# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended June 30, 2015**

**Commission File No. 001-14817**

# PACCAR Inc
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **91-0351110** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **777 - 106th Ave. N.E., Bellevue, WA** | **98004** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(425) 468-7400**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ |
| Non-accelerated filer ☐ | Smaller reporting company ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $1 par value – 354,968,454 shares as of July 31, 2015

**PACCAR Inc – Form 10-Q**

**INDEX**

## PART I - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

**Consolidated Statements of Comprehensive Income (Unaudited)**
**(Millions Except Per Share Amounts)**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **TRUCK, PARTS AND OTHER:** | | | | |
| Net sales and revenues | **$ 4,786.1** | $ 4,267.0 | **$ 9,334.1** | $ 8,353.2 |
| Cost of sales and revenues | **4,061.2** | 3,719.4 | **7,971.4** | 7,314.9 |
| Research and development | **59.3** | 49.9 | **115.5** | 102.6 |
| Selling, general and administrative | **108.2** | 114.8 | **217.7** | 236.2 |
| Interest and other expense (income), net | **1.3** | (.9) | **5.8** | .5 |
| | **4,230.0** | 3,883.2 | **8,310.4** | 7,654.2 |
| **Truck, Parts and Other Income Before Income Taxes** | **556.1** | 383.8 | **1,023.7** | 699.0 |
| **FINANCIAL SERVICES:** | | | | |
| Interest and fees | **111.1** | 114.7 | **222.0** | 227.6 |
| Operating lease, rental and other revenues | **182.7** | 187.9 | **356.5** | 368.7 |
| Revenues | **293.8** | 302.6 | **578.5** | 596.3 |
| Interest and other borrowing expenses | **29.6** | 33.7 | **58.7** | 70.3 |
| Depreciation and other expense | **145.9** | 148.4 | **286.3** | 292.7 |
| Selling, general and administrative | **23.9** | 24.8 | **47.4** | 48.4 |
| Provision for losses on receivables | **3.6** | 4.0 | **6.3** | 7.7 |
| | **203.0** | 210.9 | **398.7** | 419.1 |
| **Financial Services Income Before Income Taxes** | **90.8** | 91.7 | **179.8** | 177.2 |
| Investment income | **5.3** | 5.5 | **10.4** | 11.3 |
| **Total Income Before Income Taxes** | **652.2** | 481.0 | **1,213.9** | 887.5 |
| Income taxes | **205.0** | 161.8 | **388.3** | 294.4 |
| **Net Income** | **$ 447.2** | $ 319.2 | **$ 825.6** | $ 593.1 |
| **Net Income Per Share** | | | | |
| Basic | **$ 1.26** | $ .90 | **$ 2.32** | $ 1.67 |
| Diluted | **$ 1.26** | $ .90 | **$ 2.32** | $ 1.67 |
| **Weighted Average Number of Common Shares Outstanding** | | | | |
| Basic | **355.3** | 355.1 | **355.2** | 355.0 |
| Diluted | **356.3** | 356.3 | **356.2** | 356.2 |
| Dividends declared per share | **$ .22** | $ .22 | **$ .44** | $ .42 |
| **Comprehensive Income** | **$ 554.9** | $ 368.7 | **$ 595.8** | $ 647.9 |

See Notes to Consolidated Financial Statements.

**Consolidated Balance Sheets (Millions)**

| | June 30 2015 (Unaudited) | December 31 2014* |
|---|---|---|
| **ASSETS** | | |
| **TRUCK, PARTS AND OTHER:** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **$ 1,877.7** | $ 1,665.1 |
| Trade and other receivables, net | **1,228.1** | 1,047.1 |
| Marketable debt securities | **1,397.3** | 1,272.0 |
| Inventories, net | **888.2** | 925.7 |
| Other current assets | **363.4** | 290.5 |
| **Total Truck, Parts and Other Current Assets** | **5,754.7** | 5,200.4 |
| Equipment on operating leases, net | **924.5** | 934.5 |
| Property, plant and equipment, net | **2,162.4** | 2,313.3 |
| Other noncurrent assets, net | **274.3** | 253.3 |
| **Total Truck, Parts and Other Assets** | **9,115.9** | 8,701.5 |
| **FINANCIAL SERVICES:** | | |
| Cash and cash equivalents | **85.4** | 72.5 |
| Finance and other receivables, net | **9,313.1** | 9,042.6 |
| Equipment on operating leases, net | **2,369.0** | 2,306.0 |
| Other assets | **531.9** | 496.2 |
| **Total Financial Services Assets** | **12,299.4** | 11,917.3 |
| | **$ 21,415.3** | $ 20,618.8 |

* The December 31, 2014 consolidated balance sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

**Consolidated Balance Sheets (Millions)**

| | June 30 2015 (Unaudited) | December 31 2014* |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **TRUCK, PARTS AND OTHER:** | | |
| **Current Liabilities** | | |
| Accounts payable, accrued expenses and other | **$ 2,647.2** | $ 2,297.2 |
| Dividend payable | | 354.4 |
| **Total Truck, Parts and Other Current Liabilities** | **2,647.2** | 2,651.6 |
| Residual value guarantees and deferred revenues | **961.4** | 970.9 |
| Other liabilities | **710.2** | 718.8 |
| **Total Truck, Parts and Other Liabilities** | **4,318.8** | 4,341.3 |
| **FINANCIAL SERVICES:** | | |
| Accounts payable, accrued expenses and other | **395.7** | 384.5 |
| Commercial paper and bank loans | **2,656.4** | 2,641.9 |
| Term notes | **5,914.2** | 5,588.7 |
| Deferred taxes and other liabilities | **911.6** | 909.2 |
| **Total Financial Services Liabilities** | **9,877.9** | 9,524.3 |
| **STOCKHOLDERS' EQUITY:** | | |
| Preferred stock, no par value - authorized 1.0 million shares, none issued | | |
| Common stock, $1 par value - authorized 1.2 billion shares, issued 354.9 million and 355.2 million shares | **354.9** | 355.2 |
| Additional paid-in capital | **140.2** | 156.7 |
| Treasury stock, at cost - nil and .7 million shares | | (42.7) |
| Retained earnings | **7,533.1** | 6,863.8 |
| Accumulated other comprehensive loss | **(809.6)** | (579.8) |
| **Total Stockholders' Equity** | **7,218.6** | 6,753.2 |
| | **$ 21,415.3** | $ 20,618.8 |

* The December 31, 2014 consolidated balance sheet has been derived from audited financial statements.

See Notes to Consolidated Financial Statements.

**Condensed Consolidated Statements of Cash Flows (Unaudited)**
**(Millions)**

| | Six Months Ended June 30 2015 | 2014 |
|---|---|---|
| **OPERATING ACTIVITIES:** | | |
| Net income | **$ 825.6** | $ 593.1 |
| Adjustments to reconcile net income to cash provided by operations: | | |
| Depreciation and amortization: | | |
| Property, plant and equipment | **146.2** | 133.0 |
| Equipment on operating leases and other | **302.2** | 314.5 |
| Provision for losses on financial services receivables | **6.3** | 7.7 |
| Other, net | **(45.0)** | (33.0) |
| Pension contributions | **(55.7)** | (8.3) |
| Change in operating assets and liabilities: | | |
| Trade and other receivables | **(216.0)** | (206.5) |
| Wholesale receivables on new trucks | **(353.4)** | 64.8 |
| Sales-type finance leases and dealer direct loans on new trucks | **33.2** | (6.3) |
| Inventories | **1.5** | (152.0) |
| Accounts payable and accrued expenses | **481.3** | 122.4 |
| Income taxes, warranty and other | **60.9** | 11.4 |
| **Net Cash Provided by Operating Activities** | **1,187.1** | 840.8 |
| **INVESTING ACTIVITIES:** | | |
| Originations of retail loans and direct financing leases | **(1,455.9)** | (1,471.4) |
| Collections on retail loans and direct financing leases | **1,339.0** | 1,387.5 |
| Net (increase) decrease in wholesale receivables on used equipment | **(11.8)** | 4.6 |
| Purchases of marketable securities | **(711.0)** | (619.1) |
| Proceeds from sales and maturities of marketable securities | **516.6** | 549.3 |
| Payments for property, plant and equipment | **(99.4)** | (158.0) |
| Acquisitions of equipment for operating leases | **(733.3)** | (533.9) |
| Proceeds from asset disposals | **241.1** | 187.8 |
| **Net Cash Used in Investing Activities** | **(914.7)** | (653.2) |
| **FINANCING ACTIVITIES:** | | |
| Payments of cash dividends | **(510.5)** | (467.8) |
| Proceeds from stock compensation transactions | **12.7** | 13.3 |
| Net increase in commercial paper and short-term bank loans | **106.3** | 243.7 |
| Proceeds from long-term debt | **1,306.3** | 951.5 |
| Payments of long-term debt | **(909.5)** | (1,306.4) |
| **Net Cash Provided by (Used in) Financing Activities** | **5.3** | (565.7) |
| Effect of exchange rate changes on cash | **(52.2)** | 8.3 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **225.5** | (369.8) |
| Cash and cash equivalents at beginning of period | **1,737.6** | 1,750.1 |
| Cash and cash equivalents at end of period | **$ 1,963.1** | $ 1,380.3 |

See Notes to Consolidated Financial Statements.

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

**NOTE A - Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, refer to the consolidated financial statements and footnotes included in PACCAR Inc's (PACCAR or the Company) Annual Report on Form 10-K for the year ended December 31, 2014.

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

| | **Three Months Ended June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Additional shares | **1,022,200** | 1,154,100 | **1,022,000** | 1,129,400 |
| Antidilutive options | **551,100** | 655,800 | **583,400** | 661,700 |

*New Accounting Pronouncements*: In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-11, *Inventory (Topic 330) Simplifying the Measurement of Inventory*. This ASU applies to all inventories except for inventory measured using last-in, first-out (LIFO) or the retail inventory method. This ASU requires inventory to be measured at the lower of cost or net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU is effective for annual periods beginning after December 15, 2016, and early adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This ASU eliminates the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value per share practical expedient under Topic 820. This ASU is effective for annual periods beginning after December 15, 2015, and early adoption is permitted. This ASU will not affect the Company's consolidated financial statements but will result in changes to footnote disclosures.

