

PACCAR

2021 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

	2021	2020
	<i>(millions, except per share data)</i>	
Truck, Parts and Other Net Sales and Revenues	\$ 21,834.5	\$ 17,154.3
Financial Services Revenues	1,687.8	1,574.2
Total Revenues	23,522.3	18,728.5
Net Income	1,852.1	1,298.4
Total Assets:		
Truck, Parts and Other	13,882.8	12,460.2
Financial Services	15,418.9	15,799.8
Financial Services Debt	10,431.8	10,853.3
Stockholders' Equity	11,437.4	10,390.0
Per Common Share:		
Net Income:		
Basic	\$ 5.33	\$ 3.74
Diluted	5.32	3.74
Cash Dividends Declared Per Share	2.84	1.98





PACCAR is celebrating 116 years of success and delivered very good revenues and profits to its shareholders in 2021. The PACCAR team did an excellent job managing the global logistic hurdles and the health pandemic. This is the 83rd consecutive year of earning a net profit — a notable record considering the cyclicity of the capital goods market. PACCAR’s prompt and thorough actions to reconfigure its manufacturing facilities, parts distribution centers, and offices ensured 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 emissions vehicles, and autonomous trucks.

The company is a recognized 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 2021 is due to many positive factors including the launch of new Kenworth and Peterbilt heavy- and medium-duty vehicles; DAF’s new product range that delivers operational excellence and luxury for its customers; and the strong performance of every geographic region. PACCAR Parts and PACCAR Financial Services set profit records in 2021 by their innovative deployment of technology initiatives that bundle services for our customers. PACCAR Parts delivered new sales programs to a growing population of integrated and connected PACCAR vehicles and opened more TRP stores. PACCAR Financial Services, including PacLease, had a record year, generating strong new and used truck business volume. PACCAR’s Information Technology Division unveiled a range of programs to increase annual revenue streams generated from e-commerce and connected vehicle subscriptions. 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 good returns, with annual regular dividend growth of 8% in the last ten years and a \$1.50 per share extra dividend paid in early 2022.

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 and dedication, 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.



A handwritten signature in black ink that reads "Mark Pigott". The signature is written in a cursive, flowing style.

MARK C. PIGOTT
Executive Chairman
February 23, 2022

PACCAR had a very good year in 2021, generating strong revenues and profits. Revenues were \$23.52 billion and net income of \$1.85 billion was the third highest in the company's history, with an after-tax return on revenue of 7.9%. PACCAR has earned an annual net income for 83 consecutive years. PACCAR's financial results reflect the company's premium-quality trucks, powertrains, aftermarket parts business, financial services and technology leadership.

I am very proud of PACCAR's employees who delivered industry leading quality, innovation and efficiency in a year where they maintained excellent health protocols during the global pandemic and provided consistent production and customer aftermarket support despite supply base challenges.

PACCAR's financial strength enabled the company to invest \$836 million in capital projects and research and development that launched the largest number of new truck models in its history, enhanced its manufacturing capability, expanded its range of engines, developed advanced vehicle technologies and strengthened its aftermarket transportation solutions.

In 2021, DAF introduced a new range of heavy-duty trucks in Europe that were recognized as "*International Truck of the Year 2022*" and Kenworth and Peterbilt introduced exciting new heavy- and medium-duty trucks in North America. PACCAR Parts achieved record sales of \$4.94 billion and record pre-tax profits of \$1.10 billion. PACCAR's A+/A1 credit rating supported PACCAR Financial Services' record pre-tax profits of \$437.6 million, including \$5.67 billion of new loan and lease volume. PACCAR continues to develop industry leading advanced vehicle technologies in the areas of zero emissions, autonomous vehicles and connected services.

PACCAR's strong financial performance generated industry leading after-tax return on beginning stockholders' equity of 17.8% in 2021. Year-end stockholders' equity was a record \$11.44 billion. PACCAR's financial performance has enabled the company to declare \$8.0 billion in dividends during the last ten years.

INVESTING FOR THE FUTURE — PACCAR's consistently strong profits and balance sheet have allowed the company to invest \$7.3 billion in capital projects and research and development over the last decade. These investments have supported the creation of advanced new vehicle models, new manufacturing and distribution facilities and innovative technologies. PACCAR's investments create transportation solutions that provide our customers the highest levels of quality, safety and reliability as well as the lowest total cost of operation.

In 2021, capital investments were \$511.8 million and research and development expenses were \$324.1 million. Kenworth, Peterbilt and DAF's new truck models are being produced with state-of-the-art manufacturing equipment, including a new robotic paint facility at Kenworth's Chillicothe, Ohio factory, a new robotic build cell at Peterbilt's Denton, Texas factory and new cab build and cab trim factories at DAF's facility in Westerlo, Belgium. Kenworth and Peterbilt have installed 283,000 PACCAR engines and engine manufacturing capacity was increased in the company's Columbus, Mississippi engine factory.

PACCAR made excellent progress in the development of its proprietary autonomous vehicle platform and advanced its partnership with Aurora Innovation to commercialize autonomous vehicles. Peterbilt, Kenworth and DAF trucks have industry leading connected services that provide valuable vehicle performance data to our customers and provide PACCAR with an increasing stream of recurring revenue.

PACCAR is a leader in the development of battery-electric, hybrid, hydrogen combustion and hydrogen fuel cell vehicles. Kenworth, Peterbilt and DAF delivered battery-electric trucks to customers in 2021 and have seven zero emissions vehicle models in production with a backlog of hundreds of customer orders. PACCAR Parts launched turn-key electric vehicle charging solutions for customers and sold over 100 chargers. PACCAR worked with the Department of Energy and received a \$33 million grant for zero emissions technology development in 2021. DAF continued its

leadership in powertrain development and earned the prestigious “2022 *Truck Innovation Award*” for its hydrogen combustion engines.

In support of the majority of PACCAR’s development activities, PACCAR’s three global embedded software development centers located in the U.S., Europe and India are providing proprietary, customer-focused solutions for all parts of the business.

CONTINUOUS IMPROVEMENT — Six Sigma, data analytics, machine learning, Industry 4.0 and lean process development are integrated into all business activities at PACCAR as well as its suppliers, dealers and customers. These tools help to continuously enhance the creation of state-of-the-art new product designs, customer services and manufacturing processes. Thousands of PACCAR employees have been trained in the use of these tools which have delivered billions of dollars in 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. These solutions provide secure, customized products for customers, dealers and suppliers. In 2021, PACCAR launched its state-of-the-art connected services platform, *PACCAR Connect*, to help customers optimize vehicle performance. This configurable system consists of proprietary hardware and software that provide robust data security, over-the-air (OTA) software updates and advanced fleet management tools, while enabling customers to cost effectively integrate their existing fleet management systems and applications. PACCAR began installing *PACCAR Connect* on DAF XF, XG and XG+ trucks in October 2021. The ITD team maintains a rigorous focus on ensuring PACCAR’s leadership in vehicle and infrastructure cyber security.

TRUCKS — U.S. and Canadian Class 8 truck industry retail sales in 2021 were 250,000 units and the Mexican market totaled 19,900 units. PACCAR delivered 162,700 trucks in 2021 as customers generated good profits due to strong freight tonnage. European industry 16+ tonne truck registrations were 278,000 units.

PACCAR’s Class 8 retail sales share in the U.S. and Canada was 29.2% compared to 30.1% a year earlier, while DAF’s market share was 15.9% in the 16+ tonne truck market in Europe.

Industry Class 6 and 7 truck retail sales in the U.S. and Canada were 83,700 units. The European 6 to 16-tonne market was 41,400 units.

PACCAR’s market share in the U.S. and Canada medium-duty truck segment was 19.8% compared to 22.6% in 2020. DAF’s share of the European medium-duty truck market was 10.1% in 2021 compared to 9.5% in 2020. PACCAR delivered 26,300 medium-duty trucks to its customers in 2021.

PACCAR Mexico had industry leading heavy-duty market share of 35.9%. PACCAR Mexico began battery-electric vehicle production, making Kenworth the first manufacturer to produce battery-electric vehicles in Mexico.

DAF Brasil had record 16+ tonne market share of 5.7% in 2021. DAF Brasil’s Ponta Grossa assembly plant produced a record 6,300 trucks, increasing the total number of DAF trucks operating in Brasil to more than 18,300 vehicles since the DAF factory opened in 2014.

PACCAR Australia had a record year with combined Kenworth and DAF heavy-duty market share increasing to 27.1% from 24.5% in 2020. In 2021, PACCAR Australia celebrated its 50th anniversary of manufacturing market leading Kenworth trucks in Australia.

A tremendous team effort by the company’s employees and dealer network contributed to industry leading truck, parts and other gross margins of 12.5%. 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 PACCAR was recognized as a top workplace for women by the Women in Trucking Association for the fourth consecutive year.

PACCAR's innovation and manufacturing expertise continued to be recognized as the industry leader in 2021. Kenworth and Peterbilt earned five "Manufacturing Leadership Awards" from the National Association of Manufacturers. The Kenworth T680 was awarded the "SmartWay" designation by the U.S. Environmental Protection Agency for its efficient aerodynamic design. The DAF XF truck earned the "Fleet Truck of The Year" award for the third consecutive year in the U.K. The new DAF XF, XG and XG+ trucks earned the prestigious "International Truck of the Year 2022" and the DAF XF hydrogen combustion vehicle earned the "2022 Truck Innovation Award."

PACCAR PARTS — PACCAR Parts increased revenues by 26% to a record \$4.94 billion and achieved record pre-tax profits of \$1.10 billion as dealers and customers benefited from 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 254 locations in 40 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 cyclicity of truck sales.

To further enhance its logistics performance to dealers, PACCAR Parts is constructing a new parts distribution center in Louisville, Kentucky that is scheduled to open in 2022.

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 set a pre-tax profit record of \$437.6 million, up from \$223.1 million in 2020. PACCAR issued \$1.97 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 204,000 trucks and trailers, with total assets of \$15.42 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 twelve strategically located used truck centers and is currently completing a new facility in Madrid, Spain. PFS successfully increased the number of premium DAF, Kenworth and Peterbilt used trucks sold from 19,800 in 2020 to a record 20,700 in 2021.

PACCAR Leasing (PacLease) is one of the largest full-service truck rental and leasing operations in North America, Germany and Australia. PacLease placed nearly 5,700 new PACCAR vehicles in service. The PacLease fleet consisted of over 38,600 vehicles at the end of 2021. PacLease supports PACCAR's zero emissions vehicle sales growth by offering customers the opportunity to rent or lease battery-electric trucks and battery chargers.

ENVIRONMENTAL LEADERSHIP — PACCAR is a global environmental leader. PACCAR discloses its comprehensive sustainability program to the environmental reporting firm CDP, which evaluates and scores companies on how effectively they are addressing climate change and the environment. PACCAR earned the highest rating of an "A" score in 2021, which places it in the top 200 of over 13,000 reporting companies from around the world. For the past seven years, PACCAR has earned an "A" or "A-" score. PACCAR, in partnership with the Science Based Targets Initiative (SBTi), has committed to emissions reductions from the use of its products by 25 percent and from internal operations by 35 percent by 2030. PACCAR's manufacturing facilities have earned ISO 14001 environmental certification and continued to enhance their zero-waste-to-landfill programs during the year.

A LOOK AHEAD — PACCAR employees enable the company to distinguish itself as a global leader in trucks, technology, financial services and the aftermarket parts business. PACCAR's industry leading health protocols provide a safe working environment for employees during the pandemic. While truck markets may be impacted by global supply base constraints, PACCAR's strong internal processes, engineering capabilities and relationships with suppliers are enabling it to generate excellent results.

The economic outlook for 2022 is for GDP growth of 3-5% in North and South America and Europe. The U.S. and Canada Class 8 truck market in 2022 is projected to increase and be in the range of 250,000–290,000 vehicles. Retail sales for Class 6-7 trucks are expected to be between 75,000–85,000 vehicles. The European truck market is forecast to strengthen in 2022 with 16+ tonne vehicle registrations in the range of 260,000–300,000 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, excellent used truck business 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 clean 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 23, 2022



PACCAR Executive Operating Committee

First Row Left to Right: Kevin Baney, Lily Ley, Darrin Siver, Mike Dozier, Jack LeVier, David Danforth, Todd Hubbard.

Second Row Left to Right: Harry Wolters, John Rich, Harrie Schippers, Preston Feight, Michael Barkley, Mike Walton, Jason Skoog.



Kenworth introduced the new T680 on-highway vehicle – the most aerodynamic truck in its history – and a new range of medium-duty vehicles with an eight-inch wider cab. Kenworth achieved 14.7 percent Class 8 market share and medium-duty market share of 9.9 percent.

The Kenworth T680 Next Generation delivers up to a seven percent fuel efficiency improvement, new LED headlamps and expanded advanced driver assistance systems (ADAS) with lane keeping assist, torque-assisted steering and digital mirror technology. The best-in-class interior features a customizable 15-inch digital dashboard display and increased sleeper storage space. The new T680 earned the U.S. Environmental Protection Agency “*SmartWay*” designation and is optimized for line haul, pickup and delivery and regional operations.

Kenworth launched a new range of medium-duty models – the T180, T280, T380 and T480 – featuring a spacious 2.1-meter wide cab that provides comfortable three-person seating. The innovative PACCAR TX-8 automatic transmission improves fuel efficiency by up to five percent.

Kenworth began production of its T680E, K370E and K270E battery-electric vehicles. These zero emissions trucks deliver excellent operating performance for local and regional haul, urban delivery and drayage applications. The electric heavy-duty T680E has a range of up to 150 miles and the medium-duty K370E and K270E have ranges up to 200 miles. Kenworth participated in a feasibility project in Southern California that utilized 10 T680 hydrogen fuel cell vehicles. Kenworth partnered with the U.S. Department of Energy to develop fast wireless electric vehicle charging that will enable Class 8 battery-electric vehicles to perform two-shift delivery and regional haul applications.

Kenworth Chillicothe opened a \$140 million, 120,000 square-foot paint facility to expand paint capacity by 50 percent and enhance Kenworth’s industry leading quality. The plant achieved the “*Encouraging Environmental Excellence ‘E3’ Platinum Award*” from the Ohio Environmental Protection Agency. Kenworth Chillicothe and Kenworth Renton each earned a “*Manufacturing Leadership Award*” from the National Association of Manufacturers.

The Women in Trucking Association recognized Kenworth as a “*Top Company for Women to Work for in Transportation*” for the fourth consecutive year. A new Kenworth T680 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 the sixth year in a row, rewarding America’s top military veteran who transitioned from active duty to driving for a commercial fleet.

The Kenworth dealer network grew to a record 449 locations and dealers invested \$255 million in capital projects to enhance their world-class facilities throughout the United States and Canada. Kenworth dealers deliver outstanding parts and service support to enhance customer operating performance.

The Kenworth T680 Next Generation delivers outstanding performance in line haul, pickup and delivery and regional haul applications and is equipped with intelligent technologies to enhance productivity. The new T680 exemplifies Kenworth’s core values of quality, innovation and technology used to produce The World’s Best® trucks.





DAF

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PACCAR celebrated the 25th anniversary of its acquisition of DAF Trucks. DAF introduced new XF, XG and XG⁺ trucks, setting industry standards in quality, efficiency, comfort and safety.

The new DAF XF, XG and XG⁺ models earned the prestigious “*International Truck of the Year 2022*” award. DAF is the first manufacturer to produce vehicles that take advantage of revised European mass and dimension regulations that allow a more aerodynamic and spacious vehicle design. The XF, XG and XG⁺ range delivers up to a 10 percent increase in fuel efficiency and a 19 percent improvement in aerodynamics. The new trucks feature a 2.3 square-meter windshield and advanced driver assistance technologies to enhance visibility and safety. Larger cabs with interiors up to 12.5 cubic meters deliver unparalleled driver comfort.

The DAF XF won the “*Fleet Truck of the Year*” award at the U.K. Motor Transport Awards for the third consecutive year and the DAF CF was honored as the “*Vocational Truck of the Year*” at the U.K. Fleet News Awards 2021.

DAF extended its environmental leadership by launching the LF Electric, which has a zero emissions driving range of up to 280 kilometers, and the hydrogen combustion DAF H₂ vehicle, which earned the “*2022 Truck Innovation Award*.” DAF introduced PACCAR fast charging stations to support CF Electric and LF Electric customers.



DAF achieved 15.9 percent market share in the European 16+ tonne segment, maintaining its market leadership in the United Kingdom, the Netherlands, Poland, Portugal, Hungary and Bulgaria. DAF is the European market leader in tractors.

DAF commenced operations at its new 300,000 square-foot cab and trim facility in Westerlo, Belgium. The Westerlo plant produced its 3,000,000th axle and celebrated 50 years of axle production.

DAF sold 8,600 trucks outside the EU in 2021. DAF is the heavy-duty market leader among European manufacturers in Taiwan, where it sold the 10,000th locally assembled DAF truck. DAF’s independent global dealer network opened 45 new locations throughout Europe, South America, Africa and Asia, expanding the worldwide network to over 1,100 locations.

PACCAR Parts’ TRP all-makes aftermarket parts program consists of over 81,000 truck, bus and trailer parts and is supported by DAF’s worldwide dealer network. DAF dealers opened 14 TRP stores in Europe, Russia and Africa, increasing the total to 118. PACCAR Parts added its 1,000th European fleet to its Fleet Services program, which delivers outstanding service and value to commercial fleets.

PACCAR Financial Europe is the leading finance company for DAF trucks in Europe and celebrated 20 years of operations in 2021. DAF commenced construction of a new used truck center in Madrid, Spain to expand its used truck network and meet the growing demand for pre-owned DAF trucks throughout Europe.

The award-winning DAF XG⁺ utilizes the latest European regulations governing truck design to deliver unsurpassed performance and luxury. The XG⁺ features industry leading technologies, including side view cameras and a full suite of passive and active safety features.



Peterbilt introduced the new Model 579 – delivering up to a seven percent fuel economy improvement – and a new range of medium-duty vehicles featuring an eight-inch wider cab. Peterbilt achieved 14.5 percent Class 8 market share and medium-duty market share of 9.9 percent.

