trade and other receivables included trade receivables from dealers and customers of \$942.7 and \$1,055.0 and other receivables of \$254.8 and \$251.1 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 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.

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 \$.6 for the years ended December 31, 2020 and 2019. Net charge-offs were nil, \$.3 and \$.1 for the years ended December 31, 2020, 2019 and 2018, 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.

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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 a loan or finance lease for credit reasons and grants a concession, the modification is classified as a troubled debt restructuring (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. In accordance with FASB statement, *Prudential Regulator Guidance Concerning Troubled Debt Restructurings*, issued on March 22, 2020, short-term modifications granted to customers were not considered TDRs if they were not past due and were seeking to manage their liquidity needs because of the effects of the COVID-19 pandemic.

On average, modifications extended contractual terms by approximately three months in 2020 and five months in 2019 and did not have a significant effect on the weighted average term or interest rate of the total portfolio at December 31, 2020 and 2019.

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 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 amortized cost basis, 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 and share similar risk characteristics 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, current market conditions, and expected changes in future macroeconomic conditions that affect collectability. Historical credit loss data provides relevant information of expected credit losses. The historical information used includes assumptions regarding the likelihood of collecting current and past due accounts, repossession rates, and the recovery rate on the underlying collateral based on used truck values and other pledged collateral or recourse.

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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 based on current market conditions and other factors impacting the creditworthiness of the Company's borrowers and their ability to repay. Adjustments to historical loss information are made for changes in forecasted economic conditions that are specific to the industry and markets in which the Company conducts business. The Company utilizes economic forecasts from third party sources and determines expected losses based on historical experience under similar market conditions. 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 expected 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 amortized cost basis.

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 an RVG by the Company may be accounted for as an operating lease. Equipment is recorded at cost and is depreciated on the straight-line basis to the lower of the estimated residual value or guarantee value. Lease and guarantee periods generally range from three to five years. Estimated useful lives of the equipment range from three to ten 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 by the straight-line method based on the estimated useful lives of various classes of assets. Certain production tooling and equipment are 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, 2020. Goodwill was \$118.8 and \$109.1 at December 31, 2020 and 2019, respectively. The increase in value was 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 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 and current data and reasonable expectations for the future regarding the frequency and cost of warranty claims, net of any recoveries. The Company periodically

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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 rate and foreign currency risk. Certain derivative instruments designated as fair value hedges, cash flow hedges or net investment hedges are subject to hedge accounting. Derivative instruments that are not subject to hedge accounting are held as derivatives not designated as hedged instruments. 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 derivative counterparties is limited to the asset position of its derivative portfolio. The asset position of the Company's derivative portfolio was \$20.5 at December 31, 2020.

The Company uses regression analysis to assess effectiveness of interest-rate contracts and net investment hedges at inception and uses quantitative analysis to assess subsequent effectiveness 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. Hedge accounting is discontinued prospectively when the Company determines that a derivative financial instrument has ceased to be a highly effective hedge. Cash flows from derivative instruments are included in operating activities in the Consolidated Statements of Cash Flows.

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:

New Credit Loss Standard: In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, including subsequently issued ASUs to clarify the implementation guidance in ASU 2016-13. The amendment introduces new guidance for credit losses on financial assets measured at amortized cost, including finance receivables, trade receivables and available-for-sale debt securities. Under this new model, expected credit losses are based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect collectability, replacing the previous incurred loss model. This ASU also updates the methodology for recording credit losses on available-for-sale debt securities from the write-down for other-than-temporary impairment to the allowance approach. The ASU is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. The Company adopted this ASU on January 1, 2020 on a modified retrospective basis as required, with a cumulative effect adjustment to Retained earnings as of the beginning of the period of adoption. The standard requires the application of the new credit impairment model for debt securities prospectively.

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The cumulative effect of the changes made to the Company's Consolidated Balance Sheet on January 1, 2020 for the adoption of ASU 2016-13 was as follows:

| | BALANCE AT DECEMBER 31, 2019 | CHANGE DUE TO NEW STANDARD | BALANCE AT JANUARY 1, 2020 |
|--------------------------------------|---------------------------------|-------------------------------|-------------------------------|
| Consolidated Balance Sheets | | | |
| FINANCIAL SERVICES | | | |
| ASSETS | | | |
| Finance and other receivables, net | \$ 12,086.0 | \$ (6.2) | \$ 12,079.8 |
| Other assets | 715.0 | .1 | 715.1 |
| LIABILITIES | | | |
| Deferred taxes and other liabilities | 790.2 | (1.5) | 788.7 |
| STOCKHOLDERS' EQUITY | | | |
| Retained earnings | 10,398.5 | (4.6) | 10,393.9 |

Other New Accounting Pronouncements: In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period and will be in effect for a limited time through December 31, 2022. The Company adopted this ASU as of October 1, 2020. The Company will apply the accounting relief as relevant contract and hedge accounting relationship modifications are made during the reference rate reform transition period. The Company does not expect the standard to have a material impact on its consolidated financial statements.

In addition to adopting the ASUs disclosed above, the Company adopted the following standards on January 1, 2020, which had no material impact on the Company's consolidated financial statements.

| STANDARD | DESCRIPTION |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2018-13 | <i>Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.</i> |
| 2018-15 | <i>Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.</i> |
| 2018-12 | <i>Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.</i> |

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

| STANDARD | DESCRIPTION | EFFECTIVE DATE |
|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| 2018-14* | <i>Compensation – Retirement Benefits – Defined Benefit Plans – General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans</i> | January 1, 2021 |

* The Company will adopt on the effective date.

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B. SALES AND REVENUES

The following table disaggregates Truck, Parts and Other revenues by major sources:

| Year Ended December 31, | 2020 | 2019 |
|---------------------------------------------------------------|--------------------|--------------------|
| <i>Truck</i> | | |
| Truck sales | \$ 12,466.9 | \$ 19,225.2 |
| Revenues from extended warranties, operating leases and other | 697.9 | 764.3 |
| | 13,164.8 | 19,989.5 |
| <i>Parts</i> | | |
| Parts sales | 3,803.3 | 3,912.1 |
| Revenues from dealer services and other | 109.6 | 112.8 |
| | 3,912.9 | 4,024.9 |
| <i>Winch sales and other</i> | 76.6 | 105.3 |
| Truck, Parts and Other sales and revenues | \$ 17,154.3 | \$ 24,119.7 |

The following table summarizes Financial Services lease revenues by lease type:

| Year Ended December 31, | 2020 | 2019 |
|-----------------------------|-----------------|-----------------|
| Finance lease revenues | \$ 189.2 | \$ 199.7 |
| Operating lease revenues | 802.3 | 798.2 |
| Total lease revenues | \$ 991.5 | \$ 997.9 |

C. INVESTMENTS IN MARKETABLE DEBT SECURITIES

Marketable debt securities consisted of the following at December 31:

| 2020 | AMORTIZED COST | UNREALIZED GAINS | UNREALIZED LOSSES | FAIR VALUE |
|----------------------------------------------|-------------------|---------------------|----------------------|-------------------|
| U.S. tax-exempt securities | \$ 388.1 | \$ 4.4 | \$.1 | \$ 392.4 |
| U.S. corporate securities | 229.6 | 3.3 | | 232.9 |
| U.S. government and agency securities | 92.1 | 2.3 | | 94.4 |
| Non-U.S. corporate securities | 406.0 | 5.5 | | 411.5 |
| Non-U.S. government securities | 77.0 | .5 | | 77.5 |
| Other debt securities | 216.9 | 3.4 | | 220.3 |
| | \$ 1,409.7 | \$ 19.4 | \$.1 | \$ 1,429.0 |
| <hr/> | | | | |
| 2019 | AMORTIZED COST | UNREALIZED GAINS | UNREALIZED LOSSES | FAIR VALUE |
| U.S. tax-exempt securities | \$ 318.1 | \$ 2.2 | \$.1 | \$ 320.2 |
| U.S. corporate securities | 163.8 | 1.9 | | 165.7 |
| U.S. government and agency securities | 128.4 | .9 | | 129.3 |
| Non-U.S. corporate securities | 347.7 | 2.3 | .2 | 349.8 |
| Non-U.S. government securities | 72.3 | .2 | .1 | 72.4 |
| Other debt securities | 123.7 | 1.1 | .1 | 124.7 |
| | \$ 1,154.0 | \$ 8.6 | \$.5 | \$ 1,162.1 |

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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 \$2.7, \$1.3 and \$1.1, and gross realized losses were \$.3, \$.4 and \$.8 for the years ended December 31, 2020, 2019 and 2018, respectively.

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

| At December 31, | 2020 | | 2019 | |
|-------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|
| | LESS THAN TWELVE MONTHS | TWELVE MONTHS OR GREATER | LESS THAN TWELVE MONTHS | TWELVE MONTHS OR GREATER |
| Fair value | \$ 81.1 | \$ 1.3 | \$ 177.0 | \$ 31.4 |
| Unrealized losses | .1 | | .4 | .1 |

The unrealized losses on the investments above were due to higher yields on certain securities. The Company did not identify any indicators of a credit loss in its assessments. Accordingly, no allowance for credit losses was recorded at December 31, 2020 and December 31, 2019. The Company does not currently intend, and it is more likely than not, that it will not be required to sell the investment securities before recovery of the unrealized losses. The Company expects that the contractual principal and interest will be received on the investment securities.

Contractual maturities on marketable debt securities at December 31, 2020 were as follows:

| Maturities: | AMORTIZED COST | FAIR VALUE |
|---------------------|-------------------|---------------|
| Within one year | \$ 313.9 | \$ 315.7 |
| One to five years | 1,088.6 | 1,106.1 |
| Six to ten years | 5.2 | 5.2 |
| More than ten years | 2.0 | 2.0 |
| | \$ 1,409.7 | \$ 1,429.0 |

Marketable debt securities included nil and \$49.7 of variable rate demand obligations (VRDOs) at December 31, 2020 and 2019, respectively. VRDOs are debt instruments with long-term scheduled maturities which have interest rates that reset periodically. Actual maturities of VRDOs may differ from contractual maturities because these securities may be sold when interest rates are reset.

D. INVENTORIES

Inventories include the following:

| At December 31, | 2020 | 2019 |
|-----------------------------------|------------|------------|
| Finished products | \$ 610.0 | \$ 584.6 |
| Work in process and raw materials | 801.9 | 754.9 |
| | 1,411.9 | 1,339.5 |
| Less LIFO reserve | (190.0) | (186.3) |
| | \$ 1,221.9 | \$ 1,153.2 |

Inventories valued using the LIFO method comprised 42% and 46% of consolidated inventories before deducting the LIFO reserve at December 31, 2020 and 2019, respectively.