In April 2015, the FASB issued ASU 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.* This ASU requires the Company to account for cloud arrangement costs as an acquisition of software if the arrangement includes a software license; otherwise the arrangement should be accounted for as a service contract. This ASU is effective for annual periods and interim periods beginning after December 15, 2015, and early adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. The recognition and measurement of debt issuance costs are not affected by this amendment. This ASU is effective for annual periods and interim periods beginning after December 15, 2015, and early adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU amends the existing accounting standards for revenue recognition. Under the new revenue recognition model, a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date of this ASU by one year to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, but no sooner than the original effective date of annual and interim periods beginning after December 15, 2016. The amendment may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently evaluating the transition alternatives and impact on the Company's consolidated financial statements.

## NOTE B - Investments in Marketable Debt Securities

The Company's investments in marketable debt securities are classified as available-for-sale. These investments are stated at fair value with any unrealized gains or losses, net of tax, included as a component of accumulated other comprehensive loss (AOCI).

The Company utilizes third-party pricing services for all of its marketable debt security valuations. The Company reviews the pricing methodology used by the third-party pricing services including the manner employed to collect market information. On a quarterly basis, the Company also performs review and validation procedures on the pricing information received from the third-party providers. These procedures help ensure that the fair value information used by the Company is determined in accordance with applicable accounting guidance.

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

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

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

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

Marketable debt securities at June 30, 2015 and December 31, 2014 consisted of the following:

| **At June 30, 2015** | **Amortized Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** |
|---|---|---|---|---|
| **U.S. tax-exempt securities** | **$ 495.6** | **$ 1.0** | **$ .3** | **$ 496.3** |
| **U.S. corporate securities** | **74.5** | **.2** | **.1** | **74.6** |
| **U.S. government and agency securities** | **8.1** | **.1** | | **8.2** |
| **Non-U.S. corporate securities** | **551.8** | **2.6** | **.5** | **553.9** |
| **Non-U.S. government securities** | **178.5** | **1.4** | **.1** | **179.8** |
| **Other debt securities** | **84.1** | **.4** | | **84.5** |
| | **$ 1,392.6** | **$ 5.7** | **$ 1.0** | **$ 1,397.3** |

| At December 31, 2014 | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. tax-exempt securities | $ 362.9 | $ .8 | $ .3 | $ 363.4 |
| U.S. corporate securities | 80.9 | .6 | | 81.5 |
| U.S. government and agency securities | 8.0 | | | 8.0 |
| Non-U.S. corporate securities | 528.1 | 3.9 | | 532.0 |
| Non-U.S. government securities | 192.1 | 2.0 | | 194.1 |
| Other debt securities | 92.8 | .3 | .1 | 93.0 |
| | $ 1,264.8 | $ 7.6 | $ .4 | $ 1,272.0 |

The cost of marketable debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Amortization, accretion, interest and dividend income and realized gains and losses are included in investment income. The cost of securities sold is based on the specific identification method. Gross realized gains were $1.2 and $.6 for the six months ended June 30, 2015 and 2014, respectively, and gross realized losses were $.1 for both six month periods ended June 30, 2015 and 2014.

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

| | **June 30, 2015** | | December 31, 2014 | |
|---|---|---|---|---|
| | **Less than Twelve Months** | **Twelve Months or Greater** | Less than Twelve Months | Twelve Months or Greater |
| Fair value | **$ 409.0** | | $ 249.6 | |
| Unrealized losses | **1.0** | | .4 | |

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

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

Contractual maturities on marketable debt securities at June 30, 2015 were as follows:

| Maturities: | Amortized Cost | Fair Value |
|---|---|---|
| **Within one year** | **$ 394.1** | **$ 394.8** |
| **One to five years** | **998.3** | **1,002.3** |
| **Six to ten years** | **.2** | **.2** |
| | **$ 1,392.6** | **$ 1,397.3** |

## NOTE C - Inventories

Inventories are stated at the lower of cost or market. Cost of inventories in the U.S. is determined principally by the last-in, first-out (LIFO) method. Cost of all other inventories is determined principally by the first-in, first-out (FIFO) method.

Inventories include the following:

| | June 30 2015 | December 31 2014 |
|---|---|---|
| Finished products | **$ 478.1** | $ 512.3 |
| Work in process and raw materials | **585.1** | 587.7 |
| | **1,063.2** | 1,100.0 |
| Less LIFO reserve | **(175.0)** | (174.3) |
| | **$ 888.2** | $ 925.7 |

Under the LIFO method of accounting (used for approximately 48% of June 30, 2015 inventories), an actual valuation can be made only at the end of each year based on year-end inventory levels and costs. Accordingly, interim valuations are based on management's estimates of those year-end amounts.

## NOTE D - Finance and Other Receivables

Finance and other receivables include the following:

| | June 30 2015 | December 31 2014 |
|---|---|---|
| Loans | **$ 3,960.9** | $ 3,968.5 |
| Direct financing leases | **2,722.6** | 2,752.8 |
| Sales-type finance leases | **933.8** | 972.8 |
| Dealer wholesale financing | **2,055.9** | 1,755.8 |
| Operating lease receivables and other | **131.2** | 99.5 |
| Unearned interest: Finance leases | **(371.0)** | (384.8) |
| | **$ 9,433.4** | $ 9,164.6 |
| Less allowance for losses: | | |
| Loans and leases | **(102.7)** | (105.5) |
| Dealer wholesale financing | **(8.7)** | (9.0) |
| Operating lease receivables and other | **(8.9)** | (7.5) |
| | **$ 9,313.1** | $ 9,042.6 |

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 June 30, 2015 or December 31, 2014. 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.

**Allowance for Credit Losses**

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

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

On average, modifications extended contractual terms by approximately eight months in 2015 and five months in 2014 and did not have a significant effect on the weighted average term or interest rate of the total portfolio at June 30, 2015 and December 31, 2014.

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

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

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

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

For finance receivables that are not individually impaired, the Company collectively evaluates and determines the general allowance for credit losses for both retail and wholesale receivables based on historical loss information, using past due account data and current market conditions. Information used includes assumptions regarding the likelihood of collecting current and past due accounts, repossession rates, the recovery rate on the underlying collateral based on used truck values and other pledged collateral or recourse. The Company has developed a range of loss estimates for each of its country portfolios based on historical experience, taking into account loss frequency and severity in both strong and weak truck market conditions. A projection is made of the range of estimated credit losses inherent in the portfolio from which an amount is determined as probable based on current market conditions and other factors impacting the creditworthiness of the Company's borrowers and their ability to repay. After determining the appropriate level of the allowance for credit losses, a provision for losses on finance receivables is charged to income as necessary to reflect management's estimate of incurred credit losses, net of recoveries, inherent in the portfolio.

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

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

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.

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

The allowance for credit losses is summarized as follows:

| | **2015** | | | | |
|---|---|---|---|---|---|
| | **Dealer** | | **Customer** | | |
| | **Wholesale** | **Retail** | **Retail** | **Other*** | **Total** |
| **Balance at January 1** | **$ 9.0** | **$ 11.9** | **$ 93.6** | **$ 7.5** | **$ 122.0** |
| **Provision for losses** | **.2** | **(.5)** | **5.2** | **1.4** | **6.3** |
| **Charge-offs** | | | **(5.2)** | **(.9)** | **(6.1)** |
| **Recoveries** | | | **1.5** | **.2** | **1.7** |
| **Currency translation and other** | **(.5)** | **(.1)** | **(3.7)** | **.7** | **(3.6)** |
| **Balance at June 30** | **$ 8.7** | **$ 11.3** | **$ 91.4** | **$ 8.9** | **$ 120.3** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Dealer | | Customer | | |
| | Wholesale | Retail | Retail | Other* | Total |
| Balance at January 1 | $ 10.4 | $ 13.4 | $ 97.5 | $ 8.0 | $ 129.3 |
| Provision for losses | (.2) | (.5) | 7.3 | 1.1 | 7.7 |
| Charge-offs | | | (7.6) | (1.7) | (9.3) |
| Recoveries | | | 2.6 | .3 | 2.9 |
| Currency translation and other | | | .5 | | .5 |
| Balance at June 30 | $ 10.2 | $ 12.9 | $ 100.3 | $ 7.7 | $ 131.1 |

* Operating leases and other trade receivables.

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

| | **Dealer** | | **Customer** | |
|---|---|---|---|---|
| **At June 30, 2015** | **Wholesale** | **Retail** | **Retail** | **Total** |
| **Recorded investment for impaired finance receivables evaluated individually** | **$ 4.3** | | **$ 47.4** | **$ 51.7** |
| **Allowance for impaired finance receivables determined individually** | **.6** | | **4.2** | **4.8** |
| **Recorded investment for finance receivables evaluated collectively** | **2,051.6** | **$ 1,560.9** | **5,638.0** | **9,250.5** |
| **Allowance for finance receivables determined collectively** | **8.1** | **11.3** | **87.2** | **106.6** |

| | Dealer | | Customer | |
|---|---|---|---|---|
| At December 31, 2014 | Wholesale | Retail | Retail | Total |
| Recorded investment for impaired finance receivables evaluated individually | $ 4.9 | | $ 43.7 | $ 48.6 |
| Allowance for impaired finance receivables determined individually | .5 | | 4.6 | 5.1 |
| Recorded investment for finance receivables evaluated collectively | 1,750.9 | $ 1,606.5 | 5,659.1 | 9,016.5 |
| Allowance for finance receivables determined collectively | 8.5 | 11.9 | 89.0 | 109.4 |

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

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

| | **June 30 2015** | December 31 2014 |
|---|---|---|
| Dealer: | | |
| Wholesale | **$ 4.3** | $ 4.9 |
| Customer retail: | | |
| Fleet | **35.6** | 34.4 |
| Owner/operator | **8.6** | 8.9 |
| | **$ 48.5** | $ 48.2 |

**Impaired Loans**

Impaired loans with no specific reserves were $11.9 and $16.7 at June 30, 2015 and December 31, 2014, respectively. Impaired loans with a specific reserve are summarized below. The impaired loans with specific reserve represent the unpaid principal balance. The recorded investment of impaired loans as of June 30, 2015 and December 31, 2014 was not significantly different than the unpaid principal balance.

| | **Dealer** | | **Customer Retail** | | |
|---|---|---|---|---|---|
| **At June 30, 2015** | **Wholesale** | **Retail** | **Fleet** | **Owner/ Operator** | **Total** |
| **Impaired loans with a specific reserve** | **$ 4.3** | | **$ 14.9** | **$ 2.2** | **$ 21.4** |
| **Associated allowance** | **(.6)** | | **(1.8)** | **(.4)** | **(2.8)** |
| **Net carrying amount of impaired loans** | **$ 3.7** | | **$ 13.1** | **$ 1.8** | **$ 18.6** |
| **Average recorded investment*** | **$ 7.2** | | **$ 24.4** | **$ 2.5** | **$ 34.1** |

* Represents the average during the 12 months ended June 30, 2015.

| | Dealer | | Customer Retail | | |
|---|---|---|---|---|---|
| At December 31, 2014 | Wholesale | Retail | Fleet | Owner/ Operator | Total |
| Impaired loans with a specific reserve | $ .5 | | $ 12.7 | $ 2.6 | $ 15.8 |
| Associated allowance | (.5) | | (1.5) | (.5) | (2.5) |
| Net carrying amount of impaired loans | | | $ 11.2 | $ 2.1 | $ 13.3 |
| Average recorded investment* | $ 7.1 | | $ 24.3 | $ 3.6 | $ 35.0 |

* Represents the average during the 12 months ended June 30, 2014.