The new Peterbilt Model 579 features distinctive styling, advanced safety systems and the efficient PACCAR Powertrain. The new Model 579 improves fuel efficiency by up to seven percent and has best-in-class aerodynamics, including a streamlined hood and redesigned side mirrors with digital display technology. The state-of-the-art interior is 10 percent quieter and provides a customizable 15-inch digital dashboard display, enhanced driver ergonomics and an industry leading 70 cubic feet of storage space in the 80-inch *UltraLoft* sleeper. The new Model 579 is available in day cab and sleeper configurations.

Peterbilt introduced a new range of medium-duty vehicles in 2021 – Models 535, 536, 537 and 548. The new vehicles have a 2.1-meter wide cab to accommodate three passengers, a seven-inch digital display, the new PACCAR TX-8 automatic transmission, PACCAR PX-7 and PX-9 engines and multiple hood and roof configurations. The medium-duty range continues Peterbilt's legacy of maximum durability and delivers optimal performance in a wide variety of applications.



Peterbilt leads the industry with three zero emissions vehicles available – Models 579EV, 520EV and 220EV. Peterbilt battery-electric trucks have accumulated over 300,000 miles.

Peterbilt achieved 14.5 percent Class 8 market share and medium-duty market share of 9.9 percent in 2021. Peterbilt had 20.1 percent vocational/refuse market share and was the leader in the segment for the fourth year in a row.

Peterbilt added 12 dealer locations in 2021 and grew its sales and service network to 417 locations throughout North America, including 23 TRP stores. The dealer network invested \$105 million in capital projects to enhance customer support.

The Women in Trucking Association honored Peterbilt as a “*Top Company for Women to Work for in Transportation*” for the fourth consecutive year and Peterbilt's diversity council hosted numerous events to celebrate its employees. Peterbilt earned three prestigious “*Manufacturing Leadership Awards*” from the National Association of Manufacturers in recognition of the plant's innovation in engineering and product technology, operations excellence and sustainability.

PACCAR Australia achieved record truck production and deliveries in its 50th year of manufacturing. PACCAR has delivered more than 75,000 Kenworth and DAF vehicles operating in one of the world's most demanding environments.

PACCAR Australia set a record with combined Kenworth and DAF heavy-duty market share of 27.1 percent. PACCAR Australia completed the 100,000 square-foot expansion of its Bayswater factory in 2021, adding a new engine assembly line, a state-of-the-art test building and a dedicated logistics facility.

PACCAR Parts Australia achieved record sales through strong growth in its Fleet Services program and TRP all-makes truck and trailer parts sales. PACCAR Financial Australia expanded its portfolio to a record A\$1.2 billion in assets and increased its market share to a record 39.5 percent. PacLease Australia added seven new franchises and grew its truck rental fleet by 35 percent, offering Kenworth and DAF customers full-service lease, rental and contract maintenance programs throughout Australia.

The 96 Kenworth and DAF dealer locations across Australia, New Zealand and Papua New Guinea provide customers with exceptional service. The dealer network invested a record A\$43 million in capital projects in 2021.



Kenworth trucks are designed and manufactured in Australia to perform in some of the most demanding applications in the world. The Kenworth T410 8x4 is powered by the PACCAR Integrated Powertrain, pairing the efficient PACCAR MX-13 engine with the smooth PACCAR TX-12 transmission.

PACCAR Mexico (KENMEX) continued its market leadership in 2021, achieving a 35.9 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 13,900 vehicles in 2021, including 5,700 exports to the U.S. and Canadian markets. KENMEX has invested more than \$56 million in new products and facilities over the last five years.

KENMEX launched new products in 2021, including the Kenworth T680 Flat Low Roof for car hauling and vocational applications and the KW55 Cabover with a 30,000 lb. rear axle for refuse and beverage applications. KENMEX added remote diagnostic technology as a standard feature of the Kenworth T370 to enhance customer support and uptime. KENMEX also began production of zero emissions battery-electric vehicles for the U.S. and Canadian markets, making it the first manufacturer of these advanced powertrain vehicles in Mexico.

PACCAR Financial Mexico and PacLease Mexicana financed over 54 percent of Kenworth truck retail sales in Mexico. Kenworth's 131 dealer locations and 1,033 service bays offer the most extensive parts and service network in Mexico. These premier facilities deliver an outstanding customer experience.



KENMEX has produced the most iconic and reliable trucks in Mexico since 1959. The T680 Next Generation on-highway flagship sets a new industry standard with superior fuel efficiency, bold styling, enhanced aerodynamics and extraordinary comfort.

Leyland Trucks – the United Kingdom’s leading truck manufacturer – celebrated its 125th anniversary with significant milestones in production and delivered 16,900 DAF vehicles to customers in Europe, Asia, Australia, the Americas and the Middle East.

Leyland’s highly efficient 710,000 square-foot manufacturing facility utilizes a technologically advanced production system that incorporates a robotic chassis paint facility and delivers engineering designs and assembly instructions electronically. Leyland invested in state-of-the-art dynamometer and alignment technologies in 2021 to increase manufacturing efficiency and enhance quality.

Leyland assembles the full DAF product range of LF, CF, XF, XG and XG+ trucks for right- and left-hand drive markets. Leyland assembled the 500,000th truck in its current facility in 2021.

DAF achieved market leadership in the U.K. for the 26th consecutive year. The United Kingdom Motor Transport Awards honored the DAF XF as the “Fleet Truck of the Year” for the third year in a row and Leyland earned another “ROSPA Patron’s Award,” recognizing 26 years of Gold level safety achievements.

DAF launched the zero emissions LF Electric vehicle in 2021, which was produced at Leyland’s factory in Lancashire. The U.K. selected the DAF LF Electric vehicle for its “zero emission road freight” project and highlighted it in the Department of Transportation’s 2021 decarbonization plan.



Leyland manufactures the full DAF product range of LF, CF, XF, XG and XG+ models for right- and left-hand drive markets. The LF Electric is suited for urban applications with a range of up to 175 miles using lithium iron phosphate (LFP) batteries that can be charged by AC or DC power.

PACCAR sells DAF, Kenworth and Peterbilt trucks and parts to customers in 95 countries on six continents. In 2021, PACCAR expanded its business in South America, Asia and Africa.

DAF Brasil has produced over 18,000 trucks as it celebrates its eighth year of operation. DAF Brasil achieved 5.7 percent market share in the 16+ tonne segment. DAF earned its fourth “*Brand of the Year*” award from FENABRAVE and introduced the DAF CF rigid truck in Brasil. The Ponta Grossa factory achieved ISO 14001 certification in 2021. DAF dealers in Brasil have invested over \$98 million in 51 service locations, including eight TRP stores.

DAF is the heavy-duty market leader among European manufacturers in Taiwan, where it completed the 10,000th locally assembled DAF truck in 2021. DAF established new dealers in Peru, Singapore and the Philippines.

DAF sold 2,200 PACCAR engines to leading manufacturers of coaches, buses and specialty vehicles worldwide. The City of Istanbul, Turkey selected the PACCAR MX-11 engine to power a new fleet of articulated buses. 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 18,000 trucks as it celebrates eight 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 earned a record pre-tax profit of \$1.10 billion and record worldwide revenue of \$4.94 billion in 2021. PACCAR Parts delivered 2.7 million parts 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 2,500 commercial fleets operating 1.3 million vehicles. PACCAR Parts Fleet Services achieved a record \$1.38 billion in global retail sales in 2021.

PACCAR Parts' global e-commerce program, *Online Parts Counter* (OPC), allows customers 24/7 online access to more than 1.7 million aftermarket parts and delivers Kenworth *Privileges*, Peterbilt *Preferred*, DAF *MAX* and TRP *Performance* loyalty benefits. OPC grew to a record \$1.07 billion in global retail sales in 2021.

PACCAR Parts operates 18 Parts Distribution Centers (PDCs) globally with 3.1 million square feet of warehouse space, delivering industry leading part availability. PACCAR Parts began construction of a new PDC in Louisville, Kentucky, which is scheduled to open in the second quarter of 2022.

PACCAR Parts' successful TRP aftermarket brand provides parts for all makes and models of trucks, trailers, buses and engines by offering 154,000 part numbers. In 2021, TRP aftermarket parts retail stores expanded to a record 254 locations in 40 countries.



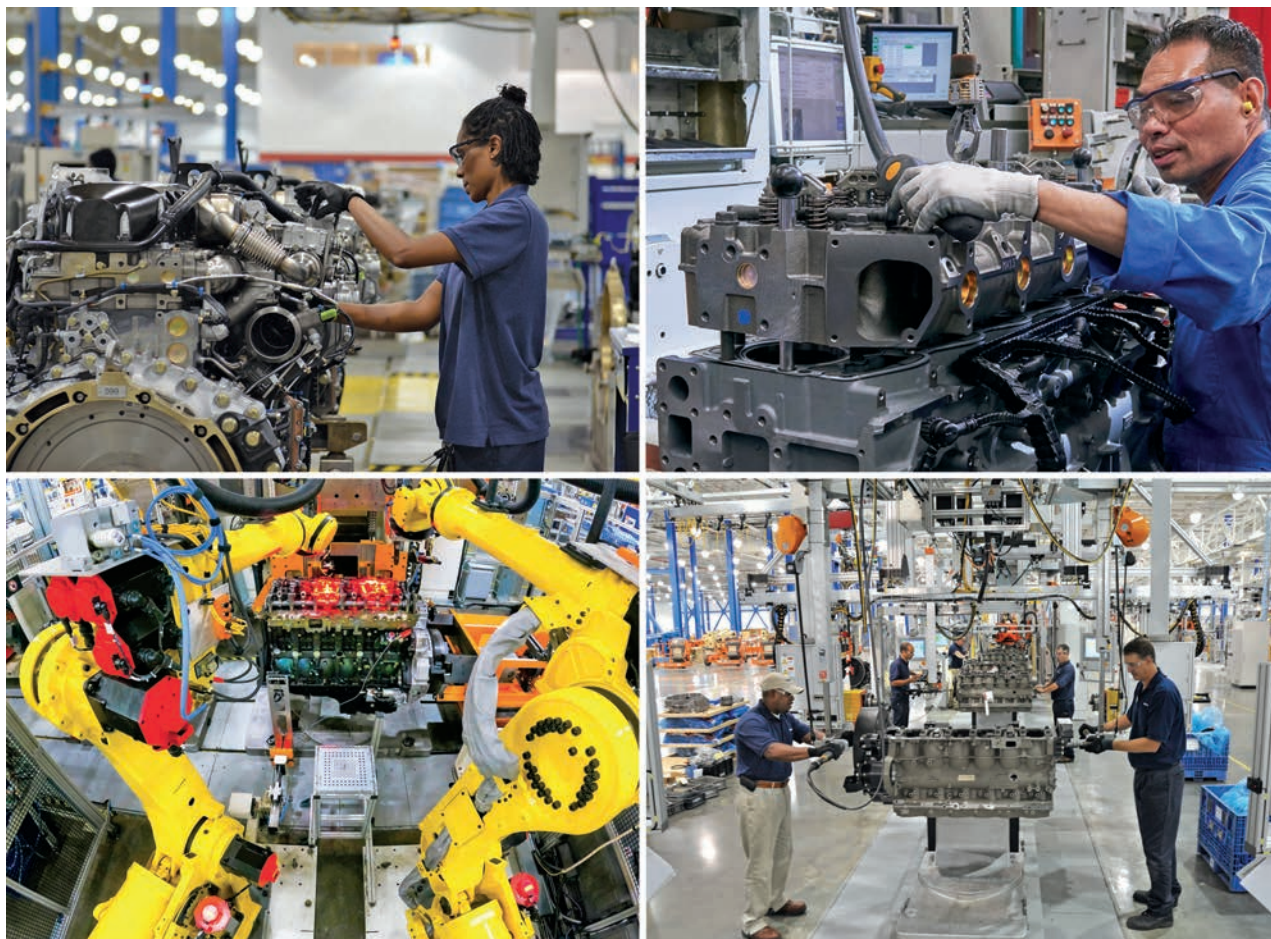
TRP aftermarket parts retail stores expanded to a record 254 locations. PACCAR Parts' e-commerce program allows customers 24/7 access. PACCAR Parts' 365 Center supports customers with roadside assistance, powertrain support and service management. PACCAR Parts' 18 global distribution centers and industry leading technology deliver best-in-class customer service.

PACCAR Powertrain launched the innovative TX-8 automatic transmission for medium-duty trucks. PACCAR MX engines are installed in all DAF 16+ tonne vehicles and over 38 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-11 and MX-13 engines provide customers with excellent fuel economy and superior durability. PACCAR has delivered over 1.8 million engines, with the Columbus engine facility manufacturing over 272,000 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 new PACCAR TX-8 automatic transmission delivers industry leading performance and up to a five percent fuel efficiency improvement. The TX-8 transmission serves a wide range of applications and delivers up to 350 horsepower and 1,000 lb.-ft. of torque when paired with the PACCAR PX-7 or the PACCAR PX-9 engine. The TX-8 transmission is standard on PACCAR's new medium-duty trucks.

PACCAR enhanced its MX engines in 2021 by optimizing combustion to improve fuel economy for on-highway applications, with up to a 3.4 percent increase for the MX-11 and up to 2.4 percent for the MX-13.



PACCAR engine factories are technology leaders 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 earned record pre-tax profits of \$438 million and achieved retail market share of 26.6 percent in 2021.

The PFS portfolio is comprised of 204,000 trucks and trailers, with total assets of \$15.4 billion. PACCAR's excellent balance sheet, complemented by its industry leading A+/A1 credit rating, enabled PFS to issue \$2.0 billion in three- and five-year medium-term notes in 2021. PFS supports the sale of Kenworth, Peterbilt and DAF trucks in 26 countries on four continents. PFS sold a record 20,700 pre-owned PACCAR trucks worldwide in 2021 by leveraging its network of 12 used truck centers and its retail dealer network. PFS is constructing a new used truck center in Madrid, Spain.

PACCAR Financial Corp. (PFC) financed 70 percent of dealers' new truck inventory and 22.2 percent of Kenworth and Peterbilt Class 8 trucks sold in the U.S. and Canada. PFC funds its retail financing through its industry leading electronic platform and utilizes data analytics to generate customer leads and finance quotes.

PACCAR Financial Brasil supports the growth of DAF Brasil by providing retail financing for 30 percent of new DAF trucks sold in Brasil in 2021. PACCAR Financial Europe has \$4.0 billion in assets and provides financial services to DAF dealers and customers in 18 European countries.



PACCAR Financial facilitates the sale of premium-quality new and used PACCAR vehicles worldwide by offering a full range of financial products and utilizing technology to streamline financing and leasing for dealers and customers.

PACCAR Leasing (PacLease) achieved its 32nd consecutive year of profitability with a worldwide fleet of over 38,600 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 innovative and complete transportation solutions to fleet customers. In 2021, PacLease delivered over 5,700 Kenworth, Peterbilt and DAF vehicles to customers in North America, Europe and Australia through its global network of 587 locations.

PacLease delivered its 3,600th 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. PACCAR MX engines power over 53 percent of the new PacLease Class 8 trucks purchased in 2021. PacLease launched a new Fleet Maintenance Management program that delivers tailored maintenance services to each fleet's operational needs.

PacLease Mexico celebrated its 25th anniversary in 2021 and is the largest Class 8 full-service lease provider in Mexico with a fleet of 7,000 trucks and trailers. PacLease Europe operates a fleet of nearly 2,600 DAF trucks and trailers. PacLease Australia has the largest network coverage in the country with 19 locations.



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 engineering, analysis and validation capabilities accelerate the deployment of advanced technologies such as electric, autonomous and connected vehicles. The Technical Centers also ensure that PACCAR delivers 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.

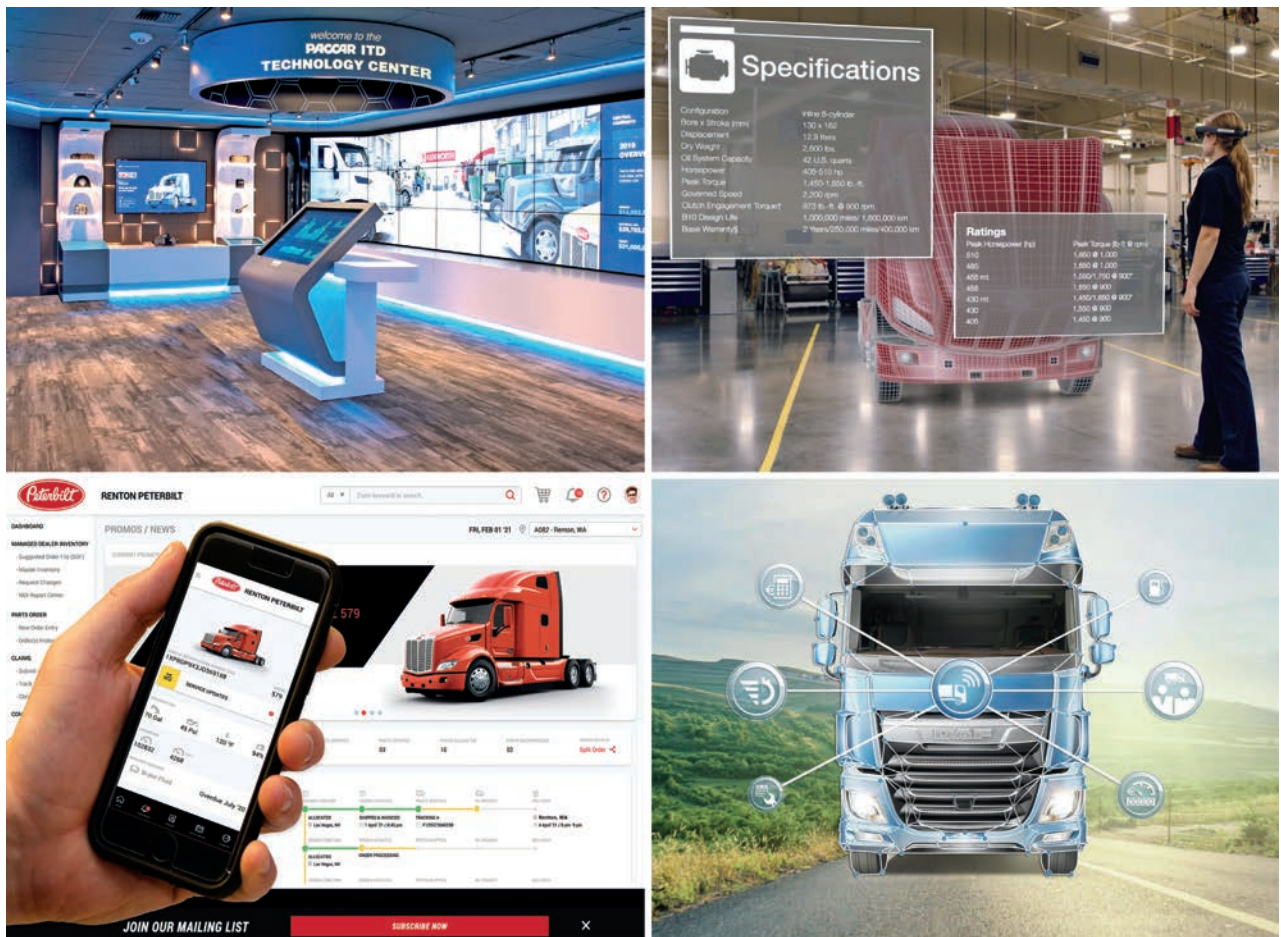


PACCAR Technical Centers in Eindhoven, the Netherlands, Silicon Valley, California, Mount Vernon, Washington and Pune, India advance the quality and competitiveness of PACCAR products worldwide.