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E. FINANCE AND OTHER RECEIVABLES

Finance and other receivables include the following:

| <i>At December 31,</i> | 2020 | 2019 |
|---------------------------------------|--------------------|--------------------|
| Loans | \$ 5,839.1 | \$ 5,241.7 |
| Finance leases | 3,944.7 | 3,906.7 |
| Dealer wholesale financing | 2,012.4 | 2,907.4 |
| Operating lease receivables and other | 151.5 | 142.6 |
| | \$ 11,947.7 | \$ 12,198.4 |
| Less allowance for losses: | | |
| Loans and leases | (120.4) | (104.4) |
| Dealer wholesale financing | (3.4) | (4.3) |
| Operating lease receivables and other | (3.2) | (3.7) |
| | \$ 11,820.7 | \$ 12,086.0 |

Included in Finance and other receivables, net on the Consolidated Balance Sheets is accrued interest receivable (net of allowance for credit losses) of \$35.6 and \$29.5 as of December 31, 2020 and December 31, 2019, respectively. The net activity of 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 loans are as follows:

| <i>Beginning January 1,</i> | LOANS |
|-----------------------------|-------------------|
| 2021 | \$ 1,758.4 |
| 2022 | 1,480.1 |
| 2023 | 1,223.6 |
| 2024 | 881.8 |
| 2025 | 380.0 |
| Thereafter | 115.2 |
| | \$ 5,839.1 |

Annual minimum payments due on finance lease receivables and a reconciliation of the undiscounted cash flows to the net investment in finance leases are as follows:

| <i>Beginning January 1,</i> | FINANCE LEASES |
|-------------------------------------|-------------------|
| 2021 | \$ 1,310.4 |
| 2022 | 1,030.5 |
| 2023 | 775.0 |
| 2024 | 458.8 |
| 2025 | 223.4 |
| Thereafter | 82.5 |
| | \$ 3,880.6 |
| Unguaranteed residual values | 458.8 |
| Unearned interest on finance leases | (394.7) |
| Net investment in finance leases | \$ 3,944.7 |

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.

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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:

| | 2020 | | | | |
|--------------------------------|---------------|---------------|-----------------|---------------|-----------------|
| | DEALER | | CUSTOMER | | TOTAL** |
| | WHOLESALE | RETAIL | RETAIL | OTHER* | |
| Balance at January 1 | \$ 4.3 | \$ 9.2 | \$ 101.4 | \$ 3.7 | \$ 118.6 |
| Provision for losses | (1.0) | (.8) | 30.1 | .5 | 28.8 |
| Charge-offs | | | (26.6) | (1.4) | (28.0) |
| Recoveries | | | 5.3 | .4 | 5.7 |
| Currency translation and other | .1 | | 1.8 | | 1.9 |
| Balance at December 31 | \$ 3.4 | \$ 8.4 | \$ 112.0 | \$ 3.2 | \$ 127.0 |

| | 2019 | | | | |
|--------------------------------|---------------|---------------|----------------|---------------|-----------------|
| | DEALER | | CUSTOMER | | TOTAL |
| | WHOLESALE | RETAIL | RETAIL | OTHER* | |
| Balance at January 1 | \$ 6.8 | \$ 10.0 | \$ 93.8 | \$ 3.2 | \$ 113.8 |
| Provision for losses | (1.6) | (1.0) | 14.2 | 3.8 | 15.4 |
| Charge-offs | (.6) | | (24.2) | (3.6) | (28.4) |
| Recoveries | | | 10.7 | .3 | 11.0 |
| Currency translation and other | (.3) | .2 | .7 | | .6 |
| Balance at December 31 | \$ 4.3 | \$ 9.2 | \$ 95.2 | \$ 3.7 | \$ 112.4 |

| | 2018 | | | | |
|--------------------------------|---------------|----------------|----------------|---------------|-----------------|
| | DEALER | | CUSTOMER | | TOTAL |
| | WHOLESALE | RETAIL | RETAIL | OTHER* | |
| Balance at January 1 | \$ 6.0 | \$ 9.4 | \$ 92.5 | \$ 9.3 | \$ 117.2 |
| Provision for losses | 1.0 | .7 | 13.6 | 1.2 | 16.5 |
| Charge-offs | | | (20.0) | (7.5) | (27.5) |
| Recoveries | | | 9.9 | .4 | 10.3 |
| Currency translation and other | (.2) | (.1) | (2.2) | (.2) | (2.7) |
| Balance at December 31 | \$ 6.8 | \$ 10.0 | \$ 93.8 | \$ 3.2 | \$ 113.8 |

* Operating lease and other trade receivables.

** The beginning balance has been adjusted for the adoption of ASU 2016-13.

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

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| | DEALER | | CUSTOMER | | TOTAL |
|-------------------------------------------------------------------------------------|------------|---------|----------|--|----------|
| | WHOLESALE | RETAIL | RETAIL | | |
| <i>At December 31, 2020</i> | | | | | |
| Amortized cost basis for impaired finance receivables evaluated individually | | \$ 1.2 | \$ 86.7 | | \$ 87.9 |
| Allowance for impaired finance receivables determined individually | | | 5.6 | | 5.6 |
| Amortized cost basis for finance receivables evaluated collectively | \$ 2,012.4 | 1,701.9 | 7,994.0 | | 11,708.3 |
| Allowance for finance receivables determined collectively | 3.4 | 8.4 | 106.4 | | 118.2 |

| | DEALER | | CUSTOMER | | TOTAL |
|------------------------------------------------------------------------------|------------|---------|----------|--|----------|
| | WHOLESALE | RETAIL | RETAIL | | |
| <i>At December 31, 2019</i> | | | | | |
| Amortized cost basis for impaired finance receivables evaluated individually | | \$ 2.3 | \$ 47.6 | | \$ 49.9 |
| Allowance for impaired finance receivables determined individually | | | 6.5 | | 6.5 |
| Amortized cost basis for finance receivables evaluated collectively | \$ 2,907.4 | 1,643.3 | 7,455.2 | | 12,005.9 |
| Allowance for finance receivables determined collectively | 4.3 | 9.2 | 88.7 | | 102.2 |

The amortized cost basis for finance receivables that are on non-accrual status is as follows:

| <i>At December 31,</i> | 2020 | 2019 |
|------------------------|----------------|----------------|
| Dealer: | | |
| Retail | \$ 1.2 | \$ 2.3 |
| Customer retail: | | |
| Fleet | 78.6 | 40.2 |
| Owner/operator | 8.1 | 7.2 |
| | \$ 87.9 | \$ 49.7 |

Impaired Loans: Impaired loans are summarized below. The impaired loans with specific reserve represent the unpaid principal balance. The amortized cost basis of impaired loans as of December 31, 2020 and 2019 was not significantly different than the unpaid principal balance.

| | DEALER | | CUSTOMER RETAIL | | TOTAL |
|------------------------------------------------|-----------|--------|-----------------|--------------------|---------|
| | WHOLESALE | RETAIL | FLEET | OWNER/ OPERATOR | |
| <i>At December 31, 2020</i> | | | | | |
| Impaired loans with a specific reserve | | | \$ 22.6 | \$ 2.1 | \$ 24.7 |
| Associated allowance | | | (1.6) | (.3) | (1.9) |
| | | | 21.0 | 1.8 | 22.8 |
| Impaired loans with no specific reserve | \$ 1.2 | | | | 1.2 |
| Net carrying amount of impaired loans | \$ 1.2 | | \$ 21.0 | \$ 1.8 | \$ 24.0 |
| Average amortized cost basis | \$ 1.6 | | \$ 26.5 | \$ 2.8 | \$ 30.9 |

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| | DEALER | | CUSTOMER RETAIL | | TOTAL |
|-----------------------------------------|-----------|--------|-----------------|--------------------|---------|
| | WHOLESALE | RETAIL | FLEET | OWNER/ OPERATOR | |
| <i>At December 31, 2019</i> | | | | | |
| Impaired loans with a specific reserve | | | \$ 10.9 | \$ 3.1 | \$ 14.0 |
| Associated allowance | | | (2.1) | (.6) | (2.7) |
| | | | 8.8 | 2.5 | 11.3 |
| Impaired loans with no specific reserve | \$ 2.3 | | 6.7 | .4 | 9.4 |
| Net carrying amount of impaired loans | \$ 2.3 | | \$ 15.5 | \$ 2.9 | \$ 20.7 |
| | | | | | |
| Average amortized cost basis | \$ 4.9 | \$ 2.4 | \$ 16.6 | \$ 3.4 | \$ 27.3 |

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

| <i>Year Ended December 31,</i> | 2020 | 2019 | 2018 |
|--------------------------------|---------------|---------------|---------------|
| Dealer: | | | |
| Retail | \$.2 | \$.2 | |
| Customer retail: | | | |
| Fleet | 1.5 | 1.3 | \$ 2.0 |
| Owner/operator | .2 | .2 | .2 |
| | \$ 1.9 | \$ 1.7 | \$ 2.2 |

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The table below summarizes the amortized cost basis of the Company's finance receivables within each credit quality indicator by year of origination and portfolio class.

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| At December 31, 2020 | REVOLVING LOANS | 2020 | 2019 | 2018 | 2017 | 2016 | PRIOR | TOTAL |
|------------------------------|--------------------|-------------------|-------------------|-------------------|-----------------|-----------------|-----------------|--------------------|
| Dealer: | | | | | | | | |
| Wholesale: | | | | | | | | |
| Performing | \$ 2,004.5 | | | | | | | \$ 2,004.5 |
| Watch | 7.9 | | | | | | | 7.9 |
| | \$ 2,012.4 | | | | | | | \$ 2,012.4 |
| Retail: | | | | | | | | |
| Performing | \$ 20.7 | \$ 504.2 | \$ 474.9 | \$ 268.0 | \$ 180.1 | \$ 100.4 | \$ 132.0 | \$ 1,680.3 |
| Watch | | 5.2 | 10.5 | 4.5 | 1.4 | | | 21.6 |
| At-risk | | | | | | 1.2 | | 1.2 |
| | \$ 20.7 | \$ 509.4 | \$ 485.4 | \$ 272.5 | \$ 181.5 | \$ 101.6 | \$ 132.0 | \$ 1,703.1 |
| Total Dealer | \$ 2,033.1 | \$ 509.4 | \$ 485.4 | \$ 272.5 | \$ 181.5 | \$ 101.6 | \$ 132.0 | \$ 3,715.5 |
| Customer Retail: | | | | | | | | |
| Fleet: | | | | | | | | |
| Performing | | \$ 2,664.9 | \$ 1,921.6 | \$ 1,203.7 | \$ 533.7 | \$ 234.2 | \$ 65.2 | \$ 6,623.3 |
| Watch | | 13.5 | 17.8 | 11.8 | 5.9 | 1.5 | 1.2 | 51.7 |
| At-risk | | 8.0 | 37.0 | 18.2 | 12.2 | 2.4 | .8 | 78.6 |
| | | \$ 2,686.4 | \$ 1,976.4 | \$ 1,233.7 | \$ 551.8 | \$ 238.1 | \$ 67.2 | \$ 6,753.6 |
| Owner/Operator: | | | | | | | | |
| Performing | | \$ 554.6 | \$ 376.4 | \$ 225.1 | \$ 105.2 | \$ 41.2 | \$ 9.1 | \$ 1,311.6 |
| Watch | | 1.6 | 2.7 | 2.0 | .7 | .2 | .2 | 7.4 |
| At-risk | | .9 | 2.1 | 3.2 | 1.2 | .4 | .3 | 8.1 |
| | | \$ 557.1 | \$ 381.2 | \$ 230.3 | \$ 107.1 | \$ 41.8 | \$ 9.6 | \$ 1,327.1 |
| Total Customer Retail | | \$ 3,243.5 | \$ 2,357.6 | \$ 1,464.0 | \$ 658.9 | \$ 279.9 | \$ 76.8 | \$ 8,080.7 |
| Total | \$ 2,033.1 | \$ 3,752.9 | \$ 2,843.0 | \$ 1,736.5 | \$ 840.4 | \$ 381.5 | \$ 208.8 | \$ 11,796.2 |

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.