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

| | **Three Months Ended June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Interest income recognized: | | | | |
| Dealer wholesale | | | | $ .1 |
| Customer retail - fleet | **$ .3** | $ .3 | **$ .6** | .6 |
| Customer retail - owner/operator | **.1** | .1 | **.2** | .2 |
| | **$ .4** | $ .4 | **$ .8** | $ .9 |

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

**Credit Quality**

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

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

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

| | Dealer | | Customer Retail | | |
|---|---|---|---|---|---|
| **At June 30, 2015** | **Wholesale** | **Retail** | **Fleet** | **Owner/ Operator** | **Total** |
| **Performing** | **$ 2,017.7** | **$ 1,560.9** | **$ 4,512.6** | **$ 1,090.7** | **$ 9,181.9** |
| **Watch** | **33.9** | | **26.0** | **8.7** | **68.6** |
| **At-risk** | **4.3** | | **38.8** | **8.6** | **51.7** |
| | **$ 2,055.9** | **$ 1,560.9** | **$ 4,577.4** | **$ 1,108.0** | **$ 9,302.2** |

| | Dealer | | Customer Retail | | |
|---|---|---|---|---|---|
| At December 31, 2014 | Wholesale | Retail | Fleet | Owner/ Operator | Total |
| Performing | $ 1,739.5 | $ 1,606.4 | $ 4,430.9 | $ 1,193.9 | $ 8,970.7 |
| Watch | 11.4 | .1 | 21.8 | 12.5 | 45.8 |
| At-risk | 4.9 | | 34.8 | 8.9 | 48.6 |
| | $ 1,755.8 | $ 1,606.5 | $ 4,487.5 | $ 1,215.3 | $ 9,065.1 |

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

| | Dealer | | Customer Retail | | |
|---|---|---|---|---|---|
| **At June 30, 2015** | **Wholesale** | **Retail** | **Fleet** | **Owner/ Operator** | **Total** |
| **Current and up to 30 days past due** | **$ 2,051.1** | **$ 1,560.9** | **$ 4,543.2** | **$ 1,095.8** | **$ 9,251.0** |
| **31 – 60 days past due** | **1.3** | | **10.8** | **5.4** | **17.5** |
| **Greater than 60 days past due** | **3.5** | | **23.4** | **6.8** | **33.7** |
| | **$ 2,055.9** | **$ 1,560.9** | **$ 4,577.4** | **$ 1,108.0** | **$ 9,302.2** |

| | Dealer | | Customer Retail | | |
|---|---|---|---|---|---|
| At December 31, 2014 | Wholesale | Retail | Fleet | Owner/ Operator | Total |
| Current and up to 30 days past due | $ 1,752.9 | $ 1,606.5 | $ 4,464.4 | $ 1,200.0 | $ 9,023.8 |
| 31 – 60 days past due | .6 | | 10.6 | 6.9 | 18.1 |
| Greater than 60 days past due | 2.3 | | 12.5 | 8.4 | 23.2 |
| | $ 1,755.8 | $ 1,606.5 | $ 4,487.5 | $ 1,215.3 | $ 9,065.1 |

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

**Troubled Debt Restructurings**

The balance of TDRs was $34.2 and $36.0 at June 30, 2015 and December 31, 2014, respectively. At modification date, the pre-modification and post-modification recorded investment balances for finance receivables modified during the period by portfolio class are as follows:

| | Three Months Ended June 30, 2015 | | Six Months Ended June 30, 2015 | |
|---|---|---|---|---|
| | Recorded Investment | | Recorded Investment | |
| | Pre-Modification | Post-Modification | Pre-Modification | Post-Modification |
| **Fleet** | **$ 2.4** | **$ 2.4** | **$ 6.3** | **$ 6.2** |
| **Owner/operator** | **1.5** | **1.5** | **2.4** | **2.4** |
| | **$ 3.9** | **$ 3.9** | **$ 8.7** | **$ 8.6** |

| | Three Months Ended June 30, 2014 | | Six Months Ended June 30, 2014 | |
|---|---|---|---|---|
| | Recorded Investment | | Recorded Investment | |
| | Pre-Modification | Post-Modification | Pre-Modification | Post-Modification |
| Fleet | $ .5 | $ .5 | $ 5.4 | $ 5.4 |
| Owner/operator | .3 | .3 | 1.3 | 1.3 |
| | $ .8 | $ .8 | $ 6.7 | $ 6.7 |

The effect on the allowance for credit losses from such modifications was not significant at June 30, 2015 and 2014.

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

| Six Months Ended June 30, | **2015** | 2014 |
|---|---|---|
| Fleet | | $ .3 |
| Owner/operator | **$ .5** | .6 |
| | **$ .5** | $ .9 |

The TDRs that subsequently defaulted did not significantly impact the Company's allowance for credit losses at June 30, 2015 and 2014.

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

**Repossessions**

When the Company determines a customer is not likely to meet its contractual commitments, the Company repossesses the vehicles which serve as collateral for the loans, finance leases and equipment under operating lease. The Company records the vehicles as used truck inventory included in Financial Services other assets on the Consolidated Balance Sheets. The balance of repossessed inventory at June 30, 2015 and December 31, 2014 was $7.0 and $19.0, respectively. Proceeds from the sales of repossessed assets were $31.8 and $32.1 for the six months ended June 30, 2015 and 2014, respectively. These amounts are included in proceeds from asset disposals in the Condensed Consolidated Statements of Cash Flows. Write-downs of repossessed equipment on operating leases are recorded as impairments and included in Financial Services depreciation and other expense on the Consolidated Statements of Comprehensive Income.

**NOTE E - Product Support Liabilities**

Product support liabilities are estimated future payments related to product warranties, optional extended warranties and repair and maintenance (R&M) contracts. The Company generally offers one year warranties covering most of its vehicles and related aftermarket parts. For vehicles equipped with engines manufactured by PACCAR, the Company generally offers two year warranties on the engine. Specific terms and conditions vary depending on the product and the country of sale. Optional extended warranty and R&M contracts can be purchased for periods which generally range up to five years. Warranty expenses and reserves are estimated and recorded at the time products or contracts are sold based on historical data regarding the source, frequency and cost of claims, net of any recoveries. The Company periodically assesses the adequacy of its recorded liabilities and adjusts them as appropriate to reflect actual experience. Revenue from extended warranty and R&M contracts is deferred and recognized to income generally on a straight-line basis over the contract period. Warranty and R&M costs on these contracts are recognized as incurred.

Changes in product support liabilities are summarized as follows:

| | **2015** | 2014 |
|---|---|---|
| Balance at January 1 | **$ 772.8** | $ 630.5 |
| Cost accruals and revenue deferrals | **317.8** | 322.2 |
| Payments and revenue recognized | **(236.9)** | (228.9) |
| Currency translation | **(20.9)** | 2.4 |
| Balance at June 30 | **$ 832.8** | $ 726.2 |

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

**NOTE F - Stockholders' Equity**

**Comprehensive Income**

The components of comprehensive income are as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Net income | **$ 447.2** | $ 319.2 | **$ 825.6** | $ 593.1 |
| Other comprehensive income (OCI): | | | | |
| Unrealized gains (losses) on derivative contracts | **3.2** | (1.3) | **3.0** | .4 |
| Tax effect | **(1.0)** | .8 | **(.6)** | .2 |
| | **2.2** | (.5) | **2.4** | .6 |
| Unrealized (losses) gains on marketable debt securities | **(3.0)** | 2.5 | **(2.5)** | 3.7 |
| Tax effect | **.9** | (.8) | **.7** | (1.0) |
| | **(2.1)** | 1.7 | **(1.8)** | 2.7 |
| Pension plans | **2.0** | 1.1 | **23.7** | 7.5 |
| Tax effect | **(1.3)** | (.5) | **(8.1)** | (2.6) |
| | **.7** | .6 | **15.6** | 4.9 |
| Foreign currency translation gains (losses) | **106.9** | 47.7 | **(246.0)** | 46.6 |
| Net other comprehensive income (loss) | **107.7** | 49.5 | **(229.8)** | 54.8 |
| Comprehensive income | **$ 554.9** | $ 368.7 | **$ 595.8** | $ 647.9 |

**Accumulated Other Comprehensive Loss**

The components of AOCI and the changes in AOCI, net of tax, included in the Consolidated Balance Sheets, consisted of the following:

| **Three Months Ended June 30, 2015** | **Derivative Contracts** | **Marketable Debt Securities** | **Pension Plans** | **Foreign Currency Translation** | **Total** |
|---|---|---|---|---|---|
| **Balance at March 31, 2015** | **$ (13.3)** | **$ 5.6** | **$ (418.2)** | **$ (491.4)** | **$ (917.3)** |
| **Recorded into AOCI** | **(16.4)** | **(1.9)** | **(6.3)** | **106.9** | **82.3** |
| **Reclassified out of AOCI** | **18.6** | **(.2)** | **7.0** | | **25.4** |
| **Net other comprehensive income (loss)** | **2.2** | **(2.1)** | **.7** | **106.9** | **107.7** |
| **Balance at June 30, 2015** | **$ (11.1)** | **$ 3.5** | **$ (417.5)** | **$ (384.5)** | **$ (809.6)** |

| Three Months Ended June 30, 2014 | Derivative Contracts | Marketable Debt Securities | Pension Plans | Foreign Currency Translation | Total |
|---|---|---|---|---|---|
| Balance at March 31, 2014 | $ (14.0) | $ 2.7 | $ (257.9) | $ 283.2 | $ 14.0 |
| Recorded into AOCI | (28.8) | 2.1 | (3.2) | 47.7 | 17.8 |
| Reclassified out of AOCI | 28.3 | (.4) | 3.8 | | 31.7 |
| Net other comprehensive (loss) income | (.5) | 1.7 | .6 | 47.7 | 49.5 |
| Balance at June 30, 2014 | $ (14.5) | $ 4.4 | $ (257.3) | $ 330.9 | $ 63.5 |