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 launched *PACCAR Connect*, which transmits vehicle performance data, over-the-air (OTA) software updates and remote diagnostics. The platform also enhances vehicle electronic cybersecurity and utilizes advanced software applications. These services can be managed as subscriptions through PACCAR e-commerce.

Peterbilt introduced *PETERBILT ARTech*, a patented invention that augments the physical world with an overlay of real-time information. *PETERBILT ARTech* enables technicians to have an “X-Ray” view underneath a truck's exterior body panels to visualize wiring harnesses, connections and routings to expedite service and enhance uptime. PACCAR's design teams implemented Virtual Reality (VR) to conduct interactive product design sessions, enabling designers and engineers in different global locations to collaborate in an immersive virtual experience. PACCAR Parts launched a new real-time e-commerce application that enables dealers to manage part searches, orders, inventory and marketing programs.



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 E-commerce Platforms that enhance the customer experience.

The PACCAR Foundation has contributed over \$210 million to educational, social services and arts organizations since 1951.

PACCAR’s philanthropy reflects its support of charitable institutions in many countries. 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 people an opportunity to improve their livelihood. The PACCAR Foundation funds university scholarships and professorships in science, business and humanities, as well as builds world-class facilities for students and faculty. PACCAR supports many institutions including the University of Washington, Mississippi State University and Eindhoven University of Technology.

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

PACCAR recently contributed over \$2 million to nonprofit organizations that promote diverse and inclusive communities, including UNCF, YWCA, Landesa, Northwest African American Museum and Lighthouse for the Blind. PACCAR and its employees donated over \$1 million in 2021 to assist communities impacted by the COVID-19 pandemic.



PACCAR Philanthropy supports institutions in many locales: British Library, London, England; Hospital da Criança João Vargas, Ponta Grossa, Brasil; Northwest African American Museum, Seattle, Washington; PACCAR Lecture Hall, Washington State University.

PACCAR is an environmental leader and invests in technologically advanced products and energy efficient, sustainable operations to enhance its “green” goals.

PACCAR earned an “A” rating in 2021 from CDP, placing PACCAR in the top 1.5% of more than 13,000 reporting companies from around the world. PACCAR has earned an “A” or “A-” rating for seven consecutive years by delivering a comprehensive sustainability program. PACCAR reduced greenhouse gas emissions by 24 percent across its global facilities over the last seven years on a per dollar of revenue basis.

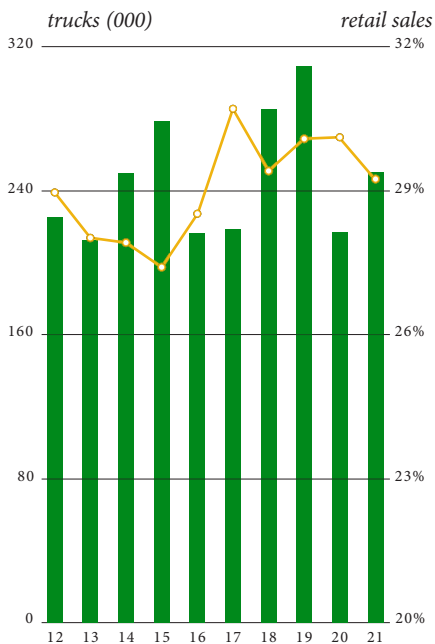
PACCAR is an environmental leader in its global factory operations, with over 80 percent of PACCAR’s manufacturing facilities achieving zero-waste-to-landfill and all manufacturing locations being ISO 14001 certified. PACCAR announced greenhouse gas targets in partnership with the Science Based Targets Initiative.

PACCAR is a leader in the development of alternative powertrains, including battery-electric, hydrogen fuel cell, hybrid and natural gas. Kenworth, Peterbilt and DAF began production of zero emissions trucks in 2021. DAF’s new XF, XG and XG+ conventional trucks improve fuel efficiency by up to 10 percent and the new Kenworth T680 and Peterbilt 579 models deliver up to a seven percent fuel efficiency improvement and reduced CO₂ emissions.



PACCAR leads the industry with its innovative zero emissions commercial vehicles that provide a competitive total cost of ownership for customers operating in a variety of applications.

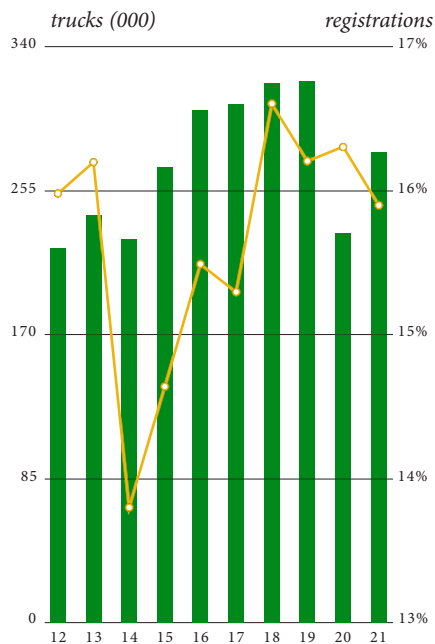
U.S. AND CANADA CLASS 8 MARKET SHARE



■ Total U.S. and Canada Class 8 Units

○ PACCAR Market Share (percent)

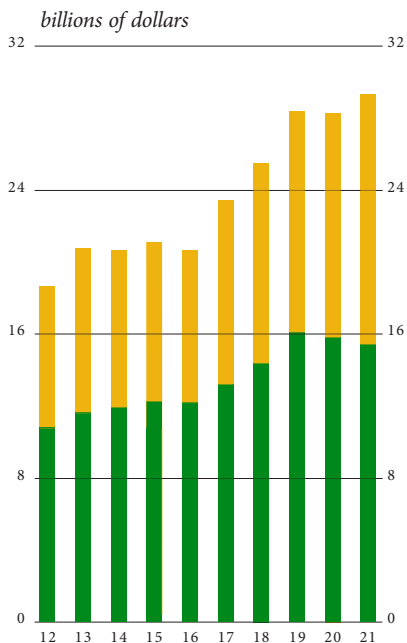
WESTERN AND CENTRAL EUROPE 16+ TONNE MARKET SHARE



■ Total Western and Central Europe 16+ Tonne Units

○ PACCAR Market Share (percent)

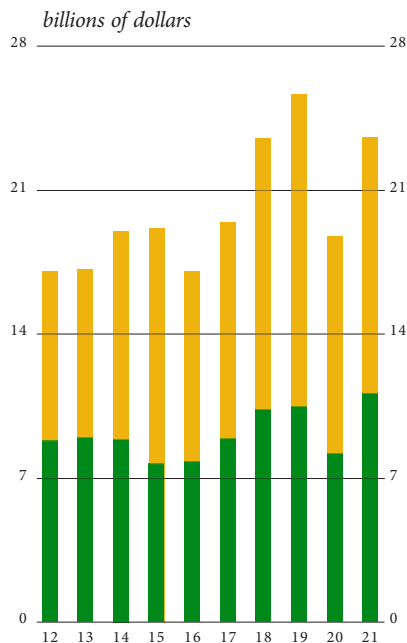
TOTAL ASSETS



■ Truck, Parts and Other

■ Financial Services

GEOGRAPHIC REVENUE

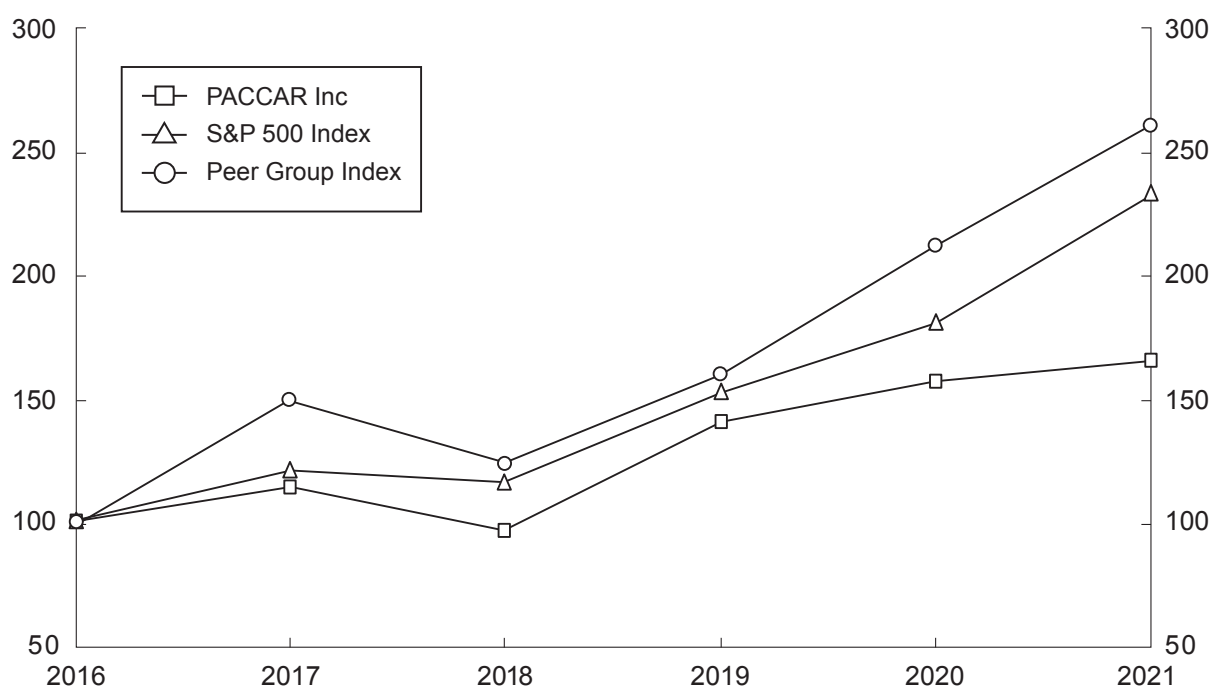


■ United States

■ 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, 2021. 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., CNH Industrial N.V., Cummins Inc., Dana Incorporated, Deere & Company, Eaton Corporation, Meritor Inc., Navistar International Corporation (from 2016 through 2020), Oshkosh Corporation, TRATON SE (effective January 1, 2021) and AB Volvo. TRATON SE acquired Navistar International Corporation in 2021. The comparison assumes that \$100 was invested December 31, 2016, in the Company's common stock and in the stated indices and assumes reinvestment of dividends.



	2016	2017	2018	2019	2020	2021
PACCAR Inc	100	114.82	97.23	141.03	157.59	166.45
S&P 500 Index	100	121.83	116.49	153.17	181.35	233.41
Peer Group Index	100	150.90	124.71	160.24	212.47	261.52

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, Australia, and South America. The Company's Other business includes the manufacturing and marketing of industrial winches.

2021 Financial Highlights

- Worldwide net sales and revenues were \$23.52 billion in 2021 compared to \$18.73 billion in 2020, primarily due to higher truck and parts revenues.
- Truck sales were \$16.80 billion in 2021 compared to \$13.16 billion in 2020, primarily due to higher truck deliveries in all markets.
- Parts sales were a record \$4.94 billion in 2021 compared to \$3.91 billion in 2020 reflecting higher demand in all markets.
- Financial Services revenues were \$1.69 billion in 2021 compared to \$1.57 billion in 2020, primarily due to higher used truck sales.
- In 2021, PACCAR earned net income for the 83rd consecutive year. Net income was \$1.85 billion (\$5.32 per diluted share) in 2021 compared to \$1.30 billion (\$3.74 per diluted share) in 2020 reflecting higher Truck, Parts and Financial Services revenues and operating results.
- Capital investments were \$511.8 million in 2021 compared to \$569.5 million in 2020.
- After-tax return on beginning equity (ROE) was 17.8% in 2021 compared to 13.4% in 2020.
- Research and development (R&D) expenses were \$324.1 million in 2021 compared to \$273.9 million in 2020.

The Company launched new DAF XF, XG and XG⁺ truck models in 2021, which provide unsurpassed performance including up to a 10% fuel efficiency gain, side view cameras, larger interior space and a customizable digital dashboard. The trucks' streamlined silhouette incorporates the new European regulations governing truck design.

The Company began production of the next generation Kenworth T680 and Peterbilt 579 heavy-duty truck models, offering major enhancements in uptime, connectivity technology, aerodynamics, fuel-efficiency and driver comfort in the third quarter of 2021. The new models feature PACCAR MX-13 and MX-11 engines with the integrated PACCAR Transmission for up to a 7% increase in fuel-efficiency.

Kenworth and Peterbilt began production of their new medium-duty truck models designed to serve a wide variety of applications in the third quarter of 2021.

PACCAR began production of seven battery electric vehicle models in 2021 for Peterbilt, Kenworth and DAF customers. PACCAR battery electric heavy- and medium-duty vehicles provide competitive total cost of ownership for customers operating in city and regional haul, port drayage and refuse applications.

The PACCAR Financial Services (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 \$15.42 billion. PFS issued \$1.97 billion in medium-term notes during 2021 to support new business volume and repay maturing debt.

Truck Outlook

Heavy-duty truck industry retail sales in the U.S. and Canada in 2022 are expected to be 250,000 to 290,000 units compared to 250,000 in 2021. In Europe, the 2022 truck industry registrations for over 16-tonne vehicles are expected to be 260,000 to 300,000 units compared to 278,000 in 2021. In South America, heavy-duty truck industry registrations in 2022 are projected to be 125,000 to 135,000 compared to 127,000 in 2021.

The Company has been affected by an industry-wide undersupply of semiconductor chips and anticipates the shortage will continue to affect deliveries in 2022.

Parts Outlook

In 2022, PACCAR Parts sales are expected to increase 6-9% compared to 2021 levels reflecting strong freight demand. 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

In 2022, average earning assets are expected to be similar to 2021. 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 2022 are expected to be \$425 to \$475 million, and R&D is expected to be \$350 to \$400 million. The Company is increasing its investment in clean diesel and zero emissions powertrain technologies, autonomous systems, connected vehicle services, 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, 2021 and 2020 are presented below. For information on the year ended December 31, 2019, refer to Part II, Item 7 in the 2020 Annual Report on Form 10-K.

(\$ in millions, except per share amounts)

<i>Year Ended December 31,</i>	2021	2020
Net sales and revenues:		
Truck	\$ 16,799.7	\$ 13,164.8
Parts	4,944.3	3,912.9
Other	90.5	76.6
Truck, Parts and Other	21,834.5	17,154.3
Financial Services	1,687.8	1,574.2
	<u>\$ 23,522.3</u>	<u>\$ 18,728.5</u>
Income before income taxes:		
Truck	\$ 795.8	\$ 581.4
Parts	1,104.1	799.3
Other	25.6	18.2
Truck, Parts and Other	1,925.5	1,398.9
Financial Services	437.6	223.1
Investment income	15.5	35.9
Income taxes	(526.5)	(359.5)
Net Income	<u>\$ 1,852.1</u>	<u>\$ 1,298.4</u>
Diluted earnings per share	<u>\$ 5.32</u>	<u>\$ 3.74</u>
After-tax return on revenues	7.9%	6.9%

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, economic conditions and COVID-19 related factors affecting the Company's results of operations.

2021 Compared to 2020:

Truck

The Company's Truck segment accounted for 71% of revenues in 2021 compared to 70% in 2020.

The Company's new truck deliveries are summarized below:

<i>Year Ended December 31,</i>	2021	2020	% CHANGE
U.S. and Canada	86,300	73,300	18
Europe	53,200	42,900	24
Mexico, South America, Australia and other	23,200	17,100	36
Total units	162,700	133,300	22

The increase in new truck deliveries worldwide in 2021 compared to 2020 was driven primarily by higher build rates and increased demand in all markets.

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 2021, industry retail sales in the heavy-duty market in the U.S. and Canada increased to 249,900 units from 216,500 units in 2020. The Company's heavy-duty truck retail market share was 29.2% in 2021 compared to 30.1% in 2020. The medium-duty market was 83,700 units in 2021 compared to 74,400 units in 2020. The Company's medium-duty market share was 19.8% in 2021 compared to 22.6% in 2020.

The over 16-tonne truck market in Europe in 2021 increased to 278,000 units from 230,400 units in 2020, and DAF's market share was 15.9% in 2021 compared to 16.3% in 2020. The 6 to 16-tonne market was 41,400 units in 2021 and 2020. DAF's market share in the 6 to 16-tonne market in 2021 was 10.1% compared to 9.5% in 2020.