| At December 31, 2020 | DEALER | | CUSTOMER RETAIL | | TOTAL |
|-------------------------------------------|-------------------|-------------------|-------------------|--------------------|--------------------|
| | WHOLESALE | RETAIL | FLEET | OWNER/ OPERATOR | |
| Current and up to 30 days past due | \$ 2,012.4 | \$ 1,703.1 | \$ 6,718.3 | \$ 1,314.7 | \$ 11,748.5 |
| 31 – 60 days past due | | | 12.3 | 6.5 | 18.8 |
| Greater than 60 days past due | | | 23.0 | 5.9 | 28.9 |
| | \$ 2,012.4 | \$ 1,703.1 | \$ 6,753.6 | \$ 1,327.1 | \$ 11,796.2 |
| At December 31, 2019 | DEALER | | CUSTOMER RETAIL | | TOTAL |
| | WHOLESALE | RETAIL | FLEET | OWNER/ OPERATOR | |
| Current and up to 30 days past due | \$ 2,907.4 | \$ 1,645.6 | \$ 6,297.1 | \$ 1,140.7 | \$ 11,990.8 |
| 31 – 60 days past due | | | 23.0 | 8.7 | 31.7 |
| Greater than 60 days past due | | | 27.6 | 5.7 | 33.3 |
| | \$ 2,907.4 | \$ 1,645.6 | \$ 6,347.7 | \$ 1,155.1 | \$ 12,055.8 |

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Troubled Debt Restructurings: The balance of TDRs was \$63.1 and \$14.1 at December 31, 2020 and 2019, respectively. At modification date, the pre-modification and post-modification amortized cost basis balances for finance receivables modified during the period by portfolio class were as follows:

| | 2020 | | 2019 | |
|----------------|----------------------|-------------------|----------------------|-------------------|
| | AMORTIZED COST BASIS | | AMORTIZED COST BASIS | |
| | PRE-MODIFICATION | POST-MODIFICATION | PRE-MODIFICATION | POST-MODIFICATION |
| Fleet | \$ 72.5 | \$ 72.5 | \$ 2.2 | \$ 2.2 |
| Owner/operator | 2.2 | 2.2 | .3 | .3 |
| | \$ 74.7 | \$ 74.7 | \$ 2.5 | \$ 2.5 |

The effect on the allowance for credit losses from such modifications was not significant at December 31, 2020 and 2019.

TDRs modified during the previous twelve months that subsequently defaulted (i.e., became more than 30 days past due) in the years ended December 31, 2020 and 2019 were \$4.1 and nil, respectively.

There were \$2.0 and nil of finance receivables modified as TDRs during the previous twelve months that subsequently defaulted and were charged off for the years ended December 31, 2020 and 2019, 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, 2020 and 2019 was \$19.3 and \$25.6, respectively. Proceeds from the sales of repossessed assets were \$85.6, \$62.4 and \$75.8 for the years ended December 31, 2020, 2019 and 2018, 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.

F. EQUIPMENT ON OPERATING LEASES

A summary of equipment on operating leases for Truck, Parts and Other and for the Financial Services segment is presented below.

| <i>At December 31,</i> | TRUCK, PARTS AND OTHER | | FINANCIAL SERVICES | |
|---------------------------------|------------------------|-----------------|--------------------|-------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Equipment on operating leases | \$ 576.8 | \$ 706.3 | \$ 4,493.9 | \$ 4,350.0 |
| Less allowance for depreciation | (154.9) | (160.8) | (1,331.1) | (1,247.4) |
| | \$ 421.9 | \$ 545.5 | \$ 3,162.8 | \$ 3,102.6 |

Annual minimum lease payments due on Financial Services operating leases beginning January 1, 2021 are \$668.2, \$451.8, \$252.8, \$104.3, \$35.0 and \$5.1 thereafter.

When the equipment is sold subject to an RVG, the full sales price is received from the customer. A liability is established for the residual value obligation with the remainder of the proceeds recorded as deferred lease revenue. These amounts are summarized below:

| <i>At December 31,</i> | TRUCK, PARTS AND OTHER | |
|---------------------------|------------------------|-----------------|
| | 2020 | 2019 |
| Residual value guarantees | \$ 358.4 | \$ 439.6 |
| Deferred lease revenues | 99.0 | 147.7 |
| | \$ 457.4 | \$ 587.3 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The deferred lease revenue is amortized on a straight-line basis over the RVG contract period. At December 31, 2020, the annual amortization of deferred revenues beginning January 1, 2021 is \$53.6, \$24.6, \$12.1, \$8.5, \$2 and nil thereafter. Annual maturities of the RVGs beginning January 1, 2021 are \$179.8, \$82.4, \$54.2, \$15.9, \$15.2 and \$10.9 thereafter.

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G. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include the following:

| <i>At December 31,</i> | USEFUL LIVES | 2020 | 2019 |
|---------------------------------------------|---------------|-------------------|-------------------|
| Land | | \$ 286.4 | \$ 271.8 |
| Buildings and improvements | 10 - 40 years | 1,474.7 | 1,382.2 |
| Machinery, equipment and production tooling | 3 - 12 years | 4,234.4 | 3,998.2 |
| Construction in progress | | 1,081.8 | 741.7 |
| | | 7,077.3 | 6,393.9 |
| Less allowance for depreciation | | (3,806.9) | (3,510.1) |
| | | \$ 3,270.4 | \$ 2,883.8 |

H. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER

Accounts payable, accrued expenses and other include the following:

| <i>At December 31,</i> | 2020 | 2019 |
|--------------------------------|-------------------|-------------------|
| <i>Truck, Parts and Other:</i> | | |
| Accounts payable | \$ 1,176.2 | \$ 1,115.7 |
| Product support liabilities | 514.6 | 508.1 |
| Accrued expenses | 446.5 | 467.4 |
| Right-of-return liabilities | 337.3 | 226.0 |
| Accrued capital expenditures | 288.8 | 270.3 |
| Salaries and wages | 260.8 | 271.8 |
| Other | 389.7 | 334.9 |
| | \$ 3,413.9 | \$ 3,194.2 |

I. PRODUCT SUPPORT LIABILITIES

Changes in product support liabilities are summarized as follows:

| WARRANTY RESERVES | 2020 | 2019 | 2018 |
|-----------------------------------------------------------------------|-----------------|-----------------|-----------------|
| Balance at January 1 | \$ 440.0 | \$ 380.2 | \$ 298.8 |
| Cost accruals | 295.0 | 386.3 | 331.9 |
| Payments | (437.2) | (343.7) | (271.8) |
| Change in estimates for pre-existing warranties | 84.1 | 19.8 | 25.6 |
| Currency translation and other | 7.8 | (2.6) | (4.3) |
| Balance at December 31 | \$ 389.7 | \$ 440.0 | \$ 380.2 |
| DEFERRED REVENUES ON EXTENDED WARRANTIES AND R&M CONTRACTS | | | |
| Balance at January 1 | \$ 801.4 | \$ 699.9 | \$ 653.9 |
| Deferred revenues | 409.9 | 499.1 | 448.2 |
| Revenues recognized | (438.9) | (396.4) | (385.0) |
| Currency translation | 23.4 | (1.2) | (17.2) |
| Balance at December 31 | \$ 795.8 | \$ 801.4 | \$ 699.9 |

The Company expects to recognize approximately \$272.3 of the remaining deferred revenues on extended warranties and R&M contracts in 2021, \$251.8 in 2022, \$162.3 in 2023, \$74.6 in 2024, \$25.4 in 2025 and \$9.4 thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020, 2019 and 2018 (currencies in millions)

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

| At December 31, | WARRANTY RESERVES | | DEFERRED REVENUES | |
|----------------------------------------------|-------------------|----------|-------------------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| <i>Truck, Parts and Other:</i> | | | | |
| Accounts payable, accrued expenses and other | \$ 245.6 | \$ 270.6 | \$ 269.0 | \$ 237.5 |
| Other liabilities | 144.1 | 169.4 | 513.1 | 547.6 |
| <i>Financial Services:</i> | | | | |
| Accounts payable, accrued expenses and other | | | 5.7 | 6.8 |
| Deferred taxes and other liabilities | | | 8.0 | 9.5 |
| | \$ 389.7 | \$ 440.0 | \$ 795.8 | \$ 801.4 |

J. BORROWINGS AND CREDIT ARRANGEMENTS

Financial Services borrowings include the following:

| At December 31, | 2020 | | 2019 | |
|------------------|----------------|-------------|----------------|-------------|
| | EFFECTIVE RATE | BORROWINGS | EFFECTIVE RATE | BORROWINGS |
| Commercial paper | .4% | \$ 3,113.5 | 1.5% | \$ 3,797.2 |
| Bank loans | 5.9% | 230.9 | 7.1% | 313.0 |
| | | 3,344.4 | | 4,110.2 |
| Term notes | 1.7% | 7,508.9 | 1.9% | 7,112.5 |
| | 1.4% | \$ 10,853.3 | 1.9% | \$ 11,222.7 |

Commercial paper and term notes borrowings were \$10,622.4 and \$10,909.7 at December 31, 2020 and 2019, respectively. Unamortized debt issuance costs, unamortized discounts and the net effect of fair value hedges were \$(12.7) and \$(20.5) at December 31, 2020 and 2019, respectively. The effective rate is the weighted average rate as of December 31, 2020 and 2019 and includes the effects of interest-rate contracts.

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

| Beginning January 1, | COMMERCIAL PAPER | BANK LOANS | TERM NOTES | TOTAL |
|----------------------|------------------|------------|------------|-------------|
| 2021 | \$ 3,114.2 | \$ 40.1 | \$ 2,241.7 | \$ 5,396.0 |
| 2022 | | 121.6 | 2,231.9 | 2,353.5 |
| 2023 | | 19.0 | 2,231.9 | 2,250.9 |
| 2024 | | 25.1 | 415.4 | 440.5 |
| 2025 | | 25.1 | 400.0 | 425.1 |
| | \$ 3,114.2 | \$ 230.9 | \$ 7,520.9 | \$ 10,866.0 |

Interest paid on borrowings was \$164.5, \$203.8 and \$166.5 in 2020, 2019 and 2018, respectively.

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, PACCAR Financial Mexico and PACCAR Financial Pty. Ltd. (PFPL).

In November 2018, 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, 2020 was \$6,000.0. In February 2021, PFC issued \$400.0 of medium-term notes under this registration. The registration expires in November 2021 and does not limit the principal amount of debt securities that may be issued during that period.

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As of December 31, 2020, the Company's European finance subsidiary, PACCAR Financial Europe, had €1,600.0 available for issuance under a €2,500.0 medium-term note program listed on the Euro MTF Market of the Luxembourg Stock Exchange. This program replaced an expiring program in the second quarter of 2020 and is renewable annually through the filing of a new listing.

In April 2016, PACCAR Financial Mexico registered a 10,000.0 pesos 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, 2020, 6,842.7 pesos remained available for issuance.

In August 2018, the Company's Australian subsidiary, PACCAR Financial Pty. Ltd. (PFPL), registered a medium-term note program. The program does not limit the principal amount of debt securities that may be issued under the program. The total amount of medium-term notes outstanding for PFPL as of December 31, 2020 was 450.0 Australian dollars.

The Company has line of credit arrangements of \$3,523.1, of which \$3,292.2 were unused at December 31, 2020. Included in these arrangements are \$3,000.0 of committed bank facilities, of which \$1,000.0 expires in June 2021, \$1,000.0 expires in June 2023 and \$1,000.0 expires in June 2024. 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 committed bank facilities for the year ended December 31, 2020.