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

| Six Months Ended June 30, 2015 | Derivative Contracts | Marketable Debt Securities | Pension Plans | Foreign Currency Translation | Total |
|---|---|---|---|---|---|
| **Balance at December 31, 2014** | **$ (13.5)** | **$ 5.3** | **$ (433.1)** | **$ (138.5)** | **$ (579.8)** |
| **Recorded into AOCI** | **4.9** | **(1.0)** | **1.8** | **(246.0)** | **(240.3)** |
| **Reclassified out of AOCI** | **(2.5)** | **(.8)** | **13.8** | | **10.5** |
| **Net other comprehensive income (loss)** | **2.4** | **(1.8)** | **15.6** | **(246.0)** | **(229.8)** |
| **Balance at June 30, 2015** | **$ (11.1)** | **$ 3.5** | **$ (417.5)** | **$ (384.5)** | **$ (809.6)** |

| Six Months Ended June 30, 2014 | Derivative Contracts | Marketable Debt Securities | Pension Plans | Foreign Currency Translation | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2013 | $ (15.1) | $ 1.7 | $ (262.2) | $ 284.3 | $ 8.7 |
| Recorded into AOCI | (22.7) | 2.8 | (2.6) | 46.6 | 24.1 |
| Reclassified out of AOCI | 23.3 | (.1) | 7.5 | | 30.7 |
| Net other comprehensive income | .6 | 2.7 | 4.9 | 46.6 | 54.8 |
| Balance at June 30, 2014 | $ (14.5) | $ 4.4 | $ (257.3) | $ 330.9 | $ 63.5 |

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

Reclassifications out of AOCI during the three months ended June 30, 2015 and 2014 are as follows:

| AOCI Components | Line Item in the Consolidated Statements of Comprehensive Income | Three Months Ended June 30 2015 | 2014 |
|---|---|---|---|
| Unrealized (gains) and losses on derivative contracts: | | | |
| *Truck, Parts and Other* | | | |
| Foreign-exchange contracts | Net sales and revenues | **$ .3** | |
| | Cost of sales and revenues | **.2** | $ 1.7 |
| | Interest and other expense (income), net | **.2** | .2 |
| *Financial Services* | | | |
| Interest-rate contracts | Interest and other borrowing expenses | **25.4** | 38.5 |
| | Pre-tax expense increase | **26.1** | 40.4 |
| | Tax benefit | **(7.5)** | (12.1) |
| | After-tax expense increase | **18.6** | 28.3 |
| Unrealized (gains) and losses on marketable debt securities: | | | |
| Marketable debt securities | Investment income | **(.3)** | (.6) |
| | Tax expense | **.1** | .2 |
| | After-tax income increase | **(.2)** | (.4) |
| Pension plans: | | | |
| *Truck, Parts and Other* | | | |
| Actuarial loss | Cost of sales and revenues | **5.8** | 2.9 |
| | Selling, general and administrative | **4.2** | 2.1 |
| | | **10.0** | 5.0 |
| Prior service costs | Cost of sales and revenues | **.3** | .3 |
| *Financial Services* | | | |
| Actuarial loss | Selling, general and administrative | **.5** | .3 |
| | Pre-tax expense increase | **10.8** | 5.6 |
| | Tax benefit | **(3.8)** | (1.8) |
| | After-tax expense increase | **7.0** | 3.8 |
| Total reclassifications out of AOCI | | **$ 25.4** | $ 31.7 |

Notes to Consolidated Financial Statements (Unaudited) (Millions, Except Share Amounts)

Reclassifications out of AOCI during the six months ended June 30, 2015 and 2014 are as follows:

| AOCI Components | Line Item in the Consolidated Statements of Comprehensive Income | Six Months Ended June 30 2015 | 2014 |
|---|---|---|---|
| Unrealized (gains) and losses on derivative contracts: | | | |
| *Truck, Parts and Other* | | | |
| Foreign-exchange contracts | Net sales and revenues | **$ .3** | |
| | Cost of sales and revenues | **3.4** | $ 1.8 |
| | Interest and other expense (income), net | **(1.7)** | .1 |
| *Financial Services* | | | |
| Interest-rate contracts | Interest and other borrowing expenses | **(7.8)** | 31.6 |
| | Pre-tax expense (reduction) increase | **(5.8)** | 33.5 |
| | Tax expense (benefit) | **3.3** | (10.2) |
| | After-tax expense (reduction) increase | **(2.5)** | 23.3 |
| Unrealized (gains) and losses on marketable debt securities: | | | |
| Marketable debt securities | Investment income | **(1.1)** | (.2) |
| | Tax expense | **.3** | .1 |
| | After-tax income increase | **(.8)** | (.1) |
| Pension plans: | | | |
| *Truck, Parts and Other* | | | |
| Actuarial loss | Cost of sales and revenues | **11.2** | 5.6 |
| | Selling, general and administrative | **8.5** | 4.3 |
| | | **19.7** | 9.9 |
| Prior service costs | Cost of sales and revenues | **.5** | .5 |
| | Selling, general and administrative | **.1** | .1 |
| | | **.6** | .6 |
| *Financial Services* | | | |
| Actuarial loss | Selling, general and administrative | **.9** | .6 |
| | Pre-tax expense increase | **21.2** | 11.1 |
| | Tax benefit | **(7.4)** | (3.6) |
| | After-tax expense increase | **13.8** | 7.5 |
| Total reclassifications out of AOCI | | **$ 10.5** | $ 30.7 |

**Stock Compensation Plans**

Stock-based compensation expense was $2.3 and $10.1 for the three and six months ended June 30, 2015, respectively, and $2.9 and $10.4 for the three and six months ended June 30, 2014, respectively. Realized tax benefits related to the excess of deductible amounts over expense recognized amounted to $1.0 and $2.2 for the three and six months ended June 30, 2015, respectively, and $.2 and $1.5 for the three and six months ended June 30, 2014, respectively, and have been classified as a financing cash flow.

During the first half of 2015, the Company issued 443,964 common shares under deferred and stock compensation arrangements. In addition, the Company retired 731,355 treasury shares.

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

**NOTE G - Income Taxes**

The effective income tax rate in the second quarter of 2015 of 31.4% decreased from 33.6% in the same period of 2014, and the effective income tax rate in the first half of 2015 of 32.0% decreased from 33.2% in the same period of 2014. The decreases in the effective tax rates for the second quarter and first half were primarily due to the mix of income generated in jurisdictions with lower tax rates in 2015 as compared to 2014.

**NOTE H - Segment Information**

PACCAR operates in three principal segments: Truck, Parts and Financial Services.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Net sales and revenues: | | | | |
| Truck | **$4,228.4** | $3,679.4 | **$8,209.2** | $7,168.0 |
| Less intersegment | **(245.0)** | (224.4) | **(456.7)** | (383.8) |
| External customers | **3,983.4** | 3,455.0 | **7,752.5** | 6,784.2 |
| Parts | **788.4** | 790.1 | **1,552.8** | 1,527.3 |
| Less intersegment | **(11.9)** | (12.1) | **(23.6)** | (22.7) |
| External customers | **776.5** | 778.0 | **1,529.2** | 1,504.6 |
| Other | **26.2** | 34.0 | **52.4** | 64.4 |
| | **4,786.1** | 4,267.0 | **9,334.1** | 8,353.2 |
| Financial Services | **293.8** | 302.6 | **578.5** | 596.3 |
| | **$5,079.9** | $4,569.6 | **$9,912.6** | $8,949.5 |
| Income (loss) before income taxes: | | | | |
| Truck | **$ 420.1** | $ 259.6 | **$ 759.2** | $ 471.9 |
| Parts | **145.7** | 126.7 | **284.6** | 238.8 |
| Other | **(9.7)** | (2.5) | **(20.1)** | (11.7) |
| | **556.1** | 383.8 | **1,023.7** | 699.0 |
| Financial Services | **90.8** | 91.7 | **179.8** | 177.2 |
| Investment income | **5.3** | 5.5 | **10.4** | 11.3 |
| | **$ 652.2** | $ 481.0 | **$1,213.9** | $ 887.5 |
| Depreciation and amortization: | | | | |
| Truck | **$ 101.9** | $ 100.5 | **$ 198.9** | $ 200.2 |
| Parts | **1.6** | 1.3 | **3.1** | 2.7 |
| Other | **3.5** | 2.7 | **7.1** | 5.3 |
| | **107.0** | 104.5 | **209.1** | 208.2 |
| Financial Services | **120.3** | 123.2 | **239.3** | 239.3 |
| | **$ 227.3** | $ 227.7 | **$ 448.4** | $ 447.5 |

### Truck and Parts

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

### Financial Services

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

### Other

Included in Other is the Company’s industrial winch manufacturing business. Also within this category are other sales, income and expense not attributable to a reportable segment, including a portion of corporate expenses.

The accounting policies of the reportable segments are the same as those applied in the consolidated financial statements as described in Note A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

### NOTE I - Derivative Financial Instruments

As part of its risk management strategy, the Company enters into derivative contracts to hedge against interest rates and foreign currency risk. Certain derivative instruments designated as either cash flow hedges or fair value hedges are subject to hedge accounting. Derivative instruments that are not subject to hedge accounting are held as economic hedges. The Company’s policies prohibit the use of derivatives for speculation or trading. At the inception of each hedge relationship, the Company documents its risk management objectives, procedures and accounting treatment. All of the Company’s interest-rate and certain foreign exchange contracts are transacted under International Swaps and Derivatives Association (ISDA) master agreements. Each agreement permits the net settlement of amounts owed in the event of default and certain other termination events. For derivative financial instruments, the Company has elected not to offset derivative positions in the balance sheet with the same counterparty under the same agreements and is not required to post or receive collateral. Exposure limits and minimum credit ratings are used to minimize the risks of counterparty default. The Company had no material exposures to default at June 30, 2015.

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

*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 June 30, 2015, the notional amount of the Company's interest-rate contracts was $3,695.1. Notional maturities for all interest-rate contracts are $485.7 for the remainder of 2015, $1,313.1 for 2016, $653.5 for 2017, $1,013.6 for 2018, $83.4 for 2019 and $145.8 thereafter. The majority of these contracts are floating to fixed swaps that effectively convert an equivalent amount of commercial paper and other variable rate debt to fixed rates.