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

<i>Year Ended December 31,</i>	2021	2020	% CHANGE
(\$ in millions)			
Truck net sales and revenues:			
U.S. and Canada	\$ 9,877.6	\$ 8,062.0	23
Europe	4,489.8	3,419.3	31
Mexico, South America, Australia and other	2,432.3	1,683.5	44
	\$ 16,799.7	\$ 13,164.8	28
Truck income before income taxes	\$ 795.8	\$ 581.4	37

Pre-tax return on revenues	4.7%	4.4%
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The Company's worldwide truck net sales and revenues increased to \$16.80 billion in 2021 from \$13.16 billion in 2020 due to higher truck deliveries in all markets. Truck segment income before income taxes and pretax return on revenues reflect higher truck unit deliveries, primarily due to increased demand in all markets. In both 2021 and 2020, Truck segment income before taxes and pretax return on revenues reflect the tempering of truck unit deliveries due to the COVID-19 pandemic. In 2021, truck deliveries and margins were impacted by the global semiconductor supply shortage.

The major factors for the Truck segment changes in net sales and revenues, cost of sales and revenues and gross margin between 2021 and 2020 are as follows:

(\$ in millions)	NET SALES AND REVENUES	COST OF SALES AND REVENUES	GROSS MARGIN
2020	\$ 13,164.8	\$ 12,171.7	\$ 993.1
Increase (decrease)			
Truck sales volume	2,804.8	2,378.9	425.9
Average truck sales prices	457.0		457.0
Average per truck material, labor and other direct costs		448.7	(448.7)
Factory overhead and other indirect costs		226.0	(226.0)
Extended warranties, operating leases and other	95.6	30.5	65.1
Currency translation	277.5	238.7	38.8
Total increase	3,634.9	3,322.8	312.1
2021	\$ 16,799.7	\$ 15,494.5	\$ 1,305.2

- Truck sales volume reflects higher unit deliveries in all markets, primarily in the U.S. and Canada (\$1.43 billion sales and \$1.19 billion cost of sales), and Europe (\$884.5 million sales and \$750.8 million cost of sales) due to increased demand.
- Average truck sales prices increased sales by \$457.0 million, primarily due to higher price realization in all major markets.
- Average cost per truck increased cost of sales by \$448.7 million, primarily reflecting higher raw material costs, partially offset by lower product support costs.
- Factory overhead and other indirect costs increased \$226.0 million, primarily due to higher labor costs, and higher supplies and maintenance costs to support increased truck production.
- Extended warranties, operating leases and other revenues increased by \$95.6 million primarily due to higher revenues from service contracts and extended warranty contracts. Cost of sales and revenues increased by \$30.5 million primarily due to higher costs from service contracts and extended warranty contracts, largely offset by gains on sales of used trucks and lower impairments in Europe due to an improved used truck market.
- 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.
- Truck gross margins increased to 7.8% in 2021 from 7.5% in 2020, primarily due to the factors noted above.

Truck selling, general and administrative expenses (SG&A) for 2021 increased to \$267.9 million from \$210.9 million in 2020. The increase was primarily due to higher salaries and related expenses and higher professional expenses. As a percentage of sales, Truck SG&A was 1.6% for 2021 and 2020.

Parts

The Company's Parts segment accounted for 21% of revenues in 2021 and 2020.

(\$ in millions) Year Ended December 31,	2021	2020	% CHANGE
Parts net sales and revenues:			
U.S. and Canada	\$ 3,312.4	\$ 2,664.9	24
Europe	1,164.6	896.1	30
Mexico, South America, Australia and other	467.3	351.9	33
	\$ 4,944.3	\$ 3,912.9	26
Parts income before income taxes	\$ 1,104.1	\$ 799.3	38
Pre-tax return on revenues	22.3%	20.4%	

The worldwide parts net sales and revenues increased to a record \$4.94 billion in 2021 from \$3.91 billion in 2020 primarily due to higher demand in all markets and favorable currency translation effects. The increase in Parts segment income before income taxes and pre-tax return on revenues was primarily due to higher sales volume and higher margins, as well as favorable currency translation effects.

The major factors for the Parts segment changes in net sales and revenues, cost of sales and revenues and gross margin between 2021 and 2020 are as follows:

(\$ in millions)	NET SALES AND REVENUES	COST OF SALES AND REVENUES	GROSS MARGIN
2020	\$ 3,912.9	\$ 2,842.8	\$ 1,070.1
Increase (decrease)			
Aftermarket parts volume	720.8	481.8	239.0
Average aftermarket parts sales prices	239.7		239.7
Average aftermarket parts direct costs		137.6	(137.6)
Warehouse and other indirect costs		33.9	(33.9)
Currency translation	70.9	40.2	30.7
Total increase	1,031.4	693.5	337.9
2021	\$ 4,944.3	\$ 3,536.3	\$ 1,408.0

- Aftermarket parts sales volume increased by \$720.8 million and related cost of sales increased by \$481.8 million primarily due to higher demand in all markets.
- Average aftermarket parts sales prices increased sales by \$239.7 million primarily due to higher price realization in North America and Europe.
- Average aftermarket parts direct costs increased \$137.6 million due to higher material costs.
- Warehouse and other indirect costs increased \$33.9 million, primarily due to higher salaries and related expenses and higher shipping costs due to increased volumes and rates.
- 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.
- Parts gross margins in 2021 increased to 28.5% from 27.3% in 2020 due to the factors noted above.

Parts SG&A expense for 2021 increased to \$210.3 million compared to \$192.7 million in 2020 primarily due to higher salaries and related expenses and currency translation effects, partially offset by lower sales and marketing costs. As a percentage of sales, Parts SG&A decreased to 4.3% in 2021 from 4.9% in 2020, primarily due to higher net sales.

Financial Services

The Company's Financial Services segment accounted for 7% of revenues in 2021 compared to 8% in 2020.

(\$ in millions) Year Ended December 31,	2021	2020	% CHANGE
New loan and lease volume:			
U.S. and Canada	\$ 3,338.9	\$ 3,027.0	10
Europe	1,316.2	1,204.1	9
Mexico, Australia and other	1,016.6	787.6	29
	\$ 5,671.7	\$ 5,018.7	13
New loan and lease volume by product:			
Loans and finance leases	\$ 4,683.7	\$ 3,975.0	18
Equipment on operating lease	988.0	1,043.7	(5)
	\$ 5,671.7	\$ 5,018.7	13
New loan and lease unit volume:			
Loans and finance leases	39,100	36,100	8
Equipment on operating lease	11,000	10,700	3
	50,100	46,800	7
Average earning assets:			
U.S. and Canada	\$ 8,635.2	\$ 9,011.3	(4)
Europe	3,787.1	3,560.2	6
Mexico, Australia and other	2,107.6	1,782.4	18
	\$ 14,529.9	\$ 14,353.9	1
Average earning assets by product:			
Loans and finance leases	\$ 9,952.1	\$ 9,123.8	9
Dealer wholesale financing	1,472.6	2,101.4	(30)
Equipment on lease and other	3,105.2	3,128.7	(1)
	\$ 14,529.9	\$ 14,353.9	1
Revenues:			
U.S. and Canada	\$ 759.9	\$ 785.0	(3)
Europe	676.8	562.2	20
Mexico, Australia and other	251.1	227.0	11
	\$ 1,687.8	\$ 1,574.2	7
Revenues by product:			
Loans and finance leases	\$ 481.9	\$ 457.8	5
Dealer wholesale financing	42.5	69.6	(39)
Equipment on lease and other	1,163.4	1,046.8	11
	\$ 1,687.8	\$ 1,574.2	7
Income before income taxes	\$ 437.6	\$ 223.1	96

New loan and lease volume increased to a record \$5.67 billion in 2021 from \$5.02 billion in 2020, primarily reflecting higher truck deliveries worldwide. PFS finance market share of new PACCAR truck sales was 26.6% in 2021 compared to 28.4% in 2020.

PFS revenues increased to \$1.69 billion in 2021 from \$1.57 billion in 2020. The increase was primarily due to higher used truck sales in Europe and North America. The effects of currency translation increased PFS revenues by \$41.2 million in 2021, primarily due to a stronger euro and Mexican peso relative to the U.S. dollar.

PFS income before income taxes increased to a record \$437.6 million in 2021 from \$223.1 million in 2020, primarily due to improved used truck results and a lower provision for credit losses. The effect of currency translation increased 2021 PFS income before income taxes by \$8.8 million.

Included in Financial Services “Other Assets” on the Company’s Consolidated Balance Sheets are used trucks held for sale, net of impairments, of \$92.1 million at December 31, 2021 and \$375.8 million at December 31, 2020. 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 gains on used trucks, excluding repossessions, of \$30.3 million in 2021 compared to losses of \$88.2 million in 2020, including losses on multiple unit transactions of \$17.7 million in 2021 compared to \$38.6 million in 2020. Used truck gains in 2021 and losses in 2020 related to repossessions, which are recognized as credit losses, were insignificant.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between 2021 and 2020 are outlined below:

(\$ in millions)	INTEREST AND FEES	INTEREST AND OTHER BORROWING EXPENSES	FINANCE MARGIN
2020	\$ 527.4	\$ 192.1	\$ 335.3
Increase (decrease)			
Average finance receivables	.1		.1
Average debt balances		(6.4)	6.4
Yields	(14.6)		(14.6)
Borrowing rates		(37.1)	37.1
Currency translation and other	11.5	2.3	9.2
Total (decrease) increase	(3.0)	(41.2)	38.2
2021	\$ 524.4	\$ 150.9	\$ 373.5

- Average debt balances decreased \$439.9 million (excluding foreign exchange effects) in 2021, reflecting lower funding requirements for the portfolio which includes loans, finance leases, dealer wholesale and equipment on operating lease.
- Lower portfolio yields (4.6% in 2021 compared to 4.7% in 2020) decreased interest and fees by \$14.6 million. The lower portfolio yields were primarily due to lower market rates in North America.
- Lower borrowing rates (1.4% in 2021 compared to 1.8% in 2020) were primarily due to lower debt market rates in the U.S.
- Currency translation and other primarily reflects an increase in the value of foreign currencies relative to the U.S. dollar.

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

(\$ in millions) Year Ended December 31,	2021	2020
Operating lease and rental revenues	\$ 860.5	\$ 832.0
Used truck sales	284.2	194.8
Insurance, franchise and other revenues	18.7	20.0
Operating lease, rental and other revenues	\$ 1,163.4	\$ 1,046.8
Depreciation of operating lease equipment	\$ 597.8	\$ 651.9
Vehicle operating expenses	87.2	152.4
Cost of used truck sales	280.5	200.1
Insurance, franchise and other expenses	3.9	3.6
Depreciation and other expenses	\$ 969.4	\$ 1,008.0

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between 2021 and 2020 are outlined below:

(\$ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSES	LEASE MARGIN
2020	\$ 1,046.8	\$ 1,008.0	\$ 38.8
Increase (decrease)			
Used truck sales	81.4	72.5	8.9
Results on returned lease assets		(107.4)	107.4
Average operating lease assets	(14.7)	(11.5)	(3.2)
Revenue and cost per asset	20.5	(19.7)	40.2
Currency translation and other	29.4	27.5	1.9
Total increase (decrease)	116.6	(38.6)	155.2
2021	\$ 1,163.4	\$ 969.4	\$ 194.0

- Higher market prices and a higher sales volume of used trucks received on trade and upon RVG contract expiration increased operating lease, rental and other revenues by \$81.4 million. Higher lease portfolio unit sales volume increased depreciation and other expenses by \$72.5 million.
- Results on returned lease assets decreased depreciation and other expenses by \$107.4 million primarily due to gains on sales on returned lease units in 2021 compared to losses in 2020 and lower impairments in Europe and the U.S. as a result of higher used truck market values.
- Average operating lease assets decreased \$84.9 million (excluding foreign exchange effects), which decreased revenues by \$14.7 million and related depreciation and other expenses by \$11.5 million.
- Revenue per asset increased \$20.5 million primarily due to higher rental utilization. Cost per asset decreased \$19.7 million due to lower operating lease impairment in Europe and lower depreciation expense.
- The currency translation effects reflect an increase in the value of foreign currencies relative to the U.S. dollar, primarily the euro.

Financial Services SG&A expense increased to \$129.4 million in 2021 from \$122.2 million in 2020. The increase was primarily due to higher salaries and related expenses. As a percentage of revenues, Financial Services SG&A decreased to 7.7% in 2021 from 7.8% in 2020.

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

(\$ in millions)	2021		2020	
	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS
U.S. and Canada	\$ (2.2)	\$ 1.0	\$ 16.2	\$ 13.8
Europe	(1.7)	2.6	5.1	3.2
Mexico, Australia and other	4.4	4.7	7.5	5.3
	\$.5	\$ 8.3	\$ 28.8	\$ 22.3

The provision for losses on receivables decreased to \$.5 million in 2021 from \$28.8 million in 2020, primarily reflecting strong portfolio performance in 2021, and 2020 included higher provisioning due to weakening economic conditions related to the COVID-19 pandemic and a credit loss on a fleet customer in the U.S.

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, 2021 and 2020 are summarized below:

(\$ in millions)	2021		2020	
	AMORTIZED COST BASIS	% OF TOTAL PORTFOLIO*	AMORTIZED COST BASIS	% OF TOTAL PORTFOLIO*
Commercial	\$ 484.2	4.8%	\$ 244.4	2.5%
Insignificant delay	63.8	.6%	2,545.3	26.0%
Credit - no concession	52.3	.5%	120.2	1.2%
Credit - TDR	8.0	.1%	74.7	.8%
	\$ 608.3	6.0%	\$ 2,984.6	30.5%

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

In 2021, total modification activity decreased compared to 2020. The increase in modifications for Commercial reasons primarily reflects higher volumes of refinancing. The decrease in modifications for Insignificant delay reflects fleet customers requesting payment relief for up to three months related to the COVID-19 pandemic in 2020. The decrease in modifications for Credit - no concession is primarily due to lower volumes of refinancing and requests for payment relief in Mexico and Europe. The decrease in modifications for Credit - TDR is primarily due to 2020 contract modifications of 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:

<i>At December 31,</i>	2021	2020
Percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada		.1%
Europe	.4%	.9%
Mexico, Australia and other	1.2%	1.7%
Worldwide	.3%	.5%

Accounts 30+ days past due decreased to .3% at December 31, 2021 from .5% at December 31, 2020. The Company continues to focus on maintaining low past due balances.

When the Company modifies a 30+ days past due account, the customer is then generally considered current under the revised contractual terms. The Company modified \$.4 million and \$18.6 million of accounts worldwide during the fourth quarter of 2021 and the fourth quarter of 2020, 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>	2021	2020
Pro forma percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada		.1%
Europe	.4%	1.5%
Mexico, Australia and other	1.2%	1.9%
Worldwide	.3%	.6%

Modifications of accounts in prior quarters that were more than 30 days past due at the time of modification are included in past dues if they were not performing under the modified terms at December 31, 2021 and 2020. The effect on the allowance for credit losses from such modifications was not significant at December 31, 2021 and 2020.

The Company's 2021 and 2020 annualized pre-tax return on average total assets for Financial Services was 2.8% and 1.4%, 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 2021 and 2020. Other SG&A increased to \$69.2 million in 2021 from \$55.6 million in 2020 primarily due to higher salaries and related expenses.

Other income before tax was \$25.6 million in 2021 compared to \$18.2 million in 2020. The increase was primarily due to a higher benefit from non-service components of pension expense, partially offset by higher salaries and related expenses.

Investment income decreased to \$15.5 million in 2021 from \$35.9 million in 2020, primarily due to lower yields on U.S. investments due to lower market interest rates.

Income Taxes

In 2021, the effective tax rate was 22.1% compared to 21.7% in 2020. The higher effective tax rate in 2021 was primarily due to the change in mix of income generated in jurisdictions with higher tax rates in 2021 as compared to 2020.

(\$ in millions)

Year Ended December 31,

	2021	2020
Domestic income before taxes	\$ 1,373.7	\$ 1,122.9
Foreign income before taxes	1,004.9	535.0
Total income before taxes	\$ 2,378.6	\$ 1,657.9
Domestic pre-tax return on revenues	10.9%	10.8%
Foreign pre-tax return on revenues	9.2%	6.4%
Total pre-tax return on revenues	10.1%	8.9%

In 2021, both domestic and foreign income before income taxes and pre-tax return on revenues increased primarily due to the improved results from Truck, Parts and Financial Services operations.

LIQUIDITY AND CAPITAL RESOURCES:

(\$ in millions)

At December 31,

	2021	2020
Cash and cash equivalents	\$ 3,428.3	\$ 3,539.6
Marketable securities	1,559.4	1,429.0
	\$ 4,987.7	\$ 4,968.6

The Company's total cash and marketable securities at December 31, 2021 increased \$19.1 million from the balances at December 31, 2020. Total cash and marketable securities are primarily intended to provide liquidity while preserving capital.

The change in cash and cash equivalents is summarized below:

(\$ in millions) Year Ended December 31,	2021	2020
Operating activities:		
Net income	\$ 1,852.1	\$ 1,298.4
Net income items not affecting cash	711.2	1,097.7
Pension contributions	(25.1)	(184.9)
Changes in operating assets and liabilities, net	(351.5)	776.0
Net cash provided by operating activities	2,186.7	2,987.2
Net cash used in investing activities	(1,362.7)	(1,875.8)
Net cash used in financing activities	(882.9)	(1,808.5)
Effect of exchange rate changes on cash	(52.4)	61.6
Net decrease in cash and cash equivalents	(111.3)	(635.5)
Cash and cash equivalents at beginning of the year	3,539.6	4,175.1
Cash and cash equivalents at end of the year	\$ 3,428.3	\$ 3,539.6

Operating activities: Cash provided by operations decreased by \$800.5 million to \$2.19 billion in 2021 from \$2.99 billion in 2020. Lower operating cash flows reflect lower cash receipts from wholesale receivables in the Financial Services segment of \$780.4 million, higher cash usage of \$562.1 million for inventories and lower cash receipts from accounts receivables of \$534.7 million as there were fewer receipts in 2021 compared to collections exceeding sales in 2020. Additionally, lower operating cash flows reflect higher cash outflows for payment of income taxes of \$387.1 million. This was partially offset by higher cash inflows of \$747.0 million from accounts payable and accrued expenses as purchases of goods and services exceeded payments in 2021 compared to 2020 when payments exceeded purchases. Additionally, the lower operating cash flows were offset by higher net income of \$553.7 million and lower pension contributions of \$159.8 million compared to 2020.