K. LEASES

The Company leases certain facilities and equipment. The Company determines whether an arrangement is or contains a lease at inception. The Company accounts for lease and non-lease components separately. The consideration in the contract is allocated to each separate lease and non-lease component of the contract generally based on the relative stand-alone price of the components. The lease component is accounted for in accordance with the lease standard and the non-lease component is accounted for in accordance with other standards. The Company uses its incremental borrowing rate in determining the present value of lease payments unless the rate implicit in the lease is available. The lease term may include options to extend or terminate the lease if it is reasonably certain that the Company will exercise that option. Leases that have a term of 12 months or less at the commencement date ("short-term leases") are not included in the right-of-use assets and the lease liabilities. Lease expense for the short-term leases are recognized on a straight-line basis over the lease term.

The components of lease expense were as follows:

| Year Ended December 31, | 2020 | 2019 |
|-------------------------------------|---------|---------|
| Finance lease cost | | |
| Amortization of right-of-use assets | \$.9 | \$.9 |
| Interest on lease liabilities | .1 | .1 |
| Operating lease cost | 16.6 | 16.9 |
| Short-term lease cost | .8 | .7 |
| Variable lease cost | 1.7 | 1.8 |
| Total lease cost | \$ 20.1 | \$ 20.4 |

For the years ended December 31, 2020, 2019 and 2018, total rental expenses for all leases amounted to \$20.1, \$20.4 and \$35.7, respectively.

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Balance sheet information related to leases was as follows:

| At December 31, | 2020 | | 2019 | |
|----------------------------------------------|---------------------|-------------------|---------------------|-------------------|
| | OPERATING LEASES | FINANCE LEASES | OPERATING LEASES | FINANCE LEASES |
| TRUCK, PARTS AND OTHER: | | | | |
| Other noncurrent assets | \$ 30.9 | \$ 1.0 | \$ 31.7 | \$ 1.1 |
| FINANCIAL SERVICES: | | | | |
| Other assets | 9.0 | | 5.2 | |
| Total right-of-use assets | \$ 39.9 | \$ 1.0 | \$ 36.9 | \$ 1.1 |
| TRUCK, PARTS AND OTHER: | | | | |
| Accounts payable, accrued expenses and other | \$ 11.4 | \$.5 | \$ 13.0 | \$.7 |
| Other liabilities | 20.3 | .5 | 19.5 | .5 |
| FINANCIAL SERVICES: | | | | |
| Accounts payable, accrued expenses and other | 2.0 | | 1.5 | |
| Deferred taxes and other liabilities | 6.6 | | 3.7 | |
| Total lease liabilities | \$ 40.3 | \$ 1.0 | \$ 37.7 | \$ 1.2 |

The weighted-average remaining lease term and discount rate are as follows at December 31:

| | 2020 | | 2019 | |
|---------------------------------------|---------------------|-------------------|---------------------|-------------------|
| | OPERATING LEASES | FINANCE LEASES | OPERATING LEASES | FINANCE LEASES |
| Weighted-average remaining lease term | 5.7 years | 2.3 years | 5.1 years | 2.2 years |
| Weighted-average discount rate | 1.4% | 2.5% | 1.9% | 4.0% |

Maturities of lease liabilities are as follows:

| Beginning January 1, | OPERATING LEASES | FINANCE LEASES |
|-------------------------|---------------------|-------------------|
| 2021 | \$ 13.7 | \$.6 |
| 2022 | 10.6 | .2 |
| 2023 | 5.8 | .2 |
| 2024 | 3.2 | .1 |
| 2025 | 2.4 | |
| Thereafter | 6.0 | |
| Total lease payments | 41.7 | 1.1 |
| Less: interest | (1.4) | (.1) |
| Total lease liabilities | \$ 40.3 | \$ 1.0 |

Cash flow information related to leases was as follows:

| Year Ended December 31, | 2020 | 2019 |
|------------------------------------------------------------------------|---------|---------|
| Cash paid for amounts included in the measurement of lease liabilities | | |
| Operating cash flows from operating leases | \$ 17.2 | \$ 17.0 |
| Operating cash flows from finance leases | .1 | .2 |
| Financing cash flows from finance leases | .9 | 1.0 |
| Right-of-use assets obtained in exchange for lease liabilities | | |
| Operating leases | 19.5 | 8.9 |
| Finance leases | .5 | .7 |

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L. COMMITMENTS AND CONTINGENCIES

At December 31, 2020, PACCAR had standby letters of credit and surety bonds totaling \$45.5, from third-party financial institutions, in the normal course of business, which guarantee various insurance, financing and other activities. At December 31, 2020, PACCAR's financial services companies, in the normal course of business, had outstanding commitments to fund new loan and lease transactions amounting to \$823.4. The commitments generally expire in 90 days. The Company had other commitments, primarily to purchase production inventory, equipment and energy amounting to \$127.5, \$76.1, \$3.4, \$3, \$.2 and nil for 2021, 2022, 2023, 2024, 2025 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 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 for the years ended December 31, 2020, 2019 and 2018 were \$1.9, \$1.3 and \$1.2, respectively.

While the timing and amount of the ultimate costs associated with future environmental cleanup cannot be determined, management expects that these matters will not have a significant effect on the Company's consolidated financial position.

On July 19, 2016, the European Commission (EC) concluded its investigation of all major European truck manufacturers and reached a settlement with DAF. Following the settlement, claims and lawsuits have been filed against the Company, DAF and certain DAF subsidiaries and other truck manufacturers in various European jurisdictions. These claims and lawsuits include a number of collective proceedings, including proposed class actions in the United Kingdom, alleging EC-related claims and seeking unspecified damages. 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. The Company cannot reasonably estimate a range of loss, if any, that may result given the early stage of these claims and lawsuits. 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.

M. EMPLOYEE BENEFITS

Severance Costs: The Company incurred severance expense in 2020, 2019 and 2018 of \$6.1, \$5.8 and \$.7, 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 \$184.9 to its pension plans in 2020 and \$35.7 in 2019. The Company expects to contribute in the range of \$100 to \$150 to its pension plans in 2021, of which \$19.7 is estimated to satisfy minimum funding requirements. Annual benefits expected to be paid beginning January 1, 2021 are \$125.7, \$109.8, \$114.8, \$121.2, \$127.0 and a total of \$726.4 for the five years thereafter.

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.

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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 and pooled 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 pooled funds, 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 Q for definitions of fair value levels.

| <i>At December 31, 2020</i> | FAIR VALUE HIERARCHY | | | | MEASURED | |
|-----------------------------|----------------------|----------------|-----------------|-----------------|-------------------|-------------------|
| | TARGET | LEVEL 1 | LEVEL 2 | TOTAL | AT NAV | TOTAL |
| <i>Equities:</i> | | | | | | |
| U.S. equities | | | | | \$ 1,047.0 | \$ 1,047.0 |
| Global equities | | | | | 1,140.6 | 1,140.6 |
| Total equities | 50 - 70% | | | | 2,187.6 | 2,187.6 |
| <i>Fixed income:</i> | | | | | | |
| U.S. fixed income | | \$ 83.9 | \$ 296.0 | \$ 379.9 | 719.9 | 1,099.8 |
| Non-U.S. fixed income | | | 30.4 | 30.4 | 372.8 | 403.2 |
| Total fixed income | 30 - 50% | 83.9 | 326.4 | 410.3 | 1,092.7 | 1,503.0 |
| Cash and other | | 2.6 | 99.8 | 102.4 | .4 | 102.8 |
| Total plan assets | | \$ 86.5 | \$ 426.2 | \$ 512.7 | \$ 3,280.7 | \$ 3,793.4 |

| <i>At December 31, 2019</i> | FAIR VALUE HIERARCHY | | | | MEASURED | |
|-----------------------------|----------------------|-----------------|-----------------|-----------------|-------------------|-------------------|
| | TARGET | LEVEL 1 | LEVEL 2 | TOTAL | AT NAV | TOTAL |
| <i>Equities:</i> | | | | | | |
| U.S. equities | | | | | \$ 860.1 | \$ 860.1 |
| Global equities | | | | | 973.1 | 973.1 |
| Total equities | 50 - 70% | | | | 1,833.2 | 1,833.2 |
| <i>Fixed income:</i> | | | | | | |
| U.S. fixed income | | \$ 90.6 | \$ 260.3 | \$ 350.9 | 611.7 | 962.6 |
| Non-U.S. fixed income | | | 28.1 | 28.1 | 322.0 | 350.1 |
| Total fixed income | 30 - 50% | 90.6 | 288.4 | 379.0 | 933.7 | 1,312.7 |
| Cash and other | | 10.6 | 68.2 | 78.8 | 1.7 | 80.5 |
| Total plan assets | | \$ 101.2 | \$ 356.6 | \$ 457.8 | \$ 2,768.6 | \$ 3,226.4 |

In 2019, U.S. fixed income Level 1 included \$123.4 of investments valued at NAV. The table above reflects these investments as Measured at NAV.

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The following weighted average assumptions relate to all pension plans of the Company:

| <i>At December 31,</i> | 2020 | 2019 |
|-------------------------------------------------|------|------|
| Discount rate | 2.2% | 2.9% |
| Rate of increase in future compensation levels | 3.7% | 3.8% |
| Assumed long-term rate of return on plan assets | 6.2% | 6.3% |

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

| <i>At December 31,</i> | 2020 | 2019 |
|------------------------------------------------|------------|------------|
| <i>Change in projected benefit obligation:</i> | | |
| Benefit obligation at January 1 | \$ 3,234.4 | \$ 2,655.4 |
| Service cost | 130.4 | 102.0 |
| Interest cost | 83.0 | 95.6 |
| Benefits paid | (120.2) | (127.0) |
| Actuarial loss | 379.5 | 478.0 |
| Currency translation and other | 54.4 | 30.0 |
| Participant contributions | .4 | .4 |
| Projected benefit obligation at December 31 | \$ 3,761.9 | \$ 3,234.4 |
| <i>Change in plan assets:</i> | | |
| Fair value of plan assets at January 1 | \$ 3,226.4 | \$ 2,699.2 |
| Employer contributions | 184.9 | 35.7 |
| Actual return on plan assets | 453.4 | 588.1 |
| Benefits paid | (120.2) | (127.0) |
| Currency translation and other | 48.5 | 30.0 |
| Participant contributions | .4 | .4 |
| Fair value of plan assets at December 31 | \$ 3,793.4 | \$ 3,226.4 |
| Funded status at December 31 | \$ 31.5 | \$ (8.0) |

| <i>At December 31,</i> | 2020 | 2019 |
|---------------------------------------------|----------|----------|
| <i>Amounts recorded on Balance Sheet:</i> | | |
| Other noncurrent assets | \$ 222.1 | \$ 146.5 |
| Account payable, accrued expenses and other | 25.5 | 39.9 |
| Other liabilities | 165.1 | 114.6 |
| Accumulated other comprehensive loss: | | |
| Actuarial loss | 571.7 | 512.5 |
| Prior service cost | 6.3 | 5.1 |
| Net initial transition amount | | .1 |

Of the December 31, 2020 amounts in accumulated other comprehensive loss, \$56.7 of unrecognized actuarial loss and \$.8 of unrecognized prior service cost are expected to be amortized into net pension expense in 2021.

The accumulated benefit obligation for all pension plans of the Company was \$3,321.5 and \$2,806.3 at December 31, 2020 and 2019, respectively.