*Foreign-Exchange Contracts:* The Company enters into foreign-exchange contracts to hedge certain anticipated transactions and assets and liabilities denominated in foreign currencies, particularly the Canadian dollar, the euro, the British pound, the Australian dollar, the Brazilian real and the Mexican peso. The objective is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates. At June 30, 2015, the notional amount of the outstanding foreign-exchange contracts was $289.5. Foreign-exchange contracts mature within one year.

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

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

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | Assets | Liabilities |
| Derivatives designated under hedge accounting: | | | | |
| *Interest-rate contracts:* | | | | |
| Financial Services: | | | | |
| Other assets | **$ 129.4** | | $ 82.7 | |
| Deferred taxes and other liabilities | | **$ 71.0** | | $ 45.7 |
| *Foreign-exchange contracts:* | | | | |
| Truck, Parts and Other: | | | | |
| Other current assets | **1.4** | | 1.2 | |
| Accounts payable, accrued expenses and other | | **2.7** | | 1.9 |
| Total | **$ 130.8** | **$ 73.7** | $ 83.9 | $ 47.6 |
| Economic hedges: | | | | |
| *Foreign-exchange contracts:* | | | | |
| Truck, Parts and Other: | | | | |
| Other current assets | **$ .2** | | $ 1.9 | |
| Accounts payable, accrued expenses and other | | **$ 1.6** | | $ .9 |
| Financial Services: | | | | |
| Other assets | **.8** | | 3.4 | |
| Deferred taxes and other liabilities | | **.1** | | |
| Total | **$ 1.0** | **$ 1.7** | $ 5.3 | $ .9 |
| Gross amounts recognized in Balance Sheet | **$ 131.8** | **$ 75.4** | $ 89.2 | $ 48.5 |
| Less amounts not offset in financial instruments: | | | | |
| Truck, Parts and Other: | | | | |
| Foreign-exchange contracts | **(.2)** | **(.2)** | (.9) | (.9) |
| Financial Services: | | | | |
| Interest-rate contracts | **(4.5)** | **(4.5)** | (3.9) | (3.9) |
| Pro forma net amount | **$ 127.1** | **$ 70.7** | $ 84.4 | $ 43.7 |

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

### Fair Value Hedges

Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings together with the changes in fair value of the hedged item attributable to the risk being hedged. The (income) or expense recognized in earnings related to fair value hedges was included in interest and other borrowing expenses in the Financial Services segment of the Consolidated Statements of Comprehensive Income as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Interest-rate swaps | **$ .3** | $ (.6) | **$ (1.1)** | $ (.5) |
| Term notes | **(.5)** | (.1) | **.6** | (1.2) |

### Cash Flow Hedges

Substantially all of the Company's interest-rate contracts and some foreign-exchange contracts have been designated as cash flow hedges. Changes in the fair value of derivatives designated as cash flow hedges are recorded in AOCI to the extent such hedges are considered effective. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is 5.7 years.

Amounts in AOCI are reclassified into net income in the same period in which the hedged transaction affects earnings. Net realized gains and losses from interest-rate contracts are recognized as an adjustment to interest expense. Net realized gains and losses from foreign-exchange contracts are recognized as an adjustment to the line item in the Consolidated Statements of Comprehensive Income consistent with the hedged transaction. The Company recognized losses on the ineffective portions of nil and $.3 for the second quarter of 2015 and 2014, respectively, and losses of nil and $.3 for the first six months of 2015 and 2014, respectively.

The following table presents the pre-tax effects of derivative instruments recognized in OCI:

| | **Three Months Ended June 30, 2015** | | **Six Months Ended June 30, 2015** | |
|---|---|---|---|---|
| | **Interest-Rate Contracts** | **Foreign-Exchange Contracts** | **Interest-Rate Contracts** | **Foreign-Exchange Contracts** |
| **(Loss) gain recognized in OCI:** | | | | |
| **Truck, Parts and Other** | | **$ (3.0)** | | **$ (3.0)** |
| **Financial Services** | **$ (19.9)** | | **$ 11.8** | |
| **Total** | **$ (19.9)** | **$ (3.0)** | **$ 11.8** | **$ (3.0)** |

| | Three Months Ended June 30, 2014 | | Six Months Ended June 30, 2014 | |
|---|---|---|---|---|
| | Interest-Rate Contracts | Foreign-Exchange Contracts | Interest-Rate Contracts | Foreign-Exchange Contracts |
| Loss recognized in OCI: | | | | |
| Truck, Parts and Other | | $ (3.0) | | $ (2.8) |
| Financial Services | $ (38.7) | | $ (30.3) | |
| Total | $ (38.7) | $ (3.0) | $ (30.3) | $ (2.8) |

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

Expense (income) reclassified out of AOCI into the Consolidated Statements of Comprehensive Income as follows:

| | Three Months Ended June 30, 2015 | | Six Months Ended June 30, 2015 | |
|---|---|---|---|---|
| | **Interest-Rate Contracts** | **Foreign-Exchange Contracts** | **Interest-Rate Contracts** | **Foreign-Exchange Contracts** |
| **Truck, Parts and Other:** | | | | |
| **Net sales and revenues** | | **$ .3** | | **$ .3** |
| **Cost of sales and revenues** | | **.2** | | **3.4** |
| **Interest and other expense (income), net** | | **.2** | | **(1.7)** |
| **Financial Services:** | | | | |
| **Interest and other borrowing expenses** | **$ 25.4** | | **$ (7.8)** | |
| **Total** | **$ 25.4** | **$ .7** | **$ (7.8)** | **$ 2.0** |

| | Three Months Ended June 30, 2014 | | Six Months Ended June 30, 2014 | |
|---|---|---|---|---|
| | Interest-Rate Contracts | Foreign-Exchange Contracts | Interest-Rate Contracts | Foreign-Exchange Contracts |
| Truck, Parts and Other: | | | | |
| Cost of sales and revenues | | $ 1.7 | | $ 1.8 |
| Interest and other expense (income), net | | .2 | | .1 |
| Financial Services: | | | | |
| Interest and other borrowing expenses | $ 38.5 | | $ 31.6 | |
| Total | $ 38.5 | $ 1.9 | $ 31.6 | $ 1.9 |

The amount of loss recorded in AOCI at June 30, 2015 that is estimated to be recognized in the Consolidated Statements of Comprehensive Income in the following 12 months if interest rates and exchange rates remain unchanged is approximately $11.4, net of taxes. The fixed interest earned on finance receivables will offset the amount recognized in interest expense, resulting in a stable interest margin consistent with the Company's risk management strategy.

**Economic Hedges**

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

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

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

| | Three Months Ended June 30, 2015 | | Six Months Ended June 30, 2015 | |
|---|---|---|---|---|
| | **Interest-Rate Contracts** | **Foreign-Exchange Contracts** | **Interest-Rate Contracts** | **Foreign-Exchange Contracts** |
| **Truck, Parts and Other:** | | | | |
| **Cost of sales and revenues** | | **$ (.3)** | | **$ (2.0)** |
| **Interest and other expense (income), net** | | **(.5)** | | **1.6** |
| **Financial Services:** | | | | |
| **Interest and other borrowing expenses** | | **(3.3)** | | **(17.8)** |
| **Selling, general and administrative** | | **(.4)** | | **(.6)** |
| **Total** | | **$ (4.5)** | | **$ (18.8)** |

| | Three Months Ended June 30, 2014 | | Six Months Ended June 30, 2014 | |
|---|---|---|---|---|
| | Interest-Rate Contracts | Foreign-Exchange Contracts | Interest-Rate Contracts | Foreign-Exchange Contracts |
| Truck, Parts and Other: | | | | |
| Cost of sales and revenues | | $ (.4) | | $ (.2) |
| Interest and other expense (income), net | | 1.2 | | .3 |
| Financial Services: | | | | |
| Interest and other borrowing expenses | $ .3 | 4.3 | $ .3 | 4.8 |
| Total | $ .3 | $ 5.1 | $ .3 | $ 4.9 |

**NOTE J - Fair Value Measurements**

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs to valuation techniques used to measure fair value are either observable or unobservable. These inputs have been categorized into the fair value hierarchy described below.

Level 1 – Valuations are based on quoted prices that the Company has the ability to obtain in actively traded markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market or exchange traded market, valuation of these instruments does not require a significant degree of judgment.

Level 2 – Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuations are based on model-based techniques for which some or all of the assumptions are obtained from indirect market information that is significant to the overall fair value measurement and which require a significant degree of management judgment.

There were no transfers of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy during the six months ended June 30, 2015. The Company's policy is to recognize transfers between levels at the end of the reporting period.

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

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

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

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

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

### Assets and Liabilities Subject to Recurring Fair Value Measurement

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

| At June 30, 2015 | Level 1 | Level 2 | Total |
|---|---|---|---|
| **Assets:** | | | |
| **Marketable debt securities** | | | |
| **U.S. tax-exempt securities** | | **$ 496.3** | **$ 496.3** |
| **U.S. corporate securities** | | **74.6** | **74.6** |
| **U.S. government and agency securities** | **$ 7.7** | **.5** | **8.2** |
| **Non-U.S. corporate securities** | | **553.9** | **553.9** |
| **Non-U.S. government securities** | | **179.8** | **179.8** |
| **Other debt securities** | | **84.5** | **84.5** |
| **Total marketable debt securities** | **$ 7.7** | **$1,389.6** | **$1,397.3** |
| **Derivatives** | | | |
| **Cross currency swaps** | | **$ 126.1** | **$ 126.1** |
| **Interest-rate swaps** | | **3.3** | **3.3** |
| **Foreign-exchange contracts** | | **2.4** | **2.4** |
| **Total derivative assets** | | **$ 131.8** | **$ 131.8** |
| **Liabilities:** | | | |
| **Derivatives** | | | |
| **Cross currency swaps** | | **$ 59.2** | **$ 59.2** |
| **Interest-rate swaps** | | **11.8** | **11.8** |
| **Foreign-exchange contracts** | | **4.4** | **4.4** |
| **Total derivative liabilities** | | **$ 75.4** | **$ 75.4** |

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

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

**Fair Value Disclosure of Other Financial Instruments**

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

*Cash and Cash Equivalents:* Carrying amounts approximate fair value.

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

*Debt:* The carrying amounts of financial services commercial paper, variable rate bank loans and variable rate term notes approximate fair value. For fixed rate debt, fair values are estimated using the income approach by discounting cash flows to their present value based on current rates for comparable debt.