Investing activities: Cash used in investing activities decreased by \$513.1 million to \$1.36 billion in 2021 from \$1.88 billion in 2020. Lower net cash used in investing activities primarily reflects higher proceeds from asset disposals of \$302.2 million and lower net originations from retail loans and financing leases of \$208.0 million.

Financing activities: Cash used in financing activities decreased \$925.6 million to \$882.9 million in 2021 compared to \$1,808.5 million in 2020. Cash used by borrowing activities in 2021 was \$210.9 million, \$369.4 million lower than the cash used by borrowing activities of \$580.3 million in 2020. The Company repurchased .02 million shares of common stock for \$1.5 million in 2021 compared to the repurchase of .7 million shares for \$42.1 million in 2020. In addition, the Company paid \$708.0 million in dividends in 2021 compared to \$1,239.8 million in 2020 due to a lower extra dividend paid in January 2021.

The Company expects to continue paying dividends, although there is no assurance as to future dividends because they are dependent upon future earnings, capital requirements and financial conditions. Cash dividends declared for the last two years were as follows:

QUARTER	2021	2020
First	\$.32	\$.32
Second	.34	.32
Third	.34	.32
Fourth	.34	.32
Year-End Extra (paid in January of the following year)	1.50	.70
Total dividends declared per share	\$ 2.84	\$ 1.98

Credit Lines and Other:

The Company has line of credit arrangements of \$3.60 billion, of which \$3.32 billion were unused at December 31, 2021. Included in these arrangements are \$3.00 billion of committed bank facilities, of which \$1.00 billion expires in June 2022, \$1.00 billion expires in June 2024 and \$1.00 billion expires in June 2026. 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, 2021.

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, 2021, the Company has repurchased \$110.0 million of shares under this plan. There were no repurchases made under this plan during the year ended December 31, 2021.

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 2021 were \$495.6 million compared to \$558.8 million in 2020. Over the past decade, the Company's combined investments in worldwide capital projects and R&D totaled \$7.21 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 2022 are expected to be \$425 to \$475 million, and R&D is expected to be \$350 to \$400 million. The Company is increasing its investment in clean diesel and zero emissions powertrain technologies, autonomous systems, connected vehicle services, 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 2021, 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, 2021 was \$5.50 billion. In February 2022, PFC issued \$300.0 million of medium-term notes under this registration. The registration expires in November 2024 and does not limit the principal amount of debt securities that may be issued during that period.

As of December 31, 2021, 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 renews annually and expires in July 2022.

In August 2021, PACCAR Financial Mexico registered a 10.00 billion Mexican peso program with the Comision Nacional Bancaria y de Valores to issue medium-term notes and commercial paper. The registration expires in August 2026 and limits the amount of Commercial paper (up to one year) to 5.00 billion Mexican pesos. At December 31, 2021, 9.54 billion Mexican 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, 2021 was 700.0 million Australian dollars.

In May 2021, the Company's Canadian subsidiary, PACCAR Financial Ltd. (PFL Canada), established 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 PFL Canada as of December 31, 2021 was 150.0 million Canadian 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, 2021:

(\$ in millions)	MATURITY				TOTAL
	WITHIN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS	
Borrowings*	\$ 5,302.9	\$ 4,075.4	\$ 1,075.1		\$ 10,453.4
Purchase obligations	94.6	10.4	4.2		109.2
Interest on debt**	85.6	66.8	5.6		158.0
Lease liabilities	15.0	14.7	4.5	\$ 3.4	37.6
Other obligations	39.5	6.0	.7		46.2
	\$ 5,537.6	\$ 4,173.3	\$ 1,090.1	\$ 3.4	\$ 10,804.4

* Commercial paper included in borrowings is at par value.

** Interest on floating-rate debt is based on the applicable market rates at December 31, 2021.

Total cash commitments for borrowings and interest on term debt were \$10.61 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, 2021:

(\$ in millions)	COMMITMENT EXPIRATION				TOTAL
	WITHIN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS	
Loan and lease commitments	\$ 2,085.8				\$ 2,085.8
Residual value guarantees	592.9	\$ 673.6	\$ 170.2	\$ 24.7	1,461.4
Letters of credit	10.1	.3		12.1	22.5
	\$ 2,688.8	\$ 673.9	\$ 170.2	\$ 36.8	\$ 3,569.7

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

IMPACT OF ENVIRONMENTAL MATTERS:

The Company, its competitors and industry in general are subject to various domestic and foreign requirements relating to the environment. The Company believes its policies, practices and procedures are designed to prevent unreasonable risk of environmental damage and that its handling, use and disposal of hazardous or toxic substances have been in accordance with environmental laws and regulations 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, 2021 and 2020 were \$4.0 million and \$1.9 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 2021, market values on equipment returning upon operating lease maturity were generally higher than the residual values on the equipment, resulting in a decrease in depreciation expense of \$21.8 million.

At December 31, 2021, 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 \$2.17 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 \$84.1 million in 2022, \$53.1 in 2023, \$55.0 in 2024, \$16.7 in 2025 and \$8.5 in 2026 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 .3% and .5% of loan and lease receivables. Historically, a 100 basis point increase in the 30+ days past due percentage has resulted in an increase in credit losses of 3 to 44 basis points of receivables. At December 31, 2021, 30+ days past dues were .3%. If past dues were 100 basis points higher or 1.3% as of December 31, 2021, the Company's estimate of credit losses would likely have increased by a range of \$3 to \$44 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, including changes in estimates for pre-existing warranties, 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. Estimates consider product type, geographical differences, labor rates, and any other known factors affecting the number or amount of expected claim payments. For new products with no historical experience, reference to similar products is utilized. 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 1.6% and 2.2%. If the 2021 warranty expense had been .2% higher as a percentage of net sales and revenues in 2021, warranty expense would have increased by approximately \$44 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 and components, including semiconductors; labor disruptions; shortages of commercial truck drivers; increased warranty costs; pandemics; litigation, including European Commission (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,	2021	2020	2019
	<i>(millions, except per share data)</i>		
TRUCK, PARTS AND OTHER:			
Net sales and revenues	\$ 21,834.5	\$ 17,154.3	\$ 24,119.7
Cost of sales and revenues	19,110.1	15,076.4	20,555.6
Research and development	324.1	273.9	326.6
Selling, general and administrative	547.4	459.2	561.5
Interest and other (income), net	(72.6)	(54.1)	(42.0)
	<u>19,909.0</u>	<u>15,755.4</u>	<u>21,401.7</u>
<i>Truck, Parts and Other Income Before Income Taxes</i>	1,925.5	1,398.9	2,718.0
FINANCIAL SERVICES:			
Interest and fees	524.4	527.4	583.0
Operating lease, rental and other revenues	1,163.4	1,046.8	897.0
Revenues	<u>1,687.8</u>	<u>1,574.2</u>	<u>1,480.0</u>
Interest and other borrowing expenses	150.9	192.1	230.5
Depreciation and other expenses	969.4	1,008.0	798.2
Selling, general and administrative	129.4	122.2	137.0
Provision for losses on receivables	.5	28.8	15.4
	<u>1,250.2</u>	<u>1,351.1</u>	<u>1,181.1</u>
<i>Financial Services Income Before Income Taxes</i>	437.6	223.1	298.9
Investment income	15.5	35.9	82.3
<i>Total Income Before Income Taxes</i>	2,378.6	1,657.9	3,099.2
Income taxes	526.5	359.5	711.3
<i>Net Income</i>	<u>\$ 1,852.1</u>	<u>\$ 1,298.4</u>	<u>\$ 2,387.9</u>
Net Income Per Share			
Basic	\$ 5.33	\$ 3.74	\$ 6.88
Diluted	\$ 5.32	\$ 3.74	\$ 6.87
Weighted Average Number of Common Shares Outstanding			
Basic	347.8	346.8	346.9
Diluted	<u>348.4</u>	<u>347.4</u>	<u>347.5</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>Year Ended December 31,</i>	2021	2020	2019
		<i>(millions)</i>	
Net income	\$ 1,852.1	\$ 1,298.4	\$ 2,387.9
Other comprehensive income:			
Unrealized gains (losses) on derivative contracts			
Net gain (loss) arising during the period	54.2	(105.3)	(76.1)
Tax effect	(14.3)	26.9	19.1
Reclassification adjustment	(33.7)	87.6	51.7
Tax effect	9.5	(23.1)	(12.0)
	15.7	(13.9)	(17.3)
Unrealized (losses) gains on marketable debt securities			
Net holding (loss) gain	(18.8)	13.6	11.6
Tax effect	4.7	(3.3)	(2.9)
Reclassification adjustment	(2.1)	(2.4)	(.4)
Tax effect	.5	.6	.1
	(15.7)	8.5	8.4
Pension plans			
Net gain (loss) arising during the period	343.2	(132.4)	(74.8)
Tax effect	(80.3)	28.4	18.0
Reclassification adjustment	59.5	57.3	21.9
Tax effect	(14.1)	(13.7)	(5.0)
	308.3	(60.4)	(39.9)
Foreign currency translation (loss) gain	(179.1)	115.6	47.2
Net other comprehensive income (loss)	129.2	49.8	(1.6)
<i>Comprehensive Income</i>	\$ 1,981.3	\$ 1,348.2	\$ 2,386.3

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

ASSETS

December 31,	2021	2020
		(millions)
TRUCK, PARTS AND OTHER:		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 3,253.6	\$ 3,405.0
Trade and other receivables, net (allowance for losses: 2021 - \$.6, 2020 - \$.6)	1,575.1	1,197.5
Marketable securities	1,559.4	1,429.0
Inventories, net	1,768.3	1,221.9
Other current assets	732.9	515.6
<i>Total Truck, Parts and Other Current Assets</i>	8,889.3	7,769.0
Equipment on operating leases, net	302.4	421.9
Property, plant and equipment, net	3,398.1	3,270.4
Other noncurrent assets, net	1,293.0	998.9
<i>Total Truck, Parts and Other Assets</i>	13,882.8	12,460.2
 FINANCIAL SERVICES:		
Cash and cash equivalents	174.7	134.6
Finance and other receivables, net (allowance for losses: 2021 - \$116.9, 2020 - \$127.0)	11,920.8	11,820.7
Equipment on operating leases, net	2,886.5	3,162.8
Other assets	436.9	681.7
<i>Total Financial Services Assets</i>	15,418.9	15,799.8
	\$ 29,301.7	\$ 28,260.0

CONSOLIDATED BALANCE SHEETS

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LIABILITIES AND STOCKHOLDERS' EQUITY

<i>December 31,</i>	2021	2020
	<i>(millions)</i>	
TRUCK, PARTS AND OTHER:		
<i>Current Liabilities</i>		
Accounts payable, accrued expenses and other	\$ 3,930.9	\$ 3,413.9
Dividend payable	521.1	242.6
<i>Total Truck, Parts and Other Current Liabilities</i>	<u>4,452.0</u>	<u>3,656.5</u>
Residual value guarantees and deferred revenues	329.1	457.4
Other liabilities	1,436.5	1,487.2
<i>Total Truck, Parts and Other Liabilities</i>	<u>6,217.6</u>	<u>5,601.1</u>
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	624.5	561.0
Commercial paper and bank loans	3,303.0	3,344.4
Term notes	7,128.8	7,508.9
Deferred taxes and other liabilities	590.4	854.6
<i>Total Financial Services Liabilities</i>	<u>11,646.7</u>	<u>12,268.9</u>
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 347.3 million and 346.6 million shares	347.3	346.6
Additional paid-in capital	142.0	88.5
Retained earnings	11,869.2	11,005.2
Accumulated other comprehensive loss	(921.1)	(1,050.3)
<i>Total Stockholders' Equity</i>	<u>11,437.4</u>	<u>10,390.0</u>
	<u>\$ 29,301.7</u>	<u>\$ 28,260.0</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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Year Ended December 31,	2021	2020	2019
	(millions)		
OPERATING ACTIVITIES:			
Net Income	\$ 1,852.1	\$ 1,298.4	\$ 2,387.9
<i>Adjustments to reconcile net income to cash provided by operations:</i>			
Depreciation and amortization:			
Property, plant and equipment	270.0	249.6	322.2
Equipment on operating leases and other	633.3	799.4	755.1
Provision for losses on financial services receivables	.5	28.8	15.4
Deferred taxes	(212.9)	(.5)	70.8
Other, net	20.3	20.4	26.6
Pension contributions	(25.1)	(184.9)	(35.7)
<i>Change in operating assets and liabilities:</i>			
<i>(Increase) decrease in assets other than cash and cash equivalents:</i>			
Receivables:			
Trade and other receivables	(412.9)	121.8	(72.3)
Wholesale receivables on new trucks	90.8	871.2	(520.2)
Inventories	(610.3)	(48.2)	24.6
Other assets, net	(129.8)	(133.8)	(365.4)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	693.4	(53.6)	(27.6)
Residual value guarantees and deferred revenues	(82.4)	(127.8)	(179.7)
Other liabilities, net	99.7	146.4	458.6
<i>Net Cash Provided by Operating Activities</i>	2,186.7	2,987.2	2,860.3
INVESTING ACTIVITIES:			
Originations of retail loans and finance leases	(4,570.6)	(3,917.3)	(4,081.8)
Collections on retail loans and finance leases	4,113.3	3,252.0	3,388.8
Net decrease (increase) in wholesale receivables on used equipment	12.2	53.3	(47.7)
Purchases of marketable debt securities	(903.1)	(842.4)	(850.6)
Proceeds from sales and maturities of marketable debt securities	727.0	597.8	715.5
Payments for property, plant and equipment	(559.1)	(550.4)	(574.0)
Acquisitions of equipment for operating leases	(1,073.7)	(1,088.0)	(1,396.8)
Proceeds from asset disposals	904.1	601.9	638.1
Other, net	(12.8)	17.3	1.1
<i>Net Cash Used in Investing Activities</i>	(1,362.7)	(1,875.8)	(2,207.4)
FINANCING ACTIVITIES:			
Payments of cash dividends	(708.0)	(1,239.8)	(1,138.6)
Purchases of treasury stock	(1.5)	(42.1)	(110.2)
Proceeds from stock compensation transactions	37.5	53.7	60.8
Net increase (decrease) in commercial paper, short-term bank loans and other	24.7	(831.9)	557.1
Proceeds from term debt	2,101.1	2,150.1	2,504.3
Payments on term debt	(2,336.7)	(1,898.5)	(1,790.0)
<i>Net Cash (Used in) Provided by Financing Activities</i>	(882.9)	(1,808.5)	83.4
Effect of exchange rate changes on cash	(52.4)	61.6	2.9
<i>Net (Decrease) Increase in Cash and Cash Equivalents</i>	(111.3)	(635.5)	739.2
Cash and cash equivalents at beginning of year	3,539.6	4,175.1	3,435.9
Cash and cash equivalents at end of year	\$ 3,428.3	\$ 3,539.6	\$ 4,175.1

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

December 31,	2021	2020	2019
	<i>(millions, except per share data)</i>		
COMMON STOCK, \$1 PAR VALUE:			
Balance at beginning of year	\$ 346.6	\$ 346.3	\$ 346.6
Treasury stock retirement		(.7)	(1.7)
Stock compensation	.7	1.0	1.4
Balance at end of year	347.3	346.6	346.3
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	88.5	61.4	69.4
Treasury stock retirement	(1.5)	(41.4)	(85.7)
Stock compensation	55.0	68.5	77.7
Balance at end of year	142.0	88.5	61.4
TREASURY STOCK, AT COST:			
Balance at beginning of year			
Purchases, shares: 2021 - .02; 2020 - .71; 2019 - 1.68	(1.5)	(42.1)	(110.2)
Retirements	1.5	42.1	110.2
Balance at end of year			
RETAINED EARNINGS:			
Balance at beginning of year	11,005.2	10,398.5	9,275.4
Net income	1,852.1	1,298.4	2,387.9
Cash dividends declared on common stock, per share: 2021 - \$2.84; 2020 - \$1.98; 2019 - \$3.58	(988.1)	(687.1)	(1,242.0)
Treasury stock retirement			(22.8)
Cumulative effect of change in accounting principles		(4.6)	
Balance at end of year	11,869.2	11,005.2	10,398.5
ACCUMULATED OTHER COMPREHENSIVE LOSS:			
Balance at beginning of year	(1,050.3)	(1,100.1)	(1,098.5)
Other comprehensive income (loss)	129.2	49.8	(1.6)
Balance at end of year	(921.1)	(1,050.3)	(1,100.1)
<i>Total Stockholders' Equity</i>	\$ 11,437.4	\$ 10,390.0	\$ 9,706.1

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021, 2020 and 2019 (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 an eight-year period.

Aftermarket parts sales allow for returns which are estimated at the time of sale based on historical data. Parts dealer services and other revenues are recognized as services are performed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021, 2020 and 2019 (currencies in millions)

The following table presents the balance sheet classification of the estimated value of the returned goods assets and the related return liabilities:

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At December 31,	2021		2020	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Trucks:				
Other current assets	\$ 255.7		\$ 179.0	
Accounts payable, accrued expenses and other		\$ 264.0		\$ 195.2
Other noncurrent assets, net	403.6		448.9	
Other liabilities		423.9		468.9
	\$ 659.3	\$ 687.9	\$ 627.9	\$ 664.1
Parts:				
Other current assets	\$ 72.9		\$ 62.2	
Accounts payable, accrued expenses and other		\$ 172.1		\$ 142.0
	\$ 72.9	\$ 172.1	\$ 62.2	\$ 142.0

The Company's total commitment to acquire trucks at a guaranteed value for contracts accounted for as a sale was \$1,214.4 at December 31, 2021.

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 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 revenue from truck sales with RVGs for the years ended December 31, 2021, 2020 and 2019 was \$113.8, \$104.2 and \$159.7, respectively.

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 for 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, 2021, 2020 and 2019 were \$831.6, \$802.3 and \$798.2, respectively. Depreciation and related leased unit operating expenses were \$665.7, \$776.5 and \$721.6 for the years ended December 31, 2021, 2020 and 2019, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021, 2020 and 2019 (currencies in millions)

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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, 2021 or December 31, 2020. 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.

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

Investments in Marketable Securities:

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.

Equity Securities: Marketable equity securities are traded on active exchanges and are measured at fair value. The realized and unrealized gains (losses) are recognized in investment income.