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

| At December 31, | 2020 | 2019 |
|--------------------------------|----------|----------|
| Projected benefit obligation | \$ 167.9 | \$ 170.6 |
| Accumulated benefit obligation | 148.7 | 150.1 |
| Fair value of plan assets | 13.5 | 23.4 |

The components of pension expense are as follows:

| Year Ended December 31, | 2020 | 2019 | 2018 |
|------------------------------------------|----------|----------|----------|
| Service cost | \$ 130.4 | \$ 102.0 | \$ 108.3 |
| Interest on projected benefit obligation | 83.0 | 95.6 | 85.8 |
| Expected return on assets | (190.6) | (176.6) | (177.2) |
| Amortization of prior service costs | 1.5 | 1.4 | 1.4 |
| Recognized actuarial loss | 44.2 | 20.5 | 35.3 |
| Settlement loss | 11.6 | | |
| Net pension expense | \$ 80.1 | \$ 42.9 | \$ 53.6 |

The components of net pension expense other than service cost are included in Interest and other (income), net on the Consolidated Statements of Income.

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 | | |
|--------------------------------------------------------|------------|---------------------------|-----------------------|---------|---------|
| | | | 2020 | 2019 | 2018 |
| Metal and Electrical Engineering Industry Pension Fund | | 135668 | \$ 33.9 | \$ 27.8 | \$ 27.9 |
| Western Metal Industry Pension Plan | 91-6033499 | 001 | 3.0 | 3.8 | 2.7 |
| Other plans | | | .9 | 1.2 | 1.2 |
| | | | \$ 37.8 | \$ 32.8 | \$ 31.8 |

The Company contributions shown in the table above approximate the multi-employer pension expense for each of the years ended December 31, 2020, 2019 and 2018, 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 expired on November 30, 2020 and is under negotiation. The Company's contributions were less than 5% of the total contributions to the plan for the last two reporting periods ending December 2020. 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 97.2% at December 31, 2020, a funding improvement plan effective through 2029 is in place. The funding improvement plan includes a possible 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 2, 2025. In accordance with the U.S. Pension Protection Act of 2006, the plan continued to be certified as critical (red) status as of December 31, 2020, and a funding improvement plan has been implemented requiring additional contributions through 2022 as long as the plan remains in critical status. Contributions by the Company were 15% and 20% of the total contributions to the plan for the years ended December 31, 2020 and 2019, respectively.

Other plans are principally located in the U.S. and the Company's contributions to these plans for the years ended December 31, 2020 and 2019 were less than 5% of each plan's total contributions. As of December 31, 2020, one of the other plans was under a funding improvement plan.

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

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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 2020, 2019 and 2018. Other plans are located in Australia, Brasil, Canada, the Netherlands, Belgium and Germany. Expenses for these plans were \$42.5, \$48.3 and \$45.3 in 2020, 2019 and 2018, respectively.

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N. 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, | 2020 | 2019 | 2018 |
|-------------------------|-------------------|-------------------|-------------------|
| Domestic | \$ 1,122.9 | \$ 2,201.1 | \$ 1,775.2 |
| Foreign | 535.0 | 898.1 | 1,035.0 |
| | \$ 1,657.9 | \$ 3,099.2 | \$ 2,810.2 |

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

| Year Ended December 31, | 2020 | 2019 | 2018 |
|-------------------------------|-----------------|-----------------|-----------------|
| Current provision: | | | |
| Federal | \$ 182.5 | \$ 352.3 | \$ 267.1 |
| State | 44.9 | 96.8 | 67.5 |
| Foreign | 132.6 | 191.4 | 263.0 |
| | 360.0 | 640.5 | 597.6 |
| Deferred (benefit) provision: | | | |
| Federal | (11.2) | 40.7 | 22.6 |
| State | 1.7 | (4.3) | 1.3 |
| Foreign | 9.0 | 34.4 | (6.4) |
| | (.5) | 70.8 | 17.5 |
| | \$ 359.5 | \$ 711.3 | \$ 615.1 |

Tax benefits recognized for net operating loss carryforwards were \$17.8, \$12.4 and \$5.0 for the years ended 2020, 2019 and 2018, respectively.

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

| | 2020 | 2019 | 2018 |
|-------------------------------------|--------------|--------------|--------------|
| Statutory rate | 21.0% | 21.0% | 21.0% |
| Effect of: | | | |
| Transition tax | | | (.2) |
| State | 2.3 | 2.3 | 2.2 |
| Research and development tax credit | (1.4) | (.9) | (.8) |
| Tax on foreign earnings | .8 | .9 | 1.0 |
| Other, net | (1.0) | (.3) | (1.3) |
| | 21.7% | 23.0% | 21.9% |

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Based on the Company's current operations, the Company does not expect that the repatriation of future foreign earnings will be subject to significant income tax as a result of the U.S. modified territorial system.

At December 31, 2020, the Company had net operating loss carryforwards of \$492.2, of which \$416.2 related to foreign subsidiaries and \$76.0 related to states in the U.S. The related deferred tax asset was \$129.2, for which a \$95.6 valuation allowance has been provided. The carryforward periods range from four years to indefinite, subject to certain limitations under applicable laws. The future tax benefits of net operating loss carryforwards are evaluated on a regular basis, including a review of historical and projected operating results.

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

| At December 31, | 2020 | 2019 |
|-------------------------------------------------|------------|------------|
| <i>Assets:</i> | | |
| Accrued expenses | \$ 205.3 | \$ 203.5 |
| Net operating loss and tax credit carryforwards | 140.1 | 132.0 |
| Postretirement benefit plans | | 4.9 |
| Allowance for losses on receivables | 36.0 | 31.4 |
| Goodwill and intangibles | 10.0 | 18.7 |
| Other | 122.9 | 103.3 |
| | 514.3 | 493.8 |
| Valuation allowance | (102.1) | (118.5) |
| | 412.2 | 375.3 |
| <i>Liabilities:</i> | | |
| Financial Services leasing depreciation | (765.1) | (777.5) |
| Depreciation and amortization | (168.0) | (159.4) |
| Postretirement benefit plans | (3.0) | |
| Other | (46.1) | (28.9) |
| | (982.2) | (965.8) |
| Net deferred tax liability | \$ (570.0) | \$ (590.5) |

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

| At December 31, | 2020 | 2019 |
|--------------------------------------|------------|------------|
| <i>Truck, Parts and Other:</i> | | |
| Other noncurrent assets, net | \$ 90.4 | \$ 115.4 |
| Other liabilities | (3.5) | (5.3) |
| <i>Financial Services:</i> | | |
| Other assets | 46.8 | 36.8 |
| Deferred taxes and other liabilities | (703.7) | (737.4) |
| Net deferred tax liability | \$ (570.0) | \$ (590.5) |

Cash paid for income taxes was \$374.0, \$586.0 and \$607.6 in 2020, 2019 and 2018, respectively.

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

| | 2020 | 2019 | 2018 |
|---------------------------------------------------------|---------|---------|---------|
| Balance at January 1 | \$ 30.7 | \$ 21.2 | \$ 22.9 |
| Additions for tax positions related to the current year | 5.5 | 6.5 | 11.2 |
| Additions for tax positions related to prior years | .3 | 3.0 | |
| Reductions for tax positions related to prior years | (4.2) | | |
| Reductions related to settlements | | | (5.7) |
| Lapse of statute of limitations | (7.8) | | (7.2) |
| Balance at December 31 | \$ 24.5 | \$ 30.7 | \$ 21.2 |

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The Company had \$24.5, \$30.7 and \$21.2 of unrecognized tax benefits, of which \$23.2, \$28.4 and \$18.9 would impact the effective tax rate, if recognized, as of December 31, 2020, 2019 and 2018, respectively.

The Company recognized \$(.7), \$.8 and \$(.1) of (income) expense related to interest in 2020, 2019 and 2018, respectively. Accrued interest expense and penalties were \$1.2, \$1.9 and \$1.1 as of December 31, 2020, 2019 and 2018, respectively. Interest and penalties are classified as income taxes in the Consolidated Statements of Income.

The Company believes it is reasonably possible that approximately \$5.5 of unrecognized tax benefits, resulting primarily from research and development tax credits, will be resolved within the next 12 months. As of December 31, 2020, the United States Internal Revenue Service has completed examinations of the Company's tax returns for all years through 2014. The Company's tax returns for other major jurisdictions remain subject to examination for the years ranging from 2012 through 2020.

O. 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, 2020 | \$ (15.3) | \$ 6.1 | \$ (517.7) | \$ (573.2) | \$ (1,100.1) |
| Recorded into AOCI | (78.4) | 10.3 | (104.0) | 115.6 | (56.5) |
| Reclassified out of AOCI | 64.5 | (1.8) | 43.6 | | 106.3 |
| Net other comprehensive (loss) income | (13.9) | 8.5 | (60.4) | 115.6 | 49.8 |
| Balance at December 31, 2020 | \$ (29.2) | \$ 14.6 | \$ (578.1) | \$ (457.6) | \$ (1,050.3) |

| | DERIVATIVE CONTRACTS | MARKETABLE DEBT SECURITIES | PENSION PLANS | FOREIGN CURRENCY TRANSLATION | TOTAL |
|--------------------------------------------------|-------------------------|----------------------------------|-------------------|------------------------------------|---------------------|
| Balance at January 1, 2019 | \$ 2.0 | \$ (2.3) | \$ (477.8) | \$ (620.4) | \$ (1,098.5) |
| Recorded into AOCI | (57.0) | 8.7 | (56.8) | 47.2 | (57.9) |
| Reclassified out of AOCI | 39.7 | (.3) | 16.9 | | 56.3 |
| Net other comprehensive (loss) income | (17.3) | 8.4 | (39.9) | 47.2 | (1.6) |
| Balance at December 31, 2019 | \$ (15.3) | \$ 6.1 | \$ (517.7) | \$ (573.2) | \$ (1,100.1) |

| | DERIVATIVE CONTRACTS | MARKETABLE DEBT SECURITIES | PENSION PLANS | FOREIGN CURRENCY TRANSLATION | TOTAL |
|-----------------------------------------------------------------------------|-------------------------|----------------------------------|-------------------|------------------------------------|---------------------|
| Balance at January 1, 2018 | \$ 1.2 | \$ (1.8) | \$ (375.6) | \$ (417.4) | \$ (793.6) |
| Recorded into AOCI | 90.9 | .1 | (86.8) | (213.3) | (209.1) |
| Reclassified out of AOCI | (90.5) | (.1) | 28.0 | | (62.6) |
| Net other comprehensive income (loss) | .4 | | (58.8) | (213.3) | (271.7) |
| Reclassifications to retained earnings in accordance with ASU 2018-02 | .4 | (.5) | (43.4) | 10.3 | (33.2) |
| Balance at December 31, 2018 | \$ 2.0 | \$ (2.3) | \$ (477.8) | \$ (620.4) | \$ (1,098.5) |