**Notes to Consolidated Financial Statements (Unaudited)** (Millions, Except Share Amounts)

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

| | **June 30, 2015** | | December 31, 2014 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| Assets: | | | | |
| Financial Services fixed rate loans | **$ 3,591.9** | **$ 3,648.1** | $ 3,627.5 | $ 3,683.3 |
| Liabilities: | | | | |
| Financial Services fixed rate debt | **4,249.7** | **4,274.2** | 3,713.4 | 3,737.7 |

**NOTE K - Employee Benefit Plans**

The Company has several defined benefit pension plans, which cover a majority of its employees. The following information details the components of net pension expense for the Company's defined benefit plans:

| | **Three Months Ended June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Service cost | **$ 24.2** | $ 17.0 | **$ 45.8** | $ 34.0 |
| Interest on projected benefit obligation | **23.3** | 23.1 | **46.2** | 46.1 |
| Expected return on assets | **(35.7)** | (32.2) | **(70.5)** | (64.2) |
| Amortization of prior service costs | **.3** | .3 | **.6** | .6 |
| Recognized actuarial loss | **10.5** | 5.2 | **20.6** | 10.4 |
| Net pension expense | **$ 22.6** | $ 13.4 | **$ 42.7** | $ 26.9 |

During the three and six months ended June 30, 2015, the Company contributed $53.0 and $55.7 to its pension plans, respectively, and $4.1 and $8.3 for the three and six months ended June 30, 2014, respectively.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW:

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

Consolidated net sales and revenues in the second quarter of 2015 increased to $5.08 billion from $4.57 billion in the second quarter of 2014. In the first six months of 2015, net sales and revenues increased to a record $9.91 billion from $8.95 billion in the same period of 2014. The Company's worldwide truck net sales and revenues in the second quarter of 2015 increased to $3.98 billion from $3.46 billion in the second quarter of 2014. In the first six months of 2015, truck net sales increased to a record $7.75 billion from $6.78 billion in the same period of 2014. Increases in truck sales were primarily due to stronger industry truck sales in the U.S. and Europe, partially offset by the effects of translating weaker foreign currencies, primarily the euro, to the U.S. dollar. The Company's worldwide parts net sales and revenues were $776.5 million in the second quarter of 2015 compared to $778.0 million in the second quarter of 2014. In the first six months of 2015, worldwide parts net sales and revenues increased to a record $1.53 billion from $1.50 billion in the same period of 2014. Parts sales benefited from higher freight demand in North America and Europe, higher fleet utilization and growth in the size of the North American truck parc, offset by currency translation effects. Financial Services revenues were $293.8 million in the second quarter of 2015 compared to $302.6 million in the second quarter of 2014. In the first six months of 2015, Financial Services revenues were $578.5 million compared to $596.3 million in the same period in 2014. The decrease in Financial Services revenues in both periods was primarily due to currency translation effects and lower market interest rates, partially offset by higher average earning assets.

Second quarter 2015 net income increased to a record $447.2 million ($1.26 per diluted share) from $319.2 million ($.90 per diluted share) in the second quarter of 2014. For the first six months of 2015, net income improved to a record $825.6 million ($2.32 per diluted share) from $593.1 million ($1.67 per diluted share) in the first six months of 2014. The results reflect increased truck sales in the U.S. and Europe and strong aftermarket parts and financial services results. The U.S. truck market is benefiting from record freight demand and expansion of industry fleet capacity.

In the second quarter and first half of 2015, the Company's R&D expenses were $59.3 million and $115.5 million compared to $49.9 million and $102.6 million in the second quarter and first half of 2014. R&D is focused on powertrain and new vehicle development.

Kenworth and Peterbilt launched new vehicle technologies that provide customers real-time diagnostic information to enhance their vehicle operating performance. Kenworth *TruckTech+* and Peterbilt *SmartLinq* diagnostic systems are in production on new Class 8 trucks equipped with the PACCAR MX-13 engine.

### *Truck and Parts Outlook*

Class 8 truck industry retail sales in the U.S. and Canada in 2015 are expected to be 270,000 to 290,000 units compared to 249,400 units in 2014 driven by economic growth, strong freight demand and expansion of truck industry fleet capacity. In Europe, the 2015 truck industry registrations for over 16-tonne vehicles are expected to be 240,000 to 260,000 units, compared to 226,900 truck registrations in 2014. In South America, heavy-duty truck industry sales are estimated to be in a range of 70,000 to 80,000 units in 2015, compared to 129,000 units in 2014.

In 2015, PACCAR Parts sales are expected to grow 6-9% in North America, reflecting steady economic growth and high fleet utilization. PACCAR Parts deliveries are expected to increase 4-7% in Europe, reflecting good freight markets and PACCAR Parts' innovative customer service programs. The U.S. dollar value of sales in Europe may continue to be affected by recent declines in the value of the euro relative to the U.S. dollar.

Capital investments in 2015 are expected to be $325 to $375 million, focused on enhanced powertrain development and increased operating efficiency for the Company's factories and distribution centers. R&D in 2015 is expected to be $225 to $250 million focused on developing new products and services.

### *Financial Services Outlook*

Based on the truck market outlook, average earning assets in 2015 are expected to be similar to current levels. Increases in local currencies are expected to be offset by translation into the U.S. dollar. Current levels of freight tonnage, freight rates and fleet utilization are contributing to customers' profitability and cash flow. If current freight transportation conditions decline due to weaker economic conditions, then past due accounts, truck repossessions and credit losses would likely increase from the current low levels.

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

## RESULTS OF OPERATIONS:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| ($ in millions, except per share amounts) | **2015** | 2014 | **2015** | 2014 |
| Net sales and revenues: | | | | |
| Truck | **$3,983.4** | $3,455.0 | **$7,752.5** | $6,784.2 |
| Parts | **776.5** | 778.0 | **1,529.2** | 1,504.6 |
| Other | **26.2** | 34.0 | **52.4** | 64.4 |
| Truck, Parts and Other | **4,786.1** | 4,267.0 | **9,334.1** | 8,353.2 |
| Financial Services | **293.8** | 302.6 | **578.5** | 596.3 |
| | **$5,079.9** | $4,569.6 | **$9,912.6** | $8,949.5 |
| Income (loss) before taxes: | | | | |
| Truck | **$ 420.1** | $ 259.6 | **$ 759.2** | $ 471.9 |
| Parts | **145.7** | 126.7 | **284.6** | 238.8 |
| Other | **(9.7)** | (2.5) | **(20.1)** | (11.7) |
| Truck, Parts and Other | **556.1** | 383.8 | **1,023.7** | 699.0 |
| Financial Services | **90.8** | 91.7 | **179.8** | 177.2 |
| Investment income | **5.3** | 5.5 | **10.4** | 11.3 |
| Income taxes | **(205.0)** | (161.8) | **(388.3)** | (294.4) |
| Net income | **$ 447.2** | $ 319.2 | **$ 825.6** | $ 593.1 |
| Diluted earnings per share | **$ 1.26** | $ .90 | **$ 2.32** | $ 1.67 |
| Return on revenues | **8.8%** | 7.0% | **8.3%** | 6.6% |

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

**2015 Compared to 2014:**

***Truck***

The Company's Truck segment accounted for 78% of revenues in the second quarter and first six months of 2015 compared to 76% in the second quarter and first six months of 2014.

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| ($ in millions) | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| Truck net sales and revenues: | | | | | | |
| U.S. and Canada | **$ 2,821.6** | $ 2,123.2 | 33 | **$ 5,447.5** | $ 4,082.3 | 33 |
| Europe | **804.7** | 857.7 | (6) | **1,577.2** | 1,820.3 | (13) |
| Mexico, South America, Australia and other | **357.1** | 474.1 | (25) | **727.8** | 881.6 | (17) |
| | **$ 3,983.4** | $ 3,455.0 | 15 | **$ 7,752.5** | $ 6,784.2 | 14 |
| Truck income before income taxes | **$ 420.1** | $ 259.6 | 62 | **$ 759.2** | $ 471.9 | 61 |
| Pre-tax return on revenues | **10.5%** | 7.5% | | **9.8%** | 7.0% | |

The Company's worldwide truck net sales and revenues in the second quarter and first half of 2015 increased to $3.98 billion and $7.75 billion, respectively, from $3.46 billion and $6.78 billion in the same periods in 2014, respectively, primarily due to higher truck deliveries in the U.S. and Europe. These were partially offset by the effects of translating weaker foreign currencies to the U.S. dollar, primarily the euro, which reduced second quarter and first half of 2015 worldwide truck net sales and revenues by $261.8 million and $493.5 million, respectively.

For the second quarter and first half of 2015, Truck segment income before income taxes and pre-tax return on revenues reflect higher truck unit deliveries and improved gross margins in the U.S. and Europe. The effects on income before income taxes of translating weaker foreign currencies to the U.S. dollar, primarily the euro, were largely offset by lower costs of North America MX engine components imported from Europe.

The Company's new truck deliveries are summarized below:

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| U.S. and Canada | **26,800** | 20,500 | 31 | **51,200** | 39,100 | 31 |
| Europe | **11,200** | 8,900 | 26 | **21,300** | 18,200 | 17 |
| Mexico, South America, Australia and other | **3,600** | 4,300 | (16) | **7,400** | 8,200 | (10) |
| Total units | **41,600** | 33,700 | 23 | **79,900** | 65,500 | 22 |

In the first six months of 2015, industry retail sales in the heavy-duty market in the U.S. and Canada increased to 138,100 units from 113,600 units in the same period of 2014. The Company's heavy-duty truck retail market share was 27.7% in the first half of 2015 compared to 27.3% in the first half of 2014. The medium-duty market was 41,300 units in the first half of 2015 compared to 36,000 units in the same period of 2014. The Company's medium-duty market share was 15.3% in the first six months of 2015 compared to 15.2% in the first six months of 2014.