Receivables:

Trade and Other Receivables: The Company's trade and other receivables are recorded at cost, net of allowances. At December 31, 2021 and 2020, respectively, trade and other receivables included trade receivables from dealers and customers of \$1,276.4 and \$942.7 and other receivables of \$298.7 and \$254.8 relating primarily to value added tax receivables and supplier allowances and rebates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021, 2020 and 2019 (currencies in millions)

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 were \$.6 for the years ended December 31, 2021 and 2020. Net charge-offs were nil for the years ended December 31, 2021 and 2020 and \$.3 for 2019.

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

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

When considering whether to modify customer accounts for credit reasons, the Company evaluates the creditworthiness of the customers and modifies those accounts that the Company considers likely to perform under the modified terms. When the Company modifies 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 eight months in 2021 and three months in 2020 and did not have a significant effect on the weighted average term or interest rate of the total portfolio at December 31, 2021 and 2020.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021, 2020 and 2019 (currencies in millions)

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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.

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.

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Inventories: Inventories are stated at the lower of cost or market. Cost of inventories in the U.S. is determined 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, 2021. Goodwill was \$110.6 and \$118.8 at December 31, 2021 and 2020, respectively. The decrease 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 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 the risks of interest rate, foreign currency rates and commodity prices. 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, commodity as well as 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 \$59.7 at December 31, 2021.

The Company assesses hedges at inception and on an ongoing basis to determine the designated derivatives are highly effective in offsetting changes in fair values or cash flow of the hedged items. Hedge accounting is discontinued prospectively when the Company determines 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.

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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:

The Company adopted the following standard on January 1, 2021, which had no material impact on the Company's consolidated financial statements.

STANDARD	DESCRIPTION
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>

The Financial Accounting Standards Board (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
2021-05*	<i>Leases (Topic 842) – Lessors – Certain Leases with Variable Lease Payments</i>	January 1, 2022
2021-10*	<i>Government Assistance (Topic 832) – Disclosures by Business Entities about Government Assistance</i>	January 1, 2022

* The Company will adopt on the effective date.

B. SALES AND REVENUES

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

Year Ended December 31,	2021	2020	2019
<i>Truck</i>			
Truck sales	\$ 15,989.7	\$ 12,466.9	\$ 19,225.2
Revenues from extended warranties, operating leases and other	810.0	697.9	764.3
	16,799.7	13,164.8	19,989.5
<i>Parts</i>			
Parts sales	4,809.7	3,803.3	3,912.1
Revenues from dealer services and other	134.6	109.6	112.8
	4,944.3	3,912.9	4,024.9
<i>Winch sales and other</i>	90.5	76.6	105.3
Truck, Parts and Other sales and revenues	\$ 21,834.5	\$ 17,154.3	\$ 24,119.7

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

Year Ended December 31,	2021	2020	2019
Finance lease revenues	\$ 187.0	\$ 189.2	\$ 199.7
Operating lease revenues	831.6	802.3	798.2
Total lease revenues	\$ 1,018.6	\$ 991.5	\$ 997.9

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C. INVESTMENTS IN MARKETABLE SECURITIES

Marketable securities consisted of the following at December 31:

2021	COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Marketable debt securities				
U.S. tax-exempt securities	\$ 431.4	\$ 1.5	\$.4	\$ 432.5
U.S. corporate securities	208.3	.6	1.5	207.4
U.S. government and agency securities	95.9	.6	.1	96.4
Non-U.S. corporate securities	443.9	1.4	2.5	442.8
Non-U.S. government securities	75.2	.1	.3	75.0
Other debt securities	292.6	.9	1.9	291.6
Marketable equity securities	15.4	1.3	3.0	13.7
Total marketable securities	\$ 1,562.7	\$ 6.4	\$ 9.7	\$ 1,559.4

2020	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
Total marketable securities	\$ 1,409.7	\$ 19.4	\$.1	\$ 1,429.0

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 \$2.1, \$2.7 and \$1.3, and gross realized losses were \$.4, \$.3 and \$.4 for the years ended December 31, 2021, 2020 and 2019, respectively.

There were no realized gains (losses) on marketable equity securities for the year ended December 31, 2021.

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

At December 31,	2021		2020	
	LESS THAN TWELVE MONTHS	TWELVE MONTHS OR GREATER	LESS THAN TWELVE MONTHS	TWELVE MONTHS OR GREATER
Fair value	\$ 911.2	\$ 1.3	\$ 81.1	\$ 1.3
Unrealized losses	6.7		.1	

The unrealized losses on marketable debt securities 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, 2021 and December 31, 2020. 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 the contractual principal and interest will be received on the investment securities.

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Contractual maturities on marketable debt securities at December 31, 2021 were as follows:

<i>Maturities:</i>	AMORTIZED COST	FAIR VALUE
Within one year	\$ 424.3	\$ 425.6
One to five years	1,099.7	1,097.1
Six to ten years	9.8	9.7
More than ten years	13.5	13.3
	\$ 1,547.3	\$ 1,545.7

D. INVENTORIES

Inventories include the following:

<i>At December 31,</i>	2021	2020
Finished products	\$ 676.0	\$ 610.0
Work in process and raw materials	1,300.0	801.9
	1,976.0	1,411.9
Less LIFO reserve	(207.7)	(190.0)
	\$ 1,768.3	\$ 1,221.9

Inventories valued using the LIFO method comprised 41% and 42% of consolidated inventories before deducting the LIFO reserve at December 31, 2021 and 2020, respectively.

E. FINANCE AND OTHER RECEIVABLES

Finance and other receivables include the following:

<i>At December 31,</i>	2021	2020
Loans	\$ 6,424.7	\$ 5,839.1
Finance leases	3,620.6	3,944.7
Dealer wholesale financing	1,865.8	2,012.4
Operating lease receivables and other	126.6	151.5
	\$ 12,037.7	\$ 11,947.7
Less allowance for losses:		
Loans and leases	(111.5)	(120.4)
Dealer wholesale financing	(3.3)	(3.4)
Operating lease receivables and other	(2.1)	(3.2)
	\$ 11,920.8	\$ 11,820.7

Included in Finance and other receivables, net on the Consolidated Balance Sheets is accrued interest receivable (net of allowance for credit losses) of \$27.7 and \$35.6 as of December 31, 2021 and December 31, 2020, 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
2022	\$ 2,084.9
2023	1,620.5
2024	1,344.4
2025	843.3
2026	434.5
Thereafter	97.1
	\$ 6,424.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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:

	FINANCE LEASES
<i>Beginning January 1,</i>	
2022	\$ 1,234.0
2023	1,013.4
2024	701.8
2025	440.9
2026	203.8
Thereafter	72.9
	\$ 3,666.8
Unguaranteed residual values	301.4
Unearned interest on finance leases	(347.6)
Net investment in finance leases	\$ 3,620.6

Experience indicates substantially all of dealer wholesale financing will be repaid within one year. In addition, repayment experience indicates that some loans, leases and other finance receivables will be paid prior to contract maturity, while others may be extended or modified.

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

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

	2021					
	DEALER		CUSTOMER			TOTAL
	WHOLESALE	RETAIL	RETAIL	OTHER*		
Balance at January 1	\$ 3.4	\$ 8.4	\$ 112.0	\$ 3.2	\$	\$ 127.0
Provision for losses		(1.3)	.6	1.2		.5
Charge-offs			(12.3)	(2.5)		(14.8)
Recoveries			6.2	.3		6.5
Currency translation and other	(.1)		(2.1)	(.1)		(2.3)
Balance at December 31	\$ 3.3	\$ 7.1	\$ 104.4	\$ 2.1	\$	\$ 116.9

	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

* Operating lease and other trade receivables.

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

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	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	

* Operating lease and other trade receivables.

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.

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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, 2021	REVOLVING LOANS	2021	2020	2019	2018	2017	PRIOR	TOTAL
Dealer:								
Wholesale:								
Performing	\$ 1,859.7							\$ 1,859.7
Watch	6.1							6.1
	\$ 1,865.8							\$ 1,865.8
Retail:								
Performing	\$ 201.9	\$ 434.4	\$ 315.4	\$ 311.7	\$ 176.0	\$ 118.2	\$ 96.9	\$ 1,654.5
Watch		7.0	3.6	9.1	4.6	1.1		25.4
At-risk							1.1	1.1
	\$ 201.9	\$ 441.4	\$ 319.0	\$ 320.8	\$ 180.6	\$ 119.3	\$ 98.0	\$ 1,681.0
Total dealer	\$ 2,067.7	\$ 441.4	\$ 319.0	\$ 320.8	\$ 180.6	\$ 119.3	\$ 98.0	\$ 3,546.8
Customer retail:								
Fleet:								
Performing		\$ 2,851.7	\$ 1,913.3	\$ 1,227.0	\$ 608.4	\$ 220.4	\$ 66.5	\$ 6,887.3
Watch		2.6	6.5	4.3	5.3	.6	.2	19.5
At-risk		6.0	8.5	26.0	10.6	3.3	.4	54.8
		\$ 2,860.3	\$ 1,928.3	\$ 1,257.3	\$ 624.3	\$ 224.3	\$ 67.1	\$ 6,961.6
Owner/operator:								
Performing		\$ 611.9	\$ 389.9	\$ 228.1	\$ 116.0	\$ 38.6	\$ 10.1	\$ 1,394.6
Watch		.7	.5	.7	.4	.1		2.4
At-risk		.2	1.3	1.5	2.0	.5	.2	5.7
		\$ 612.8	\$ 391.7	\$ 230.3	\$ 118.4	\$ 39.2	\$ 10.3	\$ 1,402.7
Total customer retail		\$ 3,473.1	\$ 2,320.0	\$ 1,487.6	\$ 742.7	\$ 263.5	\$ 77.4	\$ 8,364.3
Total	\$ 2,067.7	\$ 3,914.5	\$ 2,639.0	\$ 1,808.4	\$ 923.3	\$ 382.8	\$ 175.4	\$ 11,911.1

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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

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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.

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	DEALER		CUSTOMER RETAIL		TOTAL
	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	
<i>At December 31, 2021</i>					
Current and up to 30 days past due	\$ 1,865.4	\$ 1,681.0	\$ 6,939.7	\$ 1,396.4	\$ 11,882.5
31 – 60 days past due	.4		9.3	1.8	11.5
Greater than 60 days past due			12.6	4.5	17.1
	\$ 1,865.8	\$ 1,681.0	\$ 6,961.6	\$ 1,402.7	\$ 11,911.1

	DEALER		CUSTOMER RETAIL		TOTAL
	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	
<i>At December 31, 2020</i>					
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

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

	DEALER		CUSTOMER RETAIL		TOTAL
	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	
<i>At December 31, 2021</i>					
Amortized cost basis with a specific reserve			\$ 40.3	\$ 5.7	\$ 46.0
Amortized cost basis with no specific reserve		\$ 1.1	4.7		5.8
Total		\$ 1.1	\$ 45.0	\$ 5.7	\$ 51.8

	DEALER		CUSTOMER RETAIL		TOTAL
	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	
<i>At December 31, 2020</i>					
Amortized cost basis with a specific reserve			\$ 76.9	\$ 8.1	\$ 85.0
Amortized cost basis with no specific reserve		\$ 1.2	1.7		2.9
Total		\$ 1.2	\$ 78.6	\$ 8.1	\$ 87.9

Interest income recognized on a cash basis for finance receivables that are on non-accrual status was as follows:

<i>Year Ended December 31,</i>	2021	2020	2019
Dealer:			
Retail	\$.2	\$.2	\$.2
Customer retail:			
Fleet	3.1	1.6	1.4
Owner/operator	.5	.2	.2
	\$ 3.8	\$ 2.0	\$ 1.8

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Troubled Debt Restructurings: The balance of TDRs was \$41.6 and \$63.1 at December 31, 2021 and 2020, 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:

	2021		2020	
	AMORTIZED COST BASIS		AMORTIZED COST BASIS	
	PRE-MODIFICATION	POST-MODIFICATION	PRE-MODIFICATION	POST-MODIFICATION
Fleet	\$ 7.1	\$ 7.0	\$ 72.5	\$ 72.5
Owner/operator	1.0	1.0	2.2	2.2
	\$ 8.1	\$ 8.0	\$ 74.7	\$ 74.7

The effect on the allowance for credit losses from such modifications was not significant at December 31, 2021 and 2020.

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, 2021 and 2020 were nil and \$4.1, respectively.

There were nil and \$2.0 of finance receivables modified as TDRs during the previous twelve months that subsequently defaulted and were charged off for the years ended December 31, 2021 and 2020, 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, 2021 and 2020 was \$4.7 and \$18.1, respectively. Proceeds from the sales of repossessed assets were \$45.3, \$85.6 and \$62.4 for the years ended December 31, 2021, 2020 and 2019, 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	
	2021	2020	2021	2020
Equipment on operating leases	\$ 400.9	\$ 576.8	\$ 4,285.6	\$ 4,493.9
Less allowance for depreciation	(98.5)	(154.9)	(1,399.1)	(1,331.1)
	\$ 302.4	\$ 421.9	\$ 2,886.5	\$ 3,162.8

Annual minimum lease payments due on Financial Services operating leases beginning January 1, 2022 are \$599.7, \$397.9, \$206.5, \$82.5, \$22.8 and \$1.9 thereafter.

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

<i>At December 31,</i>	TRUCK, PARTS AND OTHER	
	2021	2020
Residual value guarantees	\$ 247.0	\$ 358.4
Deferred lease revenues	82.1	99.0
	\$ 329.1	\$ 457.4

Annual maturities of the RVGs beginning January 1, 2022 are \$113.3, \$45.6, \$59.8, \$14.5, \$13.8 and nil thereafter. The deferred lease revenue is amortized on a straight-line basis over the RVG contract period. At December 31, 2021, the annual amortization of deferred revenues beginning January 1, 2022 is \$36.2, \$22.0, \$12.8, \$11.1 and nil thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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G. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment included the following:

<i>At December 31,</i>	USEFUL LIVES	2021	2020
Land		\$ 277.6	\$ 286.4
Buildings and improvements	10 - 40 years	1,596.8	1,474.7
Machinery, equipment and production tooling	3 - 20 years	5,076.0	4,234.4
Construction in progress		313.9	1,081.8
		7,264.3	7,077.3
Less allowance for depreciation		(3,866.2)	(3,806.9)
		\$ 3,398.1	\$ 3,270.4

H. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER

Accounts payable, accrued expenses and other include the following:

<i>At December 31,</i>	2021	2020
<i>Truck, Parts and Other:</i>		
Accounts payable	\$ 1,393.5	\$ 1,176.2
Product support liabilities	475.0	514.6
Accrued expenses	611.5	446.5
Right-of-return liabilities	436.1	337.3
Accrued capital expenditures	242.2	288.8
Salaries and wages	310.4	260.8
Other	462.2	389.7
	\$ 3,930.9	\$ 3,413.9

I. PRODUCT SUPPORT LIABILITIES

Changes in product support liabilities are summarized as follows:

WARRANTY RESERVES	2021	2020	2019
Balance at January 1	\$ 389.7	\$ 440.0	\$ 380.2
Cost accruals	298.2	295.0	386.3
Payments	(396.3)	(437.2)	(343.7)
Change in estimates for pre-existing warranties	58.3	84.1	19.8
Currency translation and other	(5.6)	7.8	(2.6)
Balance at December 31	\$ 344.3	\$ 389.7	\$ 440.0
DEFERRED REVENUES ON EXTENDED WARRANTIES AND R&M CONTRACTS	2021	2020	2019
Balance at January 1	\$ 795.8	\$ 801.4	\$ 699.9
Deferred revenues	487.1	409.9	499.1
Revenues recognized	(487.8)	(438.9)	(396.4)
Currency translation	(19.9)	23.4	(1.2)
Balance at December 31	\$ 775.2	\$ 795.8	\$ 801.4

The Company expects to recognize approximately \$261.0 of the remaining deferred revenues on extended warranties and R&M contracts in 2022, \$246.3 in 2023, \$155.9 in 2024, \$75.1 in 2025, \$32.2 in 2026 and \$4.7 thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

At December 31,	WARRANTY RESERVES		DEFERRED REVENUES	
	2021	2020	2021	2020
<i>Truck, Parts and Other:</i>				
Accounts payable, accrued expenses and other	\$ 215.5	\$ 245.6	\$ 259.5	\$ 269.0
Other liabilities	128.8	144.1	503.2	513.1
<i>Financial Services:</i>				
Accounts payable, accrued expenses and other			4.6	5.7
Deferred taxes and other liabilities			7.9	8.0
	\$ 344.3	\$ 389.7	\$ 775.2	\$ 795.8

J. BORROWINGS AND CREDIT ARRANGEMENTS

Financial Services borrowings include the following:

At December 31,	2021		2020	
	EFFECTIVE RATE	BORROWINGS	EFFECTIVE RATE	BORROWINGS
Commercial paper	.2%	\$ 3,025.1	.4%	\$ 3,113.5
Bank loans	4.1%	277.9	5.9%	230.9
		3,303.0		3,344.4
Term notes	1.5%	7,128.8	1.7%	7,508.9
	1.2%	\$ 10,431.8	1.4%	\$ 10,853.3

Commercial paper and term notes borrowings were \$10,153.9 and \$10,622.4 at December 31, 2021 and 2020, respectively. Unamortized debt issuance costs, unamortized discounts and the net effect of fair value hedges were \$(21.6) and \$(12.7) at December 31, 2021 and 2020, respectively. The effective rate is the weighted average rate as of December 31, 2021 and 2020 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
2022	\$ 3,025.2	\$ 77.7	\$ 2,200.0	\$ 5,302.9
2023		18.5	2,200.0	2,218.5
2024		147.7	1,709.2	1,856.9
2025		34.0	400.0	434.0
2026			641.1	641.1
	\$ 3,025.2	\$ 277.9	\$ 7,150.3	\$ 10,453.4

Interest paid on borrowings was \$104.8, \$164.5 and \$203.8 in 2021, 2020 and 2019, 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 (PFE), PACCAR Financial Mexico (PFM), PACCAR Financial Pty. Ltd. (PFPL) and PACCAR Financial Ltd. (PFL Canada).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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In November 2021, 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, 2021 was \$5,500.0. In February 2022, PFC issued \$300.0 of medium-term notes under this registration. The registration expires in November 2024 and does not limit the principal amount of debt securities that may be issued during that period.