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Reclassifications out of AOCI during the years ended December 31, 2020, 2019 and 2018 were as follows:

| AOCI COMPONENTS | LINE ITEM IN THE CONSOLIDATED STATEMENTS OF INCOME | AMOUNT RECLASSIFIED OUT OF AOCI | | |
|---------------------------------------------------------------|-------------------------------------------------------|---------------------------------|----------------|------------------|
| | | 2020 | 2019 | 2018 |
| Unrealized (gains) and losses on derivative contracts: | | | | |
| <i>Truck, Parts and Other</i> | | | | |
| Foreign-exchange contracts | Net sales and revenues | \$ (4.0) | \$ 21.2 | \$ 5.4 |
| | Cost of sales and revenues | 1.7 | (4.1) | (6.6) |
| | Interest and other (income), net | (4.6) | 2.1 | (1.6) |
| <i>Financial Services</i> | | | | |
| Interest-rate contracts | Interest and other borrowing expenses | 94.5 | 32.5 | (118.7) |
| | Pre-tax expense increase (reduction) | 87.6 | 51.7 | (121.5) |
| | Tax (benefit) expense | (23.1) | (12.0) | 31.0 |
| | After-tax expense increase (reduction) | 64.5 | 39.7 | (90.5) |
| Unrealized gains on marketable debt securities: | | | | |
| Marketable debt securities | Investment income | (2.4) | (.4) | (.2) |
| | Tax expense | .6 | .1 | .1 |
| | After-tax income increase | (1.8) | (.3) | (.1) |
| Unrealized losses on pension plans: | | | | |
| <i>Truck, Parts and Other</i> | | | | |
| Actuarial loss | Interest and other (income), net | 44.2 | 20.5 | 35.3 |
| Prior service costs | Interest and other (income), net | 1.5 | 1.4 | 1.4 |
| Settlement loss | Interest and other (income), net | 11.6 | | |
| | Pre-tax expense increase | 57.3 | 21.9 | 36.7 |
| | Tax benefit | (13.7) | (5.0) | (8.7) |
| | After-tax expense increase | 43.6 | 16.9 | 28.0 |
| Total reclassifications out of AOCI | | \$ 106.3 | \$ 56.3 | \$ (62.6) |

Other Capital Stock Changes: The Company purchased and retired treasury shares of .7, 1.7 and 5.8 million in 2020, 2019 and 2018, respectively.

P. 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, 2020, the notional amount of the Company's interest-rate contracts was \$3,280.5. Notional maturities for all interest-rate contracts are \$1,241.1 for 2021, \$950.0 for 2022, \$761.8 for 2023, \$169.6 for 2024, \$58.9 for 2025 and \$99.1 thereafter.

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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. The Company enters into foreign-exchange contracts as net investment hedges to reduce the foreign currency exposure from its investments in foreign subsidiaries. At December 31, 2020, the notional amount of the outstanding foreign-exchange contracts was \$1,128.8. 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, | 2020 | | 2019 | |
|----------------------------------------------------|----------------|-----------------|----------------|----------------|
| | ASSETS | LIABILITIES | ASSETS | LIABILITIES |
| Derivatives designated under hedge accounting: | | | | |
| <i>Interest-rate contracts:</i> | | | | |
| Financial Services: | | | | |
| Other assets | \$ 16.4 | | \$ 45.8 | |
| Deferred taxes and other liabilities | | \$ 116.1 | | \$ 31.0 |
| <i>Foreign-exchange contracts:</i> | | | | |
| Truck, Parts and Other: | | | | |
| Other current assets | 2.7 | | 10.1 | |
| Accounts payable, accrued expenses and other | | 35.9 | | 9.2 |
| Financial Services: | | | | |
| Deferred taxes and other liabilities | | 1.2 | | |
| | \$ 19.1 | \$ 153.2 | \$ 55.9 | \$ 40.2 |
| Derivatives not designated as hedging instruments: | | | | |
| <i>Foreign-exchange contracts:</i> | | | | |
| Truck, Parts and Other: | | | | |
| Other current assets | \$ 1.1 | | \$.4 | |
| Accounts payable, accrued expenses and other | | \$ 3.3 | | \$ 1.8 |
| Financial Services: | | | | |
| Other assets | .3 | | | |
| Deferred taxes and other liabilities | | 3.4 | | 2.3 |
| | \$ 1.4 | \$ 6.7 | \$.4 | \$ 4.1 |
| Gross amounts recognized in Balance Sheet | \$ 20.5 | \$ 159.9 | \$ 56.3 | \$ 44.3 |
| Less amounts not offset in financial instruments: | | | | |
| Truck, Parts and Other: | | | | |
| Foreign-exchange contracts | (2.1) | (2.1) | (.4) | (.4) |
| Financial Services: | | | | |
| Interest-rate contracts | (12.0) | (12.0) | (8.6) | (8.6) |
| Pro forma net amount | \$ 6.4 | \$ 145.8 | \$ 47.3 | \$ 35.3 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020, 2019 and 2018 (currencies in millions)

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The following table presents the amount of (gain) loss from derivative financial instruments reclassified from AOCI into the Consolidated Statements of Income:

| Year Ended December 31, | 2020 | 2019 | 2018 |
|--------------------------------|------------------|----------------|-------------------|
| Truck, Parts and Other: | | | |
| Cash flow hedges | \$ (6.9) | \$ 19.2 | \$ (2.8) |
| Net investment hedge | (5.6) | (4.6) | |
| Total | \$ (12.5) | \$ 23.8 | \$ (2.8) |
| Financial Services: | | | |
| Fair value hedges | \$ 1.1 | \$ 1.5 | \$ 1.8 |
| Cash flow hedges | 94.5 | 32.5 | (118.7) |
| Total | \$ 95.6 | \$ 34.0 | \$ (116.9) |

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 following table presents the amounts recorded on the Consolidated Balance Sheets related to cumulative basis adjustments for fair value hedges:

| At December 31, | 2020 | 2019 |
|-------------------------------------------------------------|---------|---------|
| Financial Services | | |
| Term notes: | | |
| Carrying amount of hedged liabilities | \$ 90.9 | \$ 90.5 |
| Cumulative basis adjustment included in the carrying amount | (.9) | (.5) |

The above table excludes the cumulative basis adjustments on discontinued hedge relationships of \$(.4) and \$(1.5) as of December 31, 2020 and 2019, respectively.

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. 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 7.5 years.

The following table presents the pre-tax effects of (loss) gain on cash flow hedges recognized in other comprehensive income (loss) (OCI):

| Year Ended December 31, | 2020 | | 2019 | | 2018 | |
|---------------------------------------|--------------------------------|-----------------------------------|--------------------------------|-----------------------------------|--------------------------------|-----------------------------------|
| | 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 | | \$ 2.8 | | \$ (31.7) | | \$ 4.5 |
| Financial Services | \$ (107.3) | (.8) | \$ (44.4) | | \$ 117.1 | |
| | \$ (107.3) | \$ 2.0 | \$ (44.4) | \$ (31.7) | \$ 117.1 | \$ 4.5 |

The amount of loss recorded in AOCI at December 31, 2020 that is estimated to be reclassified into earnings in the following 12 months if interest rates and exchange rates remain unchanged is approximately \$15.0, 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 years ended December 31, 2020, 2019 and 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020, 2019 and 2018 (currencies in millions)

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Net Investment Hedges

Changes in the fair value of derivatives designated as net investment hedges are recorded in AOCI as an adjustment to the Cumulative Translation Adjustment (CTA). At December 31, 2020, the notional amount of the outstanding net investment hedges was \$344.8. For the year ended December 31, 2020, the pre-tax loss recognized in OCI for the net investment hedges was \$20.4.

Derivatives Not Designated As Hedging Instruments

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 derivatives not designated as hedging instruments are recorded in earnings in the period in which the change occurs.

The loss (gain) recognized in earnings related to derivatives not designated as hedging instruments was as follows:

| Year Ended December 31, | 2020 | | 2019 | | 2018 | |
|---------------------------------------|--------------------------------|-----------------------------------|--------------------------------|-----------------------------------|--------------------------------|-----------------------------------|
| | INTEREST- RATE CONTRACTS | FOREIGN- EXCHANGE CONTRACTS | INTEREST- RATE CONTRACTS | FOREIGN- EXCHANGE CONTRACTS | INTEREST- RATE CONTRACTS | FOREIGN- EXCHANGE CONTRACTS |
| Truck, Parts and Other: | | | | | | |
| Cost of sales and revenues | \$ | .7 | \$ | .5 | \$ | (.3) |
| Interest and other (income), net | | 2.3 | | 5.4 | | 6.9 |
| Financial Services: | | | | | | |
| Interest and other borrowing expenses | | 9.4 | | (10.1) | | (14.9) |
| Selling, general and administrative | | .8 | | .1 | | 1.7 |
| | \$ | 13.2 | \$ | (4.1) | \$ | (6.6) |

Q. FAIR VALUE MEASUREMENTS

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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, 2020. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020, 2019 and 2018 (currencies in millions)

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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, 2020 | LEVEL 1 | LEVEL 2 | TOTAL |
|-----------------------------------------|----------------|-------------------|-------------------|
| Assets: | | | |
| Marketable debt securities | | | |
| U.S. tax-exempt securities | | \$ 392.4 | \$ 392.4 |
| U.S. corporate securities | | 232.9 | 232.9 |
| U.S. government and agency securities | \$ 86.5 | 7.9 | 94.4 |
| Non-U.S. corporate securities | | 411.5 | 411.5 |
| Non-U.S. government securities | | 77.5 | 77.5 |
| Other debt securities | | 220.3 | 220.3 |
| Total marketable debt securities | \$ 86.5 | \$ 1,342.5 | \$ 1,429.0 |
| Derivatives | | | |
| Cross currency swaps | | \$ 14.8 | \$ 14.8 |
| Interest-rate swaps | | 1.6 | 1.6 |
| Foreign-exchange contracts | | 4.1 | 4.1 |
| Total derivative assets | | \$ 20.5 | \$ 20.5 |
| Liabilities: | | | |
| Derivatives | | | |
| Cross currency swaps | | \$ 77.6 | \$ 77.6 |
| Interest-rate swaps | | 38.5 | 38.5 |
| Foreign-exchange contracts | | 43.8 | 43.8 |
| Total derivative liabilities | | \$ 159.9 | \$ 159.9 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020, 2019 and 2018 (currencies in millions)

| At December 31, 2019 | LEVEL 1 | LEVEL 2 | TOTAL |
|---------------------------------------|----------|------------|------------|
| Assets: | | | |
| Marketable debt securities | | | |
| U.S. tax-exempt securities | | \$ 320.2 | \$ 320.2 |
| U.S. corporate securities | | 165.7 | 165.7 |
| U.S. government and agency securities | \$ 128.4 | .9 | 129.3 |
| Non-U.S. corporate securities | | 349.8 | 349.8 |
| Non-U.S. government securities | | 72.4 | 72.4 |
| Other debt securities | | 124.7 | 124.7 |
| Total marketable debt securities | \$ 128.4 | \$ 1,033.7 | \$ 1,162.1 |
| Derivatives | | | |
| Cross currency swaps | | \$ 43.8 | \$ 43.8 |
| Interest-rate swaps | | 2.0 | 2.0 |
| Foreign-exchange contracts | | 10.5 | 10.5 |
| Total derivative assets | | \$ 56.3 | \$ 56.3 |
| Liabilities: | | | |
| Derivatives | | | |
| Cross currency swaps | | \$ 13.5 | \$ 13.5 |
| Interest-rate swaps | | 17.5 | 17.5 |
| Foreign-exchange contracts | | 13.3 | 13.3 |
| Total derivative liabilities | | \$ 44.3 | \$ 44.3 |

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 assumptions regarding the credit and market risks to approximate 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019, 2018 and 2017 (currencies in millions, except per share data)

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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, | 2020 | | 2019 | |
|-------------------------------------|--------------------|---------------|--------------------|---------------|
| | CARRYING AMOUNT | FAIR VALUE | CARRYING AMOUNT | FAIR VALUE |
| <i>Assets:</i> | | | | |
| Financial Services fixed rate loans | \$ 5,319.2 | \$ 5,429.5 | \$ 4,914.4 | \$ 4,992.2 |
| <i>Liabilities:</i> | | | | |
| Financial Services fixed rate debt | 6,482.0 | 6,648.6 | 5,925.9 | 5,990.7 |

R. STOCK COMPENSATION PLANS

PACCAR has certain plans under which officers and key employees may be granted options to purchase shares of the Company's authorized but unissued common stock 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, 2020, the maximum number of shares available for future grants was 11.8 million.