The over 16-tonne truck market in Western and Central Europe in the first six months of 2015 was 130,700 units compared to 108,800 units in the first six months of 2014. The Company's market share was 14.8% in the first six months of 2015 compared to 12.6% in the same period of 2014. The 6 to 16-tonne market in the first six months of 2015 was 22,400 units compared to 22,500 units in the first six months of 2014. DAF market share in the 6 to 16-tonne market in the first six months of 2015 was 9.1% compared to 7.7% in the same period of 2014.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between the three months ended June 30, 2015 and 2014 for the Truck segment are as follows:

| ($ in millions) | Net Sales | Cost of Sales | Gross Margin |
|---|---|---|---|
| **Three Months Ended June 30, 2014** | **$ 3,455.0** | **$ 3,118.0** | **$ 337.0** |
| **Increase (decrease)** | | | |
| **Truck delivery volume** | **768.5** | **611.8** | **156.7** |
| **Average truck sales prices** | **21.9** | | **21.9** |
| **Average per truck material, labor and other direct costs** | | **(38.8)** | **38.8** |
| **Factory overhead and other indirect costs** | | **24.0** | **(24.0)** |
| **Operating leases** | **(.2)** | **.4** | **(.6)** |
| **Currency translation** | **(261.8)** | **(237.8)** | **(24.0)** |
| **Total increase** | **528.4** | **359.6** | **168.8** |
| **Three Months Ended June 30, 2015** | **$ 3,983.4** | **$ 3,477.6** | **$ 505.8** |

- Higher truck unit deliveries in the U.S. and Canada and Europe increased sales ($845.1 million) and cost of sales ($675.6 million). This was partially offset by lower truck deliveries in Mexico and Australia which resulted in lower sales ($78.0 million) and cost of sales ($63.7 million).
- Average truck sales prices increased sales by $21.9 million, primarily driven by improved price realization in Europe.
- Average cost per truck decreased cost of sales by $38.8 million, primarily due to lower material costs, reflecting lower commodity prices and lower costs of North America MX engine components imported from Europe which benefited from the decline in the value of the euro.
- Factory overhead and other indirect costs increased $24.0 million, primarily due to higher supplies and maintenance ($17.0 million) to support higher sales volume and higher depreciation expense ($2.4 million).
- The currency translation effect on sales and cost of sales reflects a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro.
- Truck gross margin in the second quarter of 2015 of 12.7% increased from 9.8% in the same period in 2014 due to the factors noted above.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between the six months ended June 30, 2015 and 2014 for the Truck segment are as follows:

| ($ in millions) | Net Sales | Cost of Sales | Gross Margin |
|---|---|---|---|
| **Six Months Ended June 30, 2014** | **$ 6,784.2** | **$ 6,150.7** | **$ 633.5** |
| **Increase (decrease)** | | | |
| **Truck delivery volume** | **1,427.9** | **1,158.7** | **269.2** |
| **Average truck sales prices** | **48.4** | | **48.4** |
| **Average per truck material, labor and other direct costs** | | **(59.2)** | **59.2** |
| **Factory overhead and other indirect costs** | | **37.5** | **(37.5)** |
| **Operating leases** | **(14.5)** | **(13.3)** | **(1.2)** |
| **Currency translation** | **(493.5)** | **(453.6)** | **(39.9)** |
| **Total increase** | **968.3** | **670.1** | **298.2** |
| **Six Months Ended June 30, 2015** | **$ 7,752.5** | **$ 6,820.8** | **$ 931.7** |

- Higher truck unit deliveries in the U.S. and Canada and Europe increased sales ($1,521.6 million) and cost of sales ($1,236.5 million). This was partially offset by lower truck deliveries in Mexico and Australia, which resulted in lower sales ($95.0 million) and cost of sales ($77.2 million).
- Average truck sales prices increased sales by $48.4 million, driven by improved price realization in Europe and the U.S. and Canada.
- Average cost per truck decreased cost of sales by $59.2 million, primarily due to lower material costs, reflecting lower commodity prices, and lower costs of North America MX engine components imported from Europe which benefited from the decline in the value of the euro.
- Factory overhead and other indirect costs increased $37.5 million, primarily due to higher supplies and maintenance ($21.9 million) and salaries and related expenses ($9.4 million) to support higher sales volume and higher depreciation expense ($4.8 million).
- Operating lease revenues and cost of sales decreased due to lower average asset balances.
- The currency translation effect on sales and cost of sales reflects a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro.
- Truck gross margin in the first six months of 2015 of 12.0% increased from 9.3% in the same period in 2014 due to the factors noted above.

Truck SG&A expenses for the second quarter of 2015 decreased to $45.4 million from $50.1 million in the second quarter of 2014. In the first six months of 2015, Truck SG&A decreased to $91.2 million from $104.1 million in the first six months of 2014. The decrease for the second quarter was primarily due to currency translation effect ($5.9 million), mostly related to a decline in the value of the euro relative to the U.S. dollar, and the decrease for the first six months was due to currency translation impact ($10.3 million) and lower salaries and related expenses ($1.8 million).

As a percentage of sales, Truck SG&A decreased to 1.1% in the second quarter of 2015 compared to 1.5% in the same period of 2014. For the first six months of 2015, Truck SG&A as a percentage of sales decreased to 1.2% from 1.5% in the first six months of 2014, reflecting higher sales volume and ongoing cost controls.

***Parts***

The Company's Parts segment accounted for 15% of revenues in the second quarter and first six months of 2015 compared to 17% in the second quarter and first six months of 2014.

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| ($ in millions) | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| Parts net sales and revenues: | | | | | | |
| U.S. and Canada | **$ 501.7** | $ 464.4 | 8 | **$ 984.8** | $ 888.4 | 11 |
| Europe | **191.4** | 220.6 | (13) | **386.4** | 438.8 | (12) |
| Mexico, South America, Australia and other | **83.4** | 93.0 | (10) | **158.0** | 177.4 | (11) |
| | **$ 776.5** | $ 778.0 | | **$ 1,529.2** | $ 1,504.6 | 2 |
| Parts income before income taxes | **$ 145.7** | $ 126.7 | 15 | **$ 284.6** | $ 238.8 | 19 |
| Pre-tax return on revenues | **18.8%** | 16.3% | | **18.6%** | 15.9% | |

The Company's worldwide parts net sales and revenues increased in the second quarter and first six months of 2015 primarily due to higher aftermarket demand in North America and Europe. This was partially offset by a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro, which reduced 2015 worldwide parts net sales and revenues by $56.2 million in the second quarter and $104.9 million in the first half.

The increase in Parts segment income before taxes and pre-tax return on revenues in the second quarter and first six months of 2015 was primarily due to higher sales and gross margins. This was partially offset by a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro, which reduced 2015 Parts segment income before income taxes by $11.6 million in the second quarter and $20.7 million in the first half.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between the three months ended June 30, 2015 and 2014 for the Parts segment are as follows:

| **($ in millions)** | **Net Sales** | **Cost of Sales** | **Gross Margin** |
|---|---|---|---|
| **Three Months Ended June 30, 2014** | **$ 778.0** | **$ 575.8** | **$ 202.2** |
| **Increase (decrease)** | | | |
| **Aftermarket parts volume** | **36.0** | **27.6** | **8.4** |
| **Average aftermarket parts sales prices** | **18.7** | | **18.7** |
| **Average aftermarket parts direct costs** | | **(6.6)** | **6.6** |
| **Warehouse and other indirect costs** | | **2.4** | **(2.4)** |
| **Currency translation** | **(56.2)** | **(36.5)** | **(19.7)** |
| **Total (decrease) increase** | **(1.5)** | **(13.1)** | **11.6** |
| **Three Months Ended June 30, 2015** | **$ 776.5** | **$ 562.7** | **$ 213.8** |

- Higher market demand, primarily in the U.S., Canada and Europe, resulted in increased aftermarket parts sales volume of $36.0 million and related cost of sales by $27.6 million.
- Average aftermarket parts sales prices increased sales by $18.7 million reflecting improved price realization, primarily in Europe ($13.6 million) and in the U.S. and Canada ($4.9 million).

- Average aftermarket parts direct costs decreased $6.6 million due to lower material costs.
- Warehouse and other indirect costs increased $2.4 million primarily due to additional costs to support higher sales volume.
- The currency translation effect on sales and cost of sales reflects a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro.
- Parts gross margin in the second quarter of 2015 increased to 27.5% from 26.0% in the second quarter of 2014 due to the factors noted above.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between the six months ended June 30, 2015 and 2014 for the Parts segment are as follows:

| ($ in millions) | Net Sales | Cost of Sales | Gross Margin |
|---|---|---|---|
| **Six Months Ended June 30, 2014** | **$ 1,504.6** | **$ 1,114.9** | **$ 389.7** |
| **Increase (decrease)** | | | |
| **Aftermarket parts volume** | **81.0** | **49.6** | **31.4** |
| **Average aftermarket parts sales prices** | **48.5** | | **48.5** |
| **Average aftermarket parts direct costs** | | **8.4** | **(8.4)** |
| **Warehouse and other indirect costs** | | **4.4** | **(4.4)** |
| **Currency translation** | **(104.9)** | **(68.2)** | **(36.7)** |
| **Total increase (decrease)** | **24.6** | **(5.8)** | **30.4** |
| **Six Months Ended June 30, 2015** | **$ 1,529.2** | **$ 1,109.1** | **$ 420.1** |

- Higher market demand, primarily in the U.S. and Canada and Europe, resulted in increased aftermarket parts sales volume of $81.0 million and related cost of sales by $49.6 million.
- Average aftermarket parts sales prices increased sales by $48.5 million reflecting improved price realization, primarily in the U.S. and Canada ($28.4 million) and Europe ($21.6 million).
- Average aftermarket parts direct costs increased $8.4 million due to higher material costs.
- Warehouse and other indirect costs increased $4.4 million primarily due to additional costs to support higher sales volume.
- The currency translation effect on sales and cost of sales reflects a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro.
- Parts gross margin in the first half of 2015 increased to 27.5% from 25.9% in the first half of 2014 due to the factors noted above.

Parts SG&A expenses for the second quarter of 2015 decreased to $48.8 million from $52.5 million in the second quarter of 2014. The decrease for the second quarter was primarily due to currency translation impact ($6.1 million), mostly related to a decline in the value of the euro relative to the U.S. dollar, partially offset by higher salaries and related expenses ($1.7 million). In the first six months of 2015, Parts SG&A decreased to $97.0 million from $104.3 million in the first six months of 2014. The decrease for the first six months was due to currency translation impact ($11.3 million), partially offset by higher salaries and related expenses ($5.9 million).

As a percentage of sales, Parts SG&A decreased to 6.3% in the second quarter of 2015 compared to 6.7% in the second quarter of 2014 primarily due to higher sales volume. For the first six months of 2015, Parts SG&A as a percentage of sales was 6.3%, down from 6.9% in the first six months of 2014, reflecting higher sales volume.