As of December 31, 2021, the Company's European finance subsidiary, PFE, 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 renews annually and expires in July 2022.

In August 2021, PFM registered a 10,000.0 Mexican pesos medium-term note and commercial paper program with the Comision Nacional Bancaria y de Valores. The registration expires in August 2026 and limits the amount of commercial paper (up to one year) to 5,000.0 Mexican pesos. At December 31, 2021, 9,540.1 Mexican pesos were available for issuance.

In August 2018, the Company's Australian subsidiary, PFPL, established 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, 2021 was 700.0 Australian dollars.

In May 2021, the Company's Canadian subsidiary, PFL Canada, established 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 PFL Canada as of December 31, 2021 was 150.0 Canadian dollars.

The Company has line of credit arrangements of \$3,597.0, of which \$3,319.1 were unused at December 31, 2021. Included in these arrangements are \$3,000.0 of committed bank facilities, of which \$1,000.0 expires in June 2022, \$1,000.0 expires in June 2024 and \$1,000.0 expires in June 2026. 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, 2021.

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.

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The components of lease expense were as follows:

Year Ended December 31,	2021	2020	2019
Finance lease cost			
Amortization of right-of-use assets	\$.6	\$.9	\$.9
Interest on lease liabilities		.1	.1
Operating lease cost	16.3	16.6	16.9
Short-term lease cost	3.0	.8	.7
Variable lease cost	1.5	1.7	1.8
Total lease cost	\$ 21.4	\$ 20.1	\$ 20.4

For the years ended December 31, 2021, 2020 and 2019, total rental expenses for all leases were \$21.4, \$20.1 and \$20.4, respectively.

Balance sheet information related to leases was as follows:

At December 31,	2021		2020	
	OPERATING LEASES	FINANCE LEASES	OPERATING LEASES	FINANCE LEASES
TRUCK, PARTS AND OTHER:				
Other noncurrent assets	\$ 29.8	\$.9	\$ 30.9	\$ 1.0
FINANCIAL SERVICES:				
Other assets	6.0		9.0	
Total right-of-use assets	\$ 35.8	\$.9	\$ 39.9	\$ 1.0

TRUCK, PARTS AND OTHER:

Accounts payable, accrued expenses and other	\$ 12.8	\$.4	\$ 11.4	\$.5
Other liabilities	17.6	.5	20.3	.5

FINANCIAL SERVICES:

Accounts payable, accrued expenses and other	1.5		2.0	
Deferred taxes and other liabilities	4.2		6.6	
Total lease liabilities	\$ 36.1	\$.9	\$ 40.3	\$ 1.0

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

	2021		2020	
	OPERATING LEASES	FINANCE LEASES	OPERATING LEASES	FINANCE LEASES
Weighted-average remaining lease term	4.6 years	2.2 years	5.7 years	2.3 years
Weighted-average discount rate	1.1%	2.0%	1.4%	2.5%

Maturities of lease liabilities are as follows:

Beginning January 1,	OPERATING LEASES	FINANCE LEASES
2022	\$ 14.5	\$.5
2023	9.3	.3
2024	5.0	.1
2025	2.9	
2026	1.6	
Thereafter	3.4	
Total lease payments	36.7	.9
Less: interest	(.6)	
Total lease liabilities	\$ 36.1	\$.9

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Cash flow information related to leases was as follows:

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Year Ended December 31,	2021	2020	2019
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows from operating leases	\$ 16.7	\$ 17.2	\$ 17.0
Operating cash flows from finance leases		.1	.2
Financing cash flows from finance leases	.6	.9	1.0
Right-of-use assets obtained in exchange for lease liabilities			
Operating leases	8.1	19.9	8.9
Finance leases	.4	.5	.7

L. COMMITMENTS AND CONTINGENCIES

At December 31, 2021, PACCAR had standby letters of credit and surety bonds totaling \$32.9, from third-party financial institutions, in the normal course of business, which guarantee various insurance, financing and other activities. At December 31, 2021, PACCAR's financial services companies, in the normal course of business, had outstanding commitments to fund new loan and lease transactions amounting to \$2,085.8. The commitments generally expire in 90 days. The Company had other commitments, primarily to purchase production inventory, equipment and energy amounting to \$132.9, \$11.3, \$3.8, \$2.1, \$2.1 and nil for 2022, 2023, 2024, 2025, 2026 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, 2021, 2020 and 2019 were \$4.0, \$1.9 and \$1.3, 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 Trucks N.V., DAF Trucks Deutschland GmbH and PACCAR Inc (collectively "the Company"). Following the settlement, certain EC-related claims and lawsuits have been filed in various European jurisdictions against all major European truck manufacturers including the Company and certain subsidiaries. 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. In certain jurisdictions, the limitations period has not yet expired and additional claimants may bring EC-related claims and lawsuits against the Company or its subsidiaries.

The legal proceedings are continuing to move through the court systems in the various jurisdictions with some larger cases scheduled for trial in 2022. While the Company believes it has meritorious defenses to all EC-related claims and lawsuits, the final disposition of all such claims and lawsuits will likely take a significant period of time to resolve and the final outcomes are highly uncertain. The Company cannot at this time reasonably estimate a range of loss, if any, that may result. An adverse final decision involving significant numbers of DAF truck sales could have a material impact on the Company's results of operations and cash flows.

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.

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M. EMPLOYEE BENEFITS

Severance Costs: The Company incurred severance expense in 2021, 2020 and 2019 of \$2.6, \$6.1 and \$5.8 respectively.

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

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

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

The Company funds its pensions in accordance with applicable employee benefit and tax laws. The Company contributed \$25.1 to its pension plans in 2021 and \$184.9 in 2020. The Company expects to contribute in the range of \$50 to \$75 to its pension plans in 2022, of which \$22.4 is estimated to satisfy minimum funding requirements. Annual benefits expected to be paid beginning January 1, 2022 are \$120.1, \$113.0, \$121.7, \$125.9, \$132.4 and a total of \$756.1 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. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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<i>At December 31, 2021</i>	FAIR VALUE HIERARCHY				MEASURED	
	TARGET	LEVEL 1	LEVEL 2	TOTAL	AT NAV	TOTAL
<i>Equities:</i>						
U.S. equities					\$ 1,125.7	\$ 1,125.7
Global equities					1,240.8	1,240.8
Total equities	50 - 70%				\$ 2,366.5	\$ 2,366.5
<i>Fixed income:</i>						
U.S. fixed income		\$ 75.9	\$ 303.0	\$ 378.9	\$ 803.9	\$ 1,182.8
Non-U.S. fixed income			35.1	35.1	412.2	447.3
Total fixed income	30 - 50%	\$ 75.9	\$ 338.1	\$ 414.0	\$ 1,216.1	\$ 1,630.1
Cash and other		7.1	89.7	96.8	1.1	97.9
Total plan assets		\$ 83.0	\$ 427.8	\$ 510.8	\$ 3,583.7	\$ 4,094.5

<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

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

<i>At December 31,</i>	2021	2020
Discount rate	2.6%	2.2%
Rate of increase in future compensation levels	3.8%	3.7%
Assumed long-term rate of return on plan assets	5.9%	6.2%

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

<i>At December 31,</i>	2021	2020
<i>Change in projected benefit obligation:</i>		
Benefit obligation at January 1	\$ 3,761.9	\$ 3,234.4
Service cost	148.4	130.4
Interest cost	65.3	83.0
Benefits paid	(102.0)	(120.2)
Actuarial (gain) loss	(146.9)	379.5
Currency translation and other	(17.6)	54.4
Participant contributions	.5	.4
Projected benefit obligation at December 31	\$ 3,709.6	\$ 3,761.9
<i>Change in plan assets:</i>		
Fair value of plan assets at January 1	\$ 3,793.4	\$ 3,226.4
Employer contributions	25.1	184.9
Actual return on plan assets	395.8	453.4
Benefits paid	(102.0)	(120.2)
Currency translation and other	(18.3)	48.5
Participant contributions	.5	.4
Fair value of plan assets at December 31	\$ 4,094.5	\$ 3,793.4
Funded status at December 31	\$ 384.9	\$ 31.5

<i>At December 31,</i>	2021	2020
<i>Amounts recorded on Balance Sheet:</i>		
Other noncurrent assets	\$ 553.2	\$ 222.1
Account payable, accrued expenses and other	19.6	25.5
Other liabilities	148.7	165.1
Accumulated other comprehensive loss:		
Actuarial loss	264.0	571.7
Prior service cost	5.8	6.3

Of the December 31, 2021 amounts in accumulated other comprehensive loss, \$24.7 of unrecognized actuarial loss and \$.7 of unrecognized prior service cost are expected to be amortized into net pension expense in 2022.

The accumulated benefit obligation for all pension plans of the Company was \$3,276.0 and \$3,321.5 at December 31, 2021 and 2020, respectively.

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

<i>At December 31,</i>	2021	2020
Projected benefit obligation	\$ 171.5	\$ 167.9
Accumulated benefit obligation	153.3	148.7
Fair value of plan assets	13.3	13.5

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The components of pension expense are as follows:

Year Ended December 31,	2021	2020	2019
Service cost	\$ 148.4	\$ 130.4	\$ 102.0
Interest on projected benefit obligation	65.3	83.0	95.6
Expected return on assets	(203.3)	(190.6)	(176.6)
Amortization of prior service costs	.8	1.5	1.4
Recognized actuarial loss	58.7	44.2	20.5
Settlement loss		11.6	
Net pension expense	\$ 69.9	\$ 80.1	\$ 42.9

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	SURCHARGE	COMPANY CONTRIBUTIONS		
				2021	2020	2019
Metal and Electrical Engineering						
Industry Pension Fund		135668	Yes	\$ 38.1	\$ 33.9	\$ 27.8
Western Metal Industry Pension Plan	91-6033499	001	Yes	4.0	3.0	3.8
Other plans				1.1	.9	1.2
				\$ 43.2	\$ 37.8	\$ 32.8

The Company contributions shown in the table above approximate the multi-employer pension expense for each of the years ended December 31, 2021, 2020 and 2019, respectively.

Metal and Electrical Engineering Industry Pension Fund is a multi-employer union plan incorporating all DAF employees in the Netherlands and is covered by a collective bargaining agreement that will expire on November 30, 2022. The Company's contributions were less than 5% of the total contributions to the plan for the last two reporting periods ending December 2021. 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 103.2% at December 31, 2021, 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, 2021, 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 20% and 15% of the total contributions to the plan for the years ended December 31, 2021 and 2020, respectively.

Other plans are principally located in the U.S. and the Company's contributions to these plans for the years ended December 31, 2021 and 2020 were less than 5% of each plan's total contributions. As of December 31, 2021, one of the other plans was under a funding rehabilitation plan requiring an increase to the mandated employer surcharge from 5% to 10%, which will be applicable for each succeeding year in which the plan remains in a critical status.

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 2021, 2020 and 2019. Other plans are located in Australia, the Netherlands, Canada, United Kingdom and Germany. Expenses for these plans were \$50.0, \$42.5 and \$48.3 in 2021, 2020 and 2019, respectively.

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,	2021	2020	2019
Domestic	\$ 1,373.7	\$ 1,122.9	\$ 2,201.1
Foreign	1,004.9	535.0	898.1
	<u>\$ 2,378.6</u>	<u>\$ 1,657.9</u>	<u>\$ 3,099.2</u>

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

Year Ended December 31,	2021	2020	2019
Current provision:			
Federal	\$ 410.0	\$ 182.5	\$ 352.3
State	85.9	44.9	96.8
Foreign	243.5	132.6	191.4
	<u>739.4</u>	<u>360.0</u>	<u>640.5</u>
Deferred (benefit) provision:			
Federal	(179.5)	(11.2)	40.7
State	(30.4)	1.7	(4.3)
Foreign	(3.0)	9.0	34.4
	<u>(212.9)</u>	<u>(.5)</u>	<u>70.8</u>
	<u>\$ 526.5</u>	<u>\$ 359.5</u>	<u>\$ 711.3</u>

Tax benefits recognized for net operating loss carryforwards were \$5.1, \$17.8 and \$12.4 for the years ended 2021, 2020 and 2019, respectively.

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

	2021	2020	2019
Statutory rate	21.0%	21.0%	21.0%
Effect of:			
State	2.0	2.3	2.3
Research and development tax credit	(1.2)	(1.4)	(.9)
Tax on foreign earnings	1.1	.8	.9
Other, net	(.8)	(1.0)	(.3)
	<u>22.1%</u>	<u>21.7%</u>	<u>23.0%</u>

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.

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At December 31, 2021, the Company had net operating loss carryforwards of \$398.2, of which \$335.9 related to foreign subsidiaries and \$62.3 related to states in the U.S. The related deferred tax asset was \$113.5, for which a \$96.4 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:

<i>At December 31,</i>	2021	2020
<i>Assets:</i>		
Accrued expenses	\$ 210.9	\$ 205.3
Net operating loss and tax credit carryforwards	124.9	140.1
Inventory adjustments	39.7	34.3
Allowance for losses on receivables	36.5	36.0
Goodwill and intangibles	5.8	10.0
Other	66.1	88.6
	483.9	514.3
Valuation allowance	(109.3)	(102.1)
	374.6	412.2
<i>Liabilities:</i>		
Financial Services leasing depreciation	(547.1)	(765.1)
Depreciation and amortization	(169.0)	(168.0)
Postretirement benefit plans	(86.5)	(3.0)
Other	(31.1)	(46.1)
	(833.7)	(982.2)
Net deferred tax liability	\$ (459.1)	\$ (570.0)

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

<i>At December 31,</i>	2021	2020
<i>Truck, Parts and Other:</i>		
Other noncurrent assets, net	\$ 51.5	\$ 90.4
Other liabilities	(40.4)	(3.5)
<i>Financial Services:</i>		
Other assets	48.4	46.8
Deferred taxes and other liabilities	(518.6)	(703.7)
Net deferred tax liability	\$ (459.1)	\$ (570.0)

Cash paid for income taxes was \$761.1, \$374.0 and \$586.0 in 2021, 2020 and 2019, respectively.

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

	2021	2020	2019
Balance at January 1	\$ 24.5	\$ 30.7	\$ 21.2
Additions for tax positions related to the current year	6.1	5.5	6.5
Additions for tax positions related to prior years	.8	.3	3.0
Reductions for tax positions related to prior years		(4.2)	
Lapse of statute of limitations	(5.4)	(7.8)	
Balance at December 31	\$ 26.0	\$ 24.5	\$ 30.7

The Company had \$26.0, \$24.5 and \$30.7 of unrecognized tax benefits, of which \$25.3, \$23.2 and \$28.4 would impact the effective tax rate, if recognized, as of December 31, 2021, 2020 and 2019, respectively.

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The Company recognized \$(.4), \$(.7) and \$.8 of (income) expense related to interest in 2021, 2020 and 2019, respectively. Accrued interest expense and penalties were \$.8, \$1.2 and \$1.9 as of December 31, 2021, 2020 and 2019, respectively. Interest and penalties are classified as income taxes in the Consolidated Statements of Income.

The Company believes it is reasonably possible that approximately \$5.7 of unrecognized tax benefits, resulting primarily from research and development tax credits, will be resolved within the next 12 months. As of December 31, 2021, 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 2021.

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, 2021	\$ (29.2)	\$ 14.6	\$ (578.1)	\$ (457.6)	\$ (1,050.3)
Recorded into AOCI	39.9	(14.1)	262.9	(179.1)	109.6
Reclassified out of AOCI	(24.2)	(1.6)	45.4		19.6
Net other comprehensive income (loss)	15.7	(15.7)	308.3	(179.1)	129.2
Balance at December 31, 2021	\$ (13.5)	\$ (1.1)	\$ (269.8)	\$ (636.7)	\$ (921.1)

	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)

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Reclassifications out of AOCI during the years ended December 31, 2021, 2020 and 2019 were as follows:

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AOCI COMPONENTS	LINE ITEM IN THE CONSOLIDATED STATEMENTS OF INCOME	AMOUNT RECLASSIFIED OUT OF AOCI		
		2021	2020	2019
Unrealized losses and (gains) on derivative contracts:				
<i>Truck, Parts and Other</i>				
Foreign-exchange contracts	Net sales and revenues	\$ 16.6	\$ (4.0)	\$ 21.2
	Cost of sales and revenues	(1.0)	1.7	(4.1)
	Interest and other (income), net	(.1)	(4.6)	2.1
Commodity contracts	Cost of sales and revenues	.6		
<i>Financial Services</i>				
Interest-rate contracts	Interest and other borrowing expenses	(49.8)	94.5	32.5
	Pre-tax expense (reduction) increase	(33.7)	87.6	51.7
	Tax expense (benefit)	9.5	(23.1)	(12.0)
	After-tax expense (reduction) increase	(24.2)	64.5	39.7
Unrealized gains on marketable debt securities:				
Marketable debt securities	Investment income	(2.1)	(2.4)	(.4)
	Tax expense	.5	.6	.1
	After-tax income increase	(1.6)	(1.8)	(.3)
Unrealized losses on pension plans:				
<i>Truck, Parts and Other</i>				
Actuarial loss	Interest and other (income), net	58.7	44.2	20.5
Prior service costs	Interest and other (income), net	.8	1.5	1.4
Settlement loss	Interest and other (income), net		11.6	
	Pre-tax expense increase	59.5	57.3	21.9
	Tax benefit	(14.1)	(13.7)	(5.0)
	After-tax expense increase	45.4	43.6	16.9
Total reclassifications out of AOCI		\$ 19.6	\$ 106.3	\$ 56.3

Other Capital Stock Changes: The Company purchased and retired treasury shares of nil, .7 and 1.7 million in 2021, 2020 and 2019, respectively.

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P. DERIVATIVE FINANCIAL INSTRUMENTS

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

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, 2021, the notional amount of the Company's interest-rate contracts was \$3,423.3. Notional maturities for all interest-rate contracts are \$905.0 for 2022, \$727.0 for 2023, \$575.6 for 2024, \$628.7 for 2025, \$205.9 for 2026 and \$381.1 thereafter.