The assumptions used in determining the fair value of the option awards for each of the grant years are as follows:

| | 2020 | 2019 | 2018 |
|-------------------------------------------------------------|----------|---------|----------|
| Risk-free interest rate | 1.54% | 2.55% | 2.64% |
| Expected volatility | 23% | 23% | 23% |
| Expected dividend yield | 4.1% | 4.9% | 3.8% |
| Expected term | 6 years | 6 years | 6 years |
| Weighted average grant date fair value of options per share | \$ 10.02 | \$ 8.26 | \$ 10.67 |

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 table above. 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.

The fair value of options granted was \$6.4, \$7.3 and \$6.3 for the years ended December 31, 2020, 2019 and 2018, respectively. The fair value of options vested during the years ended December 31, 2020, 2019 and 2018 was \$5.0, \$5.8 and \$5.3, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019, 2018 and 2017 (currencies in millions, except per share data)

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

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| | 2020 | 2019 | 2018 |
|-------------------------------------------------|---------|---------|---------|
| Intrinsic value of options exercised | \$ 26.9 | \$ 31.9 | \$ 13.4 |
| Cash received from stock option exercises | 53.8 | 60.9 | 19.7 |
| Tax benefit related to stock award exercises | 3.8 | 3.8 | 2.4 |
| Stock-based compensation | 13.0 | 15.1 | 13.2 |
| Tax benefit related to stock-based compensation | 1.6 | 1.9 | 1.9 |

The summary of options as of December 31, 2020 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 | 3,488,300 | \$ 60.18 | | |
| Granted | 641,700 | 76.18 | | |
| Exercised | (949,900) | 56.68 | | |
| Cancelled | (63,600) | 69.75 | | |
| Options outstanding at December 31 | 3,116,500 | \$ 64.34 | 6.48 | \$ 68.4 |
| Vested and expected to vest | 3,014,300 | \$ 64.06 | 6.40 | \$ 67.0 |
| Exercisable | 1,323,200 | \$ 56.63 | 4.15 | \$ 39.2 |

* 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, 2020 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 | 150,500 | \$ 65.92 |
| Granted | 94,400 | 76.78 |
| Vested | (96,700) | 69.46 |
| Forfeited | (5,800) | 71.47 |
| Nonvested awards outstanding at December 31 | 142,400 | \$ 70.49 |

* Weighted Average

As of December 31, 2020, there was \$5.4 of total unrecognized compensation cost related to nonvested stock options, which is recognized over a remaining weighted average vesting period of 1.46 years. Unrecognized compensation cost related to nonvested restricted stock awards of \$2.0 is expected to be recognized over a remaining weighted average vesting period of 1.26 years.

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

| Year Ended December 31, | 2020 | 2019 | 2018 |
|-------------------------|---------|-----------|-----------|
| Additional shares | 607,800 | 621,300 | 785,100 |
| Antidilutive options | 686,100 | 1,489,400 | 1,176,600 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020, 2019 and 2018 (currencies in millions)

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S. SEGMENT AND RELATED INFORMATION

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

Truck and Parts: The Truck segment includes the 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.

In Europe, the Financial Services and Truck segments centralized the marketing of used trucks, including those units sold by the Truck segment subject to an RVG. Beginning in the fourth quarter of 2019, when a customer returns the truck at the end of the RVG contract, the Company's Truck segment records a reduction in an RVG liability and the Company's Financial Services segment records a used truck asset and revenue from the subsequent sale. Certain gains and losses from the sale of these used trucks are shared with the Truck segment. Revenues from the sale of used trucks from the Truck segment in Europe in prior periods are immaterial.

Other: Included in Other is the Company's industrial winch manufacturing business as well as sales, income and expenses not attributable to a reportable segment. Other also includes non-service cost components of pension expense and a portion of corporate expenses. Intercompany interest income (expense) on cash advances to the financial services companies is included in Other and was \$1.4, \$.3 and \$(.3) for 2020, 2019 and 2018, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020, 2019 and 2018 (currencies in millions)

| <i>Geographic Area Data</i> | 2020 | 2019 | 2018 |
|--------------------------------------------|--------------------|-------------|-------------|
| Net sales and revenues: | | | |
| United States | \$ 10,526.6 | \$ 15,119.3 | \$ 13,165.7 |
| Europe | 4,871.2 | 6,104.7 | 6,071.9 |
| Other | 3,330.7 | 4,375.7 | 4,258.1 |
| | \$ 18,728.5 | \$ 25,599.7 | \$ 23,495.7 |
| Property, plant and equipment, net: | | | |
| United States | \$ 1,633.0 | \$ 1,556.4 | \$ 1,353.8 |
| Belgium | 596.2 | 395.7 | 237.4 |
| The Netherlands | 499.0 | 399.8 | 397.8 |
| Other | 542.2 | 531.9 | 491.9 |
| | \$ 3,270.4 | \$ 2,883.8 | \$ 2,480.9 |
| Equipment on operating leases, net: | | | |
| United States | \$ 1,219.0 | \$ 1,390.1 | \$ 1,405.1 |
| Poland | 359.4 | 343.5 | 327.8 |
| France | 349.7 | 315.0 | 246.8 |
| Germany | 346.4 | 358.3 | 361.0 |
| Spain | 310.8 | 276.1 | 249.8 |
| Mexico | 302.3 | 320.5 | 306.4 |
| United Kingdom | 125.4 | 113.6 | 130.3 |
| Other | 571.7 | 531.0 | 614.4 |
| | \$ 3,584.7 | \$ 3,648.1 | \$ 3,641.6 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020, 2019 and 2018 (currencies in millions)

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| <i>Business Segment Data</i> | 2020 | 2019 | 2018 |
|--------------------------------------------|--------------------|-------------|-------------|
| Net sales and revenues: | | | |
| Truck | \$ 13,643.0 | \$ 20,403.5 | \$ 18,863.1 |
| Less intersegment | (478.2) | (414.0) | (676.1) |
| External customers | 13,164.8 | 19,989.5 | 18,187.0 |
| Parts | 3,962.7 | 4,073.1 | 3,896.2 |
| Less intersegment | (49.8) | (48.2) | (57.3) |
| External customers | 3,912.9 | 4,024.9 | 3,838.9 |
| Other | 76.6 | 105.3 | 112.7 |
| | 17,154.3 | 24,119.7 | 22,138.6 |
| Financial Services | 1,574.2 | 1,480.0 | 1,357.1 |
| | \$ 18,728.5 | \$ 25,599.7 | \$ 23,495.7 |
| Income (loss) before income taxes: | | | |
| Truck | \$ 581.4 | \$ 1,904.9 | \$ 1,672.1 |
| Parts | 799.3 | 830.8 | 768.6 |
| Other | 18.2 | (17.7) | 2.7 |
| | 1,398.9 | 2,718.0 | 2,443.4 |
| Financial Services | 223.1 | 298.9 | 305.9 |
| Investment income | 35.9 | 82.3 | 60.9 |
| | \$ 1,657.9 | \$ 3,099.2 | \$ 2,810.2 |
| Depreciation and amortization: | | | |
| Truck | \$ 292.2 | \$ 381.9 | \$ 406.2 |
| Parts | 10.8 | 10.2 | 9.2 |
| Other | 20.8 | 20.3 | 18.4 |
| | 323.8 | 412.4 | 433.8 |
| Financial Services | 725.2 | 664.9 | 620.3 |
| | \$ 1,049.0 | \$ 1,077.3 | \$ 1,054.1 |
| Expenditures for long-lived assets: | | | |
| Truck | \$ 556.0 | \$ 664.9 | \$ 778.5 |
| Parts | 18.4 | 46.2 | 29.4 |
| Other | 36.4 | 51.0 | 38.8 |
| | 610.8 | 762.1 | 846.7 |
| Financial Services | 1,046.7 | 1,378.6 | 1,085.1 |
| | \$ 1,657.5 | \$ 2,140.7 | \$ 1,931.8 |
| Segment assets: | | | |
| Truck | \$ 5,971.9 | \$ 5,609.0 | \$ 5,347.3 |
| Parts | 1,255.6 | 1,172.1 | 1,090.9 |
| Other | 398.7 | 339.2 | 345.0 |
| Cash and marketable securities | 4,834.0 | 5,169.4 | 4,299.6 |
| | 12,460.2 | 12,289.7 | 11,082.8 |
| Financial Services | 15,799.8 | 16,071.4 | 14,399.6 |
| | \$ 28,260.0 | \$ 28,361.1 | \$ 25,482.4 |

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

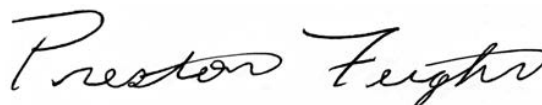
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The management of PACCAR Inc (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding 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, 2020, 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, 2020.

Ernst & Young LLP, the Independent Registered Public Accounting Firm that audited the financial statements included in this Annual Report, has issued an attestation report on the Company's internal control over financial reporting. The attestation report is included on page 91.



R. Preston Feight
Chief Executive Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors 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, 2020 and 2019, 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, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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, 2020, 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 17, 2021, 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 included 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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Product Warranty

Description of the Matter

The Company’s liability for product warranty totaled \$390 million at December 31, 2020. As discussed in Note A of the consolidated financial statements, the Company’s liability for product warranty is 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. The Company periodically assesses the adequacy of its recorded liabilities and adjusts them as appropriate to reflect actual experience.

Auditing the Company’s liability for product warranty is complex due to the significant measurement uncertainty associated with the estimate and the application of significant management judgment, including the inputs used to estimate the number of and cost of future warranty claims. In addition, management formulates an estimate of recoveries from suppliers.

How We Addressed the Matter in Our Audit

We evaluated and tested the design and operating effectiveness of internal controls over the warranty reserve process, including management’s assessment of the assumptions and data underlying the reserve.

To evaluate the liability for product warranty, our audit procedures included, among others, testing the completeness and accuracy of the underlying claims, supplier recovery data and evaluating the methodologies and assumptions used in the warranty accrual calculation. We also assessed the historical accuracy of management’s estimates through a hindsight analysis.