Foreign-Exchange Contracts: The Company enters into foreign-exchange contracts to hedge certain anticipated transactions and assets and liabilities denominated in foreign currencies, particularly the Canadian dollar, the euro, the British pound, the Australian dollar, the Brazilian real and the Mexican peso. The objective is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates. 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, 2021, the notional amount of the outstanding foreign-exchange contracts was \$2,142.7. Foreign-exchange contracts mature within one year.

Commodity Contracts: The Company enters into commodity forward contracts to hedge the prices of certain commodities used in the production of trucks. The objective is to reduce the fluctuation in earnings and cash flows associated with adverse movement in commodity prices. At December 31, 2021, the notional amount of the outstanding commodity contracts was \$161.3. Commodity contracts mature within one year.

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

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At December 31,	2021		2020	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Derivatives designated under hedge accounting:				
<i>Interest-rate contracts:</i>				
Financial Services:				
Other assets	\$ 30.8		\$ 16.4	
Deferred taxes and other liabilities		\$ 54.4		\$ 116.1
<i>Foreign-exchange contracts:</i>				
Truck, Parts and Other:				
Other current assets	25.3		2.7	
Accounts payable, accrued expenses and other		15.8		35.9
Financial Services:				
Other current assets	2.5			
Deferred taxes and other liabilities		.1		1.2
<i>Commodity contracts:</i>				
Truck, Parts and Other:				
Accounts payable, accrued expenses and other		16.9		
	\$ 58.6	\$ 87.2	\$ 19.1	\$ 153.2
Derivatives not designated as hedging instruments:				
<i>Foreign-exchange contracts:</i>				
Truck, Parts and Other:				
Other current assets	\$ 1.0		\$ 1.1	
Accounts payable, accrued expenses and other		\$ 1.1		\$ 3.3
Financial Services:				
Other assets	.1		.3	
Deferred taxes and other liabilities		.2		3.4
	\$ 1.1	\$ 1.3	\$ 1.4	\$ 6.7
Gross amounts recognized in Balance Sheet	\$ 59.7	\$ 88.5	\$ 20.5	\$ 159.9
Less amounts not offset in financial instruments:				
Truck, Parts and Other:				
Foreign-exchange contracts	\$ (2.7)	\$ (2.7)	\$ (2.1)	\$ (2.1)
Financial Services:				
Foreign-exchange contracts	(.2)	(.2)		
Interest-rate contracts	(12.8)	(12.8)	(12.0)	(12.0)
Pro forma net amount	\$ 44.0	\$ 72.8	\$ 6.4	\$ 145.8

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The following table presents the amount of loss (gain) from derivative financial instruments recorded in the Consolidated Statements of Comprehensive Income:

Year Ended December 31,	2021		2020		2019	
	INTEREST- RATE	FOREIGN- EXCHANGE	INTEREST- RATE	FOREIGN- EXCHANGE	INTEREST- RATE	FOREIGN- EXCHANGE
Truck, Parts and Other:						
Net sales and revenues						
Cash flow hedges		\$ 16.6		\$ (4.0)		\$ 21.2
Cost of sales and revenues						
Cash flow hedges		(1.0)		1.7		(4.1)
Derivatives not designated as hedging instruments		8.9		.7		.5
Interest and other (income), net						
Cash flow hedges		(.1)		(4.6)		2.1
Net investment hedges		(3.2)		(5.6)		(4.6)
Derivatives not designated as hedging instruments		1.9		2.3		5.4
		\$ 23.1		\$ (9.5)		\$ 20.5
Financial Services:						
Interest and other borrowing expenses						
Cash flow hedges	\$ (49.8)		\$ 94.5		\$ 32.5	
Fair value hedges	.4		1.1		1.5	
Derivatives not designated as hedging instruments		\$ (.5)		\$ 9.4		\$ (10.1)
Selling, general and administrative						
Derivatives not designated as hedging instruments				.8		.1
	\$ (49.4)	\$ (.5)	\$ 95.6	\$ 10.2	\$ 34.0	\$ (10.0)
Total	\$ (49.4)	\$ 22.6	\$ 95.6	\$.7	\$ 34.0	\$ 10.5

Utilization of commodity hedging was initiated in 2021. The loss from commodity contracts recorded in cost of sales and revenue was \$.6 for the year ended 2021.

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,	2021	2020
Financial Services		
Term notes:		
Carrying amount of hedged liabilities	\$ 472.0	\$ 90.9
Cumulative basis adjustment included in the carrying amount	8.7	(.9)

The above table excludes the cumulative basis adjustments on discontinued hedge relationships of \$.1 and \$(.4) as of December 31, 2021 and 2020, respectively.

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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 6.5 years.

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

Year Ended December 31,	2021		2020		2019	
	INTEREST- RATE	FOREIGN- EXCHANGE	INTEREST- RATE	FOREIGN- EXCHANGE	INTEREST- RATE	FOREIGN- EXCHANGE
Gain (loss) recognized in OCI:						
Truck, Parts and Other		\$ (18.5)		\$ 2.8		\$ (31.7)
Financial Services	\$ 83.2	(1.9)	\$ (107.3)	(.8)	\$ (44.4)	
	\$ 83.2	\$ (20.4)	\$ (107.3)	\$ 2.0	\$ (44.4)	\$ (31.7)

The pre-tax effects of loss on commodity hedges recognized in other comprehensive income (loss) (OCI) for Truck, Parts, and Other was \$8.6 in 2021.

The amount of loss recorded in AOCI at December 31, 2021 that is estimated to be reclassified into earnings in the following 12 months if interest rates and exchange rates remain unchanged is approximately \$35.0, 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 \$.1 for the year ended December 31, 2021 and nil for the years ended December 31, 2020 and 2019.

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, 2021, the notional amount of the outstanding net investment hedges was \$360.7. For the year ended December 31, 2021, the pre-tax gain recognized in OCI for the net investment hedges was \$26.6.

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 transfer of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy during the year ended December 31, 2021. The Company's policy is to recognize transfers between levels at the end of the reporting period.

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

Marketable Debt Securities: The Company's marketable debt securities consist of municipal bonds, government obligations, investment-grade corporate obligations, commercial paper, asset-backed securities and term deposits. The fair value of U.S. government obligations is determined using the market approach and is based on quoted prices in active markets and are categorized as Level 1.

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

Marketable Equity Securities: The Company's equity securities are traded on active exchanges and are classified as Level 1.

Derivative Financial Instruments: The Company's derivative contracts consist of interest-rate swaps, cross currency swaps, foreign currency exchange and commodity 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, forward rates and commodity prices 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, 2021	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		\$ 432.5	\$ 432.5
U.S. corporate securities		207.4	207.4
U.S. government and agency securities	\$ 96.4		96.4
Non-U.S. corporate securities		442.8	442.8
Non-U.S. government securities		75.0	75.0
Other debt securities		291.6	291.6
Total marketable debt securities	\$ 96.4	\$ 1,449.3	\$ 1,545.7
Marketable equity securities	\$ 13.7		\$ 13.7
Total marketable securities	\$ 110.1	\$ 1,449.3	\$ 1,559.4
Derivatives			
Cross currency swaps		\$ 18.2	\$ 18.2
Interest-rate swaps		12.6	12.6
Foreign-exchange contracts		28.9	28.9
Total derivative assets		\$ 59.7	\$ 59.7
Liabilities:			
Derivatives			
Cross currency swaps		\$ 33.1	\$ 33.1
Interest-rate swaps		21.3	21.3
Foreign-exchange contracts		17.2	17.2
Commodity contracts		16.9	16.9
Total derivative liabilities		\$ 88.5	\$ 88.5

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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

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.

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,	2021		2020	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets:				
Financial Services fixed rate loans	\$ 6,011.7	\$ 6,018.2	\$ 5,319.2	\$ 5,429.5
Liabilities:				
Financial Services fixed rate debt	6,905.7	6,935.1	6,482.0	6,648.6

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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, 2021, the maximum number of shares available for future grants was 11.3 million.

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

	2021	2020	2019
Risk-free interest rate	.71%	1.54%	2.55%
Expected volatility	26%	23%	23%
Expected dividend yield	3.6%	4.1%	4.9%
Expected term	6 years	6 years	6 years
Weighted average grant date fair value of options per share	\$ 14.22	\$ 10.02	\$ 8.26

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 \$8.1, \$6.4 and \$7.3 for the years ended December 31, 2021, 2020 and 2019, respectively. The fair value of options vested during the years ended December 31, 2021, 2020 and 2019 was \$5.6, \$5.0 and \$5.8, respectively.

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

	2021	2020	2019
Intrinsic value of options exercised	\$ 25.4	\$ 26.9	\$ 31.9
Cash received from stock option exercises	38.4	53.8	60.9
Tax benefit related to stock award exercises	4.9	3.8	3.8
Stock-based compensation	14.7	13.0	15.1
Tax benefit related to stock-based compensation	1.6	1.6	1.9

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The summary of options as of December 31, 2021 and changes during the year then ended are presented below:

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	NUMBER OF SHARES	PER SHARE EXERCISE PRICE*	REMAINING CONTRACTUAL LIFE IN YEARS*	AGGREGATE INTRINSIC VALUE
Options outstanding at January 1	3,116,500	\$ 64.34		
Granted	569,600	91.89		
Exercised	(681,100)	57.21		
Cancelled	(127,100)	77.10		
Options outstanding at December 31	2,877,900	\$ 70.90	6.51	\$ 51.9
Vested and expected to vest	2,806,400	\$ 70.52	6.46	\$ 51.5
Exercisable	1,109,400	\$ 61.36	4.10	\$ 29.9

* 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, 2021 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	142,400	\$ 70.49
Granted	102,000	90.76
Vested	(87,000)	76.39
Forfeited	(2,900)	91.89
Nonvested awards outstanding at December 31	154,500	\$ 80.16

* Weighted Average

As of December 31, 2021, there was \$6.0 of total unrecognized compensation cost related to nonvested stock options, which is recognized over a remaining weighted average vesting period of 1.48 years. Unrecognized compensation cost related to nonvested restricted stock awards of \$2.2 is expected to be recognized over a remaining weighted average vesting period of 1.07 years.

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

Year Ended December 31,	2021	2020	2019
Additional shares	648,900	607,800	621,300
Antidilutive options	589,200	686,100	1,489,400

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021, 2020 and 2019 (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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021, 2020 and 2019 (currencies in millions)

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 \$.4, \$1.4 and \$.3 for 2021, 2020 and 2019, respectively.

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<i>Geographic Area Data</i>	2021	2020	2019
Net sales and revenues:			
United States	\$ 12,388.8	\$ 10,526.6	\$ 15,119.3
Europe	6,325.4	4,871.2	6,104.7
Other	4,808.1	3,330.7	4,375.7
	\$ 23,522.3	\$ 18,728.5	\$ 25,599.7
Property, plant and equipment, net:			
United States	\$ 1,718.5	\$ 1,633.0	\$ 1,556.4
Belgium	620.5	596.2	395.7
The Netherlands	516.1	499.0	399.8
Other	543.0	542.2	531.9
	\$ 3,398.1	\$ 3,270.4	\$ 2,883.8
Equipment on operating leases, net:			
United States	\$ 1,003.0	\$ 1,219.0	\$ 1,390.1
Poland	337.9	359.4	343.5
France	307.1	349.7	315.0
Germany	299.7	346.4	358.3
Spain	285.7	310.8	276.1
Mexico	291.8	302.3	320.5
United Kingdom	113.7	125.4	113.6
Other	550.0	571.7	531.0
	\$ 3,188.9	\$ 3,584.7	\$ 3,648.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021, 2020 and 2019 (currencies in millions)

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<i>Business Segment Data</i>	2021	2020	2019
Net sales and revenues:			
Truck	\$ 17,379.0	\$ 13,643.0	\$ 20,403.5
Less intersegment	(579.3)	(478.2)	(414.0)
External customers	16,799.7	13,164.8	19,989.5
Parts	5,004.8	3,962.7	4,073.1
Less intersegment	(60.5)	(49.8)	(48.2)
External customers	4,944.3	3,912.9	4,024.9
Other	90.5	76.6	105.3
	21,834.5	17,154.3	24,119.7
Financial Services	1,687.8	1,574.2	1,480.0
	\$ 23,522.3	\$ 18,728.5	\$ 25,599.7
Income (loss) before income taxes:			
Truck	\$ 795.8	\$ 581.4	\$ 1,904.9
Parts	1,104.1	799.3	830.8
Other	25.6	18.2	(17.7)
	1,925.5	1,398.9	2,718.0
Financial Services	437.6	223.1	298.9
Investment income	15.5	35.9	82.3
	\$ 2,378.6	\$ 1,657.9	\$ 3,099.2
Depreciation and amortization:			
Truck	\$ 277.6	\$ 292.2	\$ 381.9
Parts	12.0	10.8	10.2
Other	21.9	20.8	20.3
	311.5	323.8	412.4
Financial Services	591.8	725.2	664.9
	\$ 903.3	\$ 1,049.0	\$ 1,077.3
Expenditures for long-lived assets:			
Truck	\$ 547.2	\$ 556.0	\$ 664.9
Parts	29.4	18.4	46.2
Other	24.1	36.4	51.0
	600.7	610.8	762.1
Financial Services	984.8	1,046.7	1,378.6
	\$ 1,585.5	\$ 1,657.5	\$ 2,140.7
Segment assets:			
Truck	\$ 6,912.1	\$ 5,971.9	\$ 5,609.0
Parts	1,505.1	1,255.6	1,172.1
Other	652.6	398.7	339.2
Cash and marketable securities	4,813.0	4,834.0	5,169.4
	13,882.8	12,460.2	12,289.7
Financial Services	15,418.9	15,799.8	16,071.4
	\$ 29,301.7	\$ 28,260.0	\$ 28,361.1

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

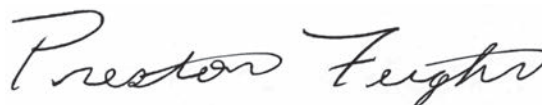
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The management of PACCAR Inc (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding 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, 2021, 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, 2021.

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 93.



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, 2021 and 2020, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, 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, 2021, 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 23, 2022, 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 \$344 million at December 31, 2021. 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.

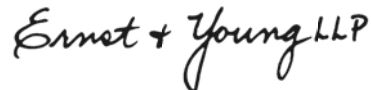
How We Addressed the Matter in Our Audit

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 23, 2022



To the Stockholders and the Board of Directors of PACCAR Inc

Opinion on Internal Control Over Financial Reporting

We have audited PACCAR Inc's internal control over financial reporting as of December 31, 2021, 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, 2021, 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, 2021 and 2020, 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, 2021, and the related notes and our report dated February 23, 2022, 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 23, 2022

Ernst + Young LLP

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	2021	2020
CONSOLIDATED:		
<i>Assets</i>		
Cash equivalents and marketable debt securities	\$ (26.7)	\$ (26.9)
FINANCIAL SERVICES:		
<i>Assets</i>		
Fixed rate loans	(110.5)	(105.7)
<i>Liabilities</i>		
Fixed rate term debt	127.6	124.3
Interest-rate swaps	4.5	14.2
Total	\$ (5.1)	\$ 5.9

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 \$210.8 related to contracts outstanding at December 31, 2021, compared to a loss of \$155.2 at December 31, 2020. These amounts would be largely offset by changes in the values of the underlying hedged exposures.

Commodity Price Risks - The Company enters into commodity forward contracts to hedge the prices of certain commodities used in the production of trucks (see Note P for additional information concerning these hedges). The objective is to reduce the fluctuation in earnings and cash flows associated with adverse movement in commodity prices. Based on the Company's sensitivity analysis, the potential loss in fair value for such financial instruments from a 10% unfavorable change in quoted commodity prices would be a loss of \$18.4 related to contracts outstanding at December 31, 2021. These amounts would be largely offset by changes in the values of underlying hedge exposures.

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

Darrin C. Siver
Senior Vice President

Ronald R. Augustyn
Vice President

Kevin D. Baney
Vice President

Laura J. Bloch
Vice President

David J. Danforth (retired 4/1/2022)
Vice President

Craig R. Gryniewicz
Vice President

Todd R. Hubbard
Vice President

Jack K. LeVier
Vice President

A. Lily Ley
Vice President and
Chief Information Officer

John N. Rich
Vice President and
Chief Technology Officer

Rajaram Shembekar
Vice President

Daryl E. Simon
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

Michael R. Beers
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, 4)

Kirk S. Hachigian
Retired Chairman and
Chief Executive Officer
JELD-WEN Holding, Inc. (2)

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

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

Ganesh Ramaswamy
Vice President and President,
Global Services
Johnson Controls International plc (2)

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

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

COMMITTEES OF THE BOARD

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

TRUCKS

Kenworth Truck Company

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

Factories:
Chillicothe, Ohio
Renton, Washington

Peterbilt Motors Company

Division Headquarters:
1700 Woodbrook Street
Denton, Texas 76205

Factory:
Denton, Texas

PACCAR of Canada Ltd.

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

Factory:
Ste.-Thérèse, Quebec, Canada

Canadian Kenworth Company

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

Peterbilt of Canada

Division Headquarters:
Markborough Place I
6711 Mississauga Road North
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.

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 North
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 Potosi, Mexico
Toronto, Canada

Dynacraft

Division Headquarters:
3490 Redbud Boulevard
McKinney, Texas 75069

Factories:
Louisville, Kentucky
McKinney, Texas

WINCHES

PACCAR Winch Inc

800 East 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 Sint-Oedenrode
The Netherlands

PACCAR Innovation Center

1277 Reamwood Avenue
Sunnyvale, California 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 North
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 2021 Annual Report and the 2022 Proxy Statement are available on PACCAR's website at www.paccar.com/2022annualmeeting

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
Braden, Carco, DAF, EPIQ, Gearmatic, Kenmex, Kenworth, Leyland, Online Parts Counter, PACCAR, PACCAR Connect, PACCAR MX-11, PACCAR MX-13, PACCAR PX, PACCAR TX-8, PacFuel, PacLease, PacLink, PacTax, PacTrac, PacTrainer, Peterbilt, Peterbilt ARTech, The World's Best, TRP, TruckTech+, SmartNav, SmartLINQ and UltraLoft.

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 26, 2022, 10:30 a.m.
PACCAR Parts
Distribution Center
405 Houser Way North
Renton, Washington
98057

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PACCAR Inc