We have served as the Company’s auditor since 1945



Seattle, Washington
February 17, 2021

To the Stockholders and the Board of Directors of PACCAR Inc

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Opinion on Internal Control Over Financial Reporting

We have audited PACCAR Inc's internal control over financial reporting as of December 31, 2020, 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, 2020, 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 consolidated balance sheets of the Company as of December 31, 2020 and 2019, 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, 2020, and the related notes and our report dated February 17, 2021, 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 17, 2021

Ernst & Young LLP

SELECTED FINANCIAL DATA

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|-----------------------------------------------|------------------------------------------|-------------|-------------|-------------|-------------|
| | <i>(millions, except per share data)</i> | | | | |
| Truck, Parts and Other Net Sales and Revenues | \$ 17,154.3 | \$ 24,119.7 | \$ 22,138.6 | \$ 18,187.5 | \$ 15,846.6 |
| Financial Services Revenues | 1,574.2 | 1,480.0 | 1,357.1 | 1,268.9 | 1,186.7 |
| Total Revenues | \$ 18,728.5 | \$ 25,599.7 | \$ 23,495.7 | \$ 19,456.4 | \$ 17,033.3 |
| Net Income | \$ 1,298.4 | \$ 2,387.9 | \$ 2,195.1 | \$ 1,675.2 | \$ 521.7 |
| Adjusted Net Income* | | | | 1,501.8 | 1,354.7 |
| Net Income Per Share: | | | | | |
| Basic | 3.74 | 6.88 | 6.25 | 4.76 | 1.49 |
| Diluted | 3.74 | 6.87 | 6.24 | 4.75 | 1.48 |
| Adjusted Diluted* | | | | 4.26 | 3.85 |
| Cash Dividends Declared Per Share | 1.98 | 3.58 | 3.09 | 2.19 | 1.56 |
| Total Assets: | | | | | |
| Truck, Parts and Other | 12,460.2 | 12,289.7 | 11,082.8 | 10,237.9 | 8,444.1 |
| Financial Services | 15,799.8 | 16,071.4 | 14,399.6 | 13,202.3 | 12,194.8 |
| Financial Services Debt | 10,853.3 | 11,222.7 | 9,950.5 | 8,879.4 | 8,475.2 |
| Stockholders' Equity | 10,390.0 | 9,706.1 | 8,592.9 | 8,050.5 | 6,777.6 |

* See Reconciliation of GAAP to Non-GAAP Financial Measures.

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.

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)

| <i>Year Ended December 31,</i> | 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 |

QUARTERLY RESULTS (UNAUDITED)

| | QUARTER | | | |
|------------------------------------------|--------------|--------------|--------------|--------------|
| | FIRST | SECOND | THIRD | FOURTH |
| <i>(millions, except per share data)</i> | | | | |
| 2020 | | | | |
| Truck, Parts and Other: | | | | |
| Net sales and revenues | \$ 4,778.0 | \$ 2,701.9 | \$ 4,538.4 | \$ 5,136.0 |
| Cost of sales and revenues | 4,189.6 | 2,441.5 | 3,958.3 | 4,487.0 |
| Research and development | 71.0 | 66.5 | 64.7 | 71.7 |
| Financial Services: | | | | |
| Revenues | 383.7 | 360.3 | 397.6 | 432.6 |
| Interest and other borrowing expenses | 56.4 | 46.9 | 45.2 | 43.6 |
| Depreciation and other expenses | 229.4 | 224.1 | 262.5 | 292.0 |
| Net Income | 359.4 | 147.7 | 385.5 | 405.8 |
| Net Income Per Share:* | | | | |
| Basic | \$ 1.04 | \$.43 | \$ 1.11 | \$ 1.17 |
| Diluted | 1.03 | .43 | 1.11 | 1.17 |
| 2019 | | | | |
| Truck, Parts and Other: | | | | |
| Net sales and revenues | \$ 6,138.1 | \$ 6,266.5 | \$ 6,004.2 | \$ 5,710.9 |
| Cost of sales and revenues | 5,217.1 | 5,341.7 | 5,106.8 | 4,890.0 |
| Research and development | 78.3 | 82.5 | 82.2 | 83.6 |
| Financial Services: | | | | |
| Revenues | 349.5 | 361.4 | 362.8 | 406.3 |
| Interest and other borrowing expenses | 53.4 | 60.0 | 59.6 | 57.5 |
| Depreciation and other expenses | 177.4 | 183.6 | 195.3 | 241.9 |
| Net Income | 629.0 | 619.7 | 607.9 | 531.3 |
| Net Income Per Share: | | | | |
| Basic | \$ 1.81 | \$ 1.79 | \$ 1.75 | \$ 1.53 |
| Diluted | 1.81 | 1.78 | 1.75 | 1.53 |

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

MARKET RISKS AND DERIVATIVE INSTRUMENTS

(currencies in millions)

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

| Fair Value (Losses) Gains | 2020 | 2019 |
|-------------------------------------------------|---------------|----------------|
| CONSOLIDATED: | | |
| <i>Assets</i> | | |
| Cash equivalents and marketable debt securities | \$ (26.9) | \$ (19.5) |
| FINANCIAL SERVICES: | | |
| <i>Assets</i> | | |
| Fixed rate loans | (105.7) | (94.4) |
| <i>Liabilities</i> | | |
| Fixed rate term debt | 124.3 | 113.3 |
| Interest-rate swaps | 14.2 | 13.9 |
| Total | \$ 5.9 | \$ 13.3 |

Currency Risks - The Company enters into foreign currency exchange contracts to hedge its exposure to exchange rate fluctuations of foreign currencies, particularly the Canadian dollar, the euro, the British pound, the Australian dollar, the Brazilian real and the Mexican peso (see Note P for additional information concerning these hedges). Based on the Company's sensitivity analysis, the potential loss in fair value for such financial instruments from a 10% unfavorable change in quoted foreign currency exchange rates would be a loss of \$155.2 related to contracts outstanding at December 31, 2020, compared to a loss of \$128.0 at December 31, 2019. These amounts would be largely offset by changes in the values of the underlying hedged exposures.

COMMON STOCK MARKET PRICES AND DIVIDENDS

Common stock of the Company is traded on the Nasdaq Stock Market under the symbol PCAR. The table below reflects the range of trading prices as reported by the Nasdaq Stock Market and cash dividends declared. There were 1,469 record holders of the common stock at December 31, 2020.

| QUARTER | 2020 | | | 2019 | | |
|----------------|-----------------------|-------------|---------|-----------------------|-------------|---------|
| | DIVIDENDS DECLARED | STOCK PRICE | | DIVIDENDS DECLARED | STOCK PRICE | |
| | | HIGH | LOW | | HIGH | LOW |
| First | \$.32 | \$79.66 | \$49.11 | \$.32 | \$70.35 | \$55.84 |
| Second | .32 | 79.48 | 58.21 | .32 | 73.00 | 65.78 |
| Third | .32 | 91.30 | 74.00 | .32 | 72.86 | 62.13 |
| Fourth | .32 | 95.82 | 82.85 | .32 | 83.41 | 65.17 |
| Year-End Extra | .70 | | | 2.30 | | |

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.

OFFICERS AND DIRECTORS

OFFICERS

Mark C. Pigott
Executive Chairman

R. Preston Feight
Chief Executive Officer

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

Michael T. Barkley
Senior Vice President and Controller

C. Michael Dozier
Senior Vice President

T. Kyle Quinn
Senior Vice President and
Chief Technology Officer

Darrin C. Siver
Senior Vice President

Ronald R. Augustyn
Vice President

Kevin D. Baney
Vice President

David J. Danforth
Vice President

Marco A. Davila (retired 1/4/2021)
Vice President

Craig R. Gryniwicz
Vice President

Todd R. Hubbard
Vice President

Jack K. LeVier
Vice President

A. Lily Ley
Vice President and
Chief Information Officer

Debra E. Poppas
Vice President

Jason P. Skoog
Vice President

Landon J. Sproull
Vice President

Michael K. Walton
Vice President and General Counsel

Harry M.B. Wolters
Vice President

Michael K. Kuester
Assistant Vice President

Ulrich Kammholz
Treasurer

Irene E. Song
Corporate Secretary

DIRECTORS

Mark C. Pigott
Executive Chairman
PACCAR Inc (3)

R. Preston Feight
Chief Executive Officer
PACCAR Inc

Dame Alison J. Carnwath
Senior Adviser
Evercore Partners (1, 4)

Franklin L. Feder
Former Chief Executive Officer
Alcoa Latin America & Caribbean
of Alcoa Inc. (1)

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

Kirk S. Hachigian
Former Non-Executive Chairman
JELD-WEN Holding, Inc. (2)

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

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

Mark A. Schulz (Lead Director)
Retired President,
International Operations
Ford Motor Company (2, 3, 4)

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

Charles R. Williamson (retires 4/26/2021)
Former Chairman
Weyerhaeuser Company and
Former Chairman
Talisman Energy Inc. (4)

COMMITTEES OF THE BOARD

- (1) Audit Committee
- (2) Compensation Committee
- (3) Executive Committee
- (4) Nominating and Governance Committee

TRUCKS

Kenworth Truck Company

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

Factories:
Chillicothe, Ohio
Renton, Washington

Peterbilt Motors Company

Division Headquarters:
1700 Woodbrook Street
Denton, Texas 76205

Factory:
Denton, Texas

PACCAR of Canada Ltd.

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

Factory:
Ste.-Thérèse, Quebec, Canada

Canadian Kenworth Company

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

Peterbilt of Canada

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

DAF Caminhões Brasil Indústria Ltda.

Avenida Senador Flávio
Carvalho Guimarães, 6000
Bairro Boa Vista
CEP 84072-190
Ponta Grossa, Paraná, Brasil

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

Dynacraft

Division Headquarters:
3490 Redbud Blvd,
McKinney, TX 75069

Factories:
Louisville, Kentucky
McKinney, Texas

WINCHES

PACCAR Winch Inc

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 Ave
Sunnyvale, CA 94089

PACCAR India Technical Center

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

PACCAR FINANCIAL SERVICES GROUP

PACCAR Financial Corp.

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

PACCAR Leasing Company

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

PACCAR Financial Europe B.V.

Hugo van der Goeslaan 1
P.O. Box 90065
5600 PT Eindhoven
The Netherlands

PACCAR Financial México, S.A. de C.V.

Calzada Gustavo Vildósola
Castro 2000
Mexicali, Baja California
Mexico

PacLease Mexicana S.A. de C.V.

Calzada Gustavo Vildósola
Castro 2000
Mexicali, Baja California
Mexico

PACCAR Financial Services Ltd.

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

PACCAR Financial Pty. Ltd.

64 Canterbury Road
Bayswater, Victoria 3153
Australia

PACCAR Financial PLC

Haddenham Business Park
Pegasus Way
Haddenham HP17 8LJ
United Kingdom

Banco PACCAR S.A.

Avenida Senador Flávio
Carvalho Guimarães, 6000
Bairro Boa Vista
CEP 84072-190
Ponta Grossa, Paraná, Brasil

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

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

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

Telephone
425.468.7400

Facsimile
425.468.8216

Website
www.paccar.com



**Stock Transfer
and Dividend
Dispersing Agent**
Equiniti Trust Company
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 Equiniti.

Online Delivery of Annual Report and Proxy Statement

PACCAR's 2020 Annual Report and the 2021 Proxy Statement are available on PACCAR's website at www.paccar.com/2021annualmeeting

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.

**Trademarks Owned by
PACCAR Inc and its
Subsidiaries**
DAF, EPIQ, Kenmex, Kenworth, Leyland, Online Parts Counter, PACCAR, PACCAR MX-11, PACCAR MX-13, PACCAR PX, PacFuel, PacLease, PacLink, PacTax, PacTrac, PacTrainer, Peterbilt, The World's Best, TRP, TruckTech+, SmartNav and SmartLINQ

Independent Auditors
Ernst & Young LLP
Seattle, Washington

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

**Annual Stockholders'
Meeting**
April 27, 2021, 10:30 a.m.
PACCAR Parts
Distribution Center
405 Houser Way North
Renton, Washington
98057

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Employer*



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on recycled paper.

PACCAR Inc