***Financial Services***

The Company's Financial Services segment accounted for 6% of revenues in the second quarter and first six months of 2015 compared to 7% in the second quarter and first six months of 2014.

| ($ in millions) | Three Months Ended June 30 2015 | Three Months Ended June 30 2014 | % Change | Six Months Ended June 30 2015 | Six Months Ended June 30 2014 | % Change |
|---|---|---|---|---|---|---|
| New loan and lease volume: | | | | | | |
| U.S. and Canada | **$ 782.3** | $ 780.4 | | **$ 1,342.9** | $ 1,260.4 | 7 |
| Europe | **268.9** | 249.8 | 8 | **506.9** | 474.8 | 7 |
| Mexico and Australia | **148.9** | 170.8 | (13) | **304.4** | 329.1 | (8) |
| | **$ 1,200.1** | $ 1,201.0 | | **$ 2,154.2** | $ 2,064.3 | 4 |
| New loan and lease volume by product: | | | | | | |
| Loans and finance leases | **$ 898.8** | $ 903.4 | (1) | **$ 1,582.6** | $ 1,614.3 | (2) |
| Equipment on operating lease | **301.3** | 297.6 | 1 | **571.6** | 450.0 | 27 |
| | **$ 1,200.1** | $ 1,201.0 | | **$ 2,154.2** | $ 2,064.3 | 4 |
| New loan and lease unit volume: | | | | | | |
| Loans and finance leases | **9,000** | 8,500 | 6 | **15,800** | 15,300 | 3 |
| Equipment on operating lease | **2,900** | 2,700 | 7 | **5,500** | 4,200 | 31 |
| | **11,900** | 11,200 | 6 | **21,300** | 19,500 | 9 |
| Average earning assets: | | | | | | |
| U.S. and Canada | **$ 7,464.8** | $ 6,650.8 | 12 | **$ 7,272.1** | $ 6,588.6 | 10 |
| Europe | **2,433.8** | 2,787.8 | (13) | **2,444.6** | 2,761.7 | (11) |
| Mexico and Australia | **1,550.6** | 1,730.1 | (10) | **1,581.4** | 1,725.1 | (8) |
| | **$ 11,449.2** | $ 11,168.7 | 3 | **$ 11,298.1** | $ 11,075.4 | 2 |
| Average earning assets by product: | | | | | | |
| Loans and finance leases | **$ 7,236.0** | $ 7,264.1 | | **$ 7,213.7** | $ 7,215.3 | |
| Dealer wholesale financing | **1,748.2** | 1,469.5 | 19 | **1,655.7** | 1,452.2 | 14 |
| Equipment on lease and other | **2,465.0** | 2,435.1 | 1 | **2,428.7** | 2,407.9 | 1 |
| | **$ 11,449.2** | $ 11,168.7 | 3 | **$ 11,298.1** | $ 11,075.4 | 2 |
| Revenues: | | | | | | |
| U.S. and Canada | **$ 169.5** | $ 159.2 | 6 | **$ 330.4** | $ 312.6 | 6 |
| Europe | **68.7** | 81.2 | (15) | **136.8** | 161.3 | (15) |
| Mexico and Australia | **55.6** | 62.2 | (11) | **111.3** | 122.4 | (9) |
| | **$ 293.8** | $ 302.6 | (3) | **$ 578.5** | $ 596.3 | (3) |
| Revenues by product: | | | | | | |
| Loans and finance leases | **$ 96.7** | $ 101.6 | (5) | **$ 194.3** | $ 202.1 | (4) |
| Dealer wholesale financing | **14.4** | 13.1 | 10 | **27.7** | 25.5 | 9 |
| Equipment on lease and other | **182.7** | 187.9 | (3) | **356.5** | 368.7 | (3) |
| | **$ 293.8** | $ 302.6 | (3) | **$ 578.5** | $ 596.3 | (3) |
| Income before income taxes | **$ 90.8** | $ 91.7 | (1) | **$ 179.8** | $ 177.2 | 1 |

New loan and lease volume in the second quarter of 2015 of $1,200.1 million was comparable to $1,201.0 million in the second quarter of 2014. New loan and lease volume in the first six months of 2015 increased to $2,154.2 million from $2,064.3 million in the first six months of 2014, primarily driven by higher equipment on operating leases as a result of increased demand from fleet customers in the U.S. and Europe.

In the second quarter of 2015, PFS's finance share on new PACCAR truck sales was 26.0% compared to 30.4% in the second quarter of 2014 due to increased competition. In the first six months of 2015, finance market share on new PACCAR truck sales was 25.1% compared to 28.8% in the same period of 2014 due to increased competition.

In the second quarter of 2015, PFS revenue decreased to $293.8 million from $302.6 million in 2014, and in the first six months of 2015, PFS revenue decreased to $578.5 million from $596.3 million in 2014. The decrease for both periods was primarily due to a decline in the value of the euro relative to the U.S. dollar and lower yields, partially offset by higher average earning asset balances. The effects of currency exchange lowered PFS revenues by $18.6 million and $34.7 million for the second quarter and first six months of 2015, respectively.

Income before income taxes for the second quarter was $90.8 million in 2015 compared to $91.7 million for the second quarter of 2014. For the first six months of 2015, income before income taxes increased to $179.8 million from $177.2 million in 2014 reflecting higher average earning asset balances and lower borrowing rates, partially offset by the effects of currency translation and lower yields. The currency exchange impact lowered PFS income before income taxes by $4.1 million and $7.3 million for the second quarter and first six months of 2015, respectively.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between the three months ended June 30, 2015 and 2014 are outlined below:

| ($ in millions) | Interest and Fees | Interest and Other Borrowing Expenses | Finance Margin |
|---|---|---|---|
| **Three Months Ended June 30, 2014** | $ 114.7 | $ 33.7 | $ 81.0 |
| **Increase (decrease)** | | | |
| **Average finance receivables** | 11.2 | | 11.2 |
| **Average debt balances** | | 2.9 | (2.9) |
| **Yields** | (4.6) | | (4.6) |
| **Borrowing rates** | | (3.6) | 3.6 |
| **Currency translation** | (10.2) | (3.4) | (6.8) |
| **Total (decrease) increase** | (3.6) | (4.1) | .5 |
| **Three Months Ended June 30, 2015** | $ 111.1 | $ 29.6 | $ 81.5 |

- Average finance receivables increased $887.6 million (excluding foreign exchange effects) in the second quarter of 2015 as a result of retail portfolio new business volume exceeding collections.
- Average debt balances increased $806.9 million (excluding foreign exchange effects) in the second quarter of 2015. The higher average debt balances reflect funding for a higher average earning asset portfolio, including loans, finance leases and equipment on operating leases.
- Lower market rates resulted in lower portfolio yields (5.1% in 2015 compared to 5.3% in 2014) and lower borrowing rates (1.5% in 2015 compared to 1.6% in 2014).
- The currency translation effects reflect a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between the six months ended June 30, 2015 and 2014 are outlined below:

| ($ in millions) | Interest and Fees | Interest and Other Borrowing Expenses | Finance Margin |
|---|---|---|---|
| **Six Months Ended June 30, 2014** | **$ 227.6** | **$ 70.3** | **$ 157.3** |
| **Increase (decrease)** | | | |
| **Average finance receivables** | **19.9** | | **19.9** |
| **Average debt balances** | | **4.5** | **(4.5)** |
| **Yields** | **(9.7)** | | **(9.7)** |
| **Borrowing rates** | | **(10.9)** | **10.9** |
| **Currency translation** | **(15.8)** | **(5.2)** | **(10.6)** |
| **Total (decrease) increase** | **(5.6)** | **(11.6)** | **6.0** |
| **Six Months Ended June 30, 2015** | **$ 222.0** | **$ 58.7** | **$ 163.3** |

- Average finance receivables increased $793.2 million (excluding foreign exchange effects) in the first six months of 2015 as a result of retail portfolio new business volume exceeding collections.
- Average debt balances increased $632.6 million (excluding foreign exchange effects) in the first six months of 2015. The higher average debt balances reflect funding for a higher average earning asset portfolio, including loans, finance leases and equipment on operating leases.
- Lower market rates resulted in lower portfolio yields (5.1% in 2015 compared to 5.3% in 2014) and lower borrowing rates (1.4% in 2015 compared to 1.7% in 2014).
- The currency translation effects reflect a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro.

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| ($ in millions) | **2015** | 2014 | **2015** | 2014 |
| Operating lease rental revenues | **$ 173.7** | $ 180.7 | **$ 342.1** | $ 354.2 |
| Used truck sales and other | **9.0** | 7.2 | **14.4** | 14.5 |
| Operating lease, rental and other revenues | **$ 182.7** | $ 187.9 | **$ 356.5** | $ 368.7 |
| Depreciation of operating lease equipment | **$ 112.5** | $ 117.0 | **$ 227.8** | $ 231.8 |
| Vehicle operating expenses | **25.5** | 26.9 | **47.6** | 52.3 |
| Cost of used truck sales and other | **7.9** | 4.5 | **10.9** | 8.6 |
| Depreciation and other expense | **$ 145.9** | $ 148.4 | **$ 286.3** | $ 292.7 |

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expense and lease margin between the three months ended June 30, 2015 and 2014 are outlined below:

| ($ in millions) | Operating Lease, Rental and Other Revenues | Depreciation and Other Expense | Lease Margin |
|---|---|---|---|
| **Three Months Ended June 30, 2014** | $ 187.9 | $ 148.4 | $ 39.5 |
| **Increase (decrease)** | | | |
| Used truck sales | 2.3 | 3.6 | (1.3) |
| Results on returned lease assets | | .4 | (.4) |
| Average operating lease assets | 5.4 | 4.0 | 1.4 |
| Revenue and cost per asset | 1.0 | 1.2 | (.2) |
| Currency translation and other | (13.9) | (11.7) | (2.2) |
| **Total decrease** | (5.2) | (2.5) | (2.7) |
| **Three Months Ended June 30, 2015** | $ 182.7 | $ 145.9 | $ 36.8 |

- A higher volume of used truck sales increased operating lease, rental and other revenues by $2.3 million and increased depreciation and other expense by $3.6 million.
- Average operating lease assets increased $199.4 million (excluding foreign exchange effects), which increased revenues by $5.4 million and related depreciation and other expense by $4.0 million.
- Revenue per asset increased $1.0 million mainly due to higher rental rates in Europe and the U.S., partially offset by lower rental income in Mexico and lower fuel surcharges in the U.S. Cost per asset increased $1.2 million primarily due to higher depreciation costs in Europe, partially offset by lower fuel expense in the U.S.
- The currency translation effects reflect a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro.

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expense and lease margin between the six months ended June 30, 2015 and 2014 are outlined below:

| ($ in millions) | Operating Lease, Rental and Other Revenues | Depreciation and Other Expense | Lease Margin |
|---|---|---|---|
| **Six Months Ended June 30, 2014** | $ 368.7 | $ 292.7 | $ 76.0 |
| **Increase (decrease)** | | | |
| Used truck sales | 1.0 | 2.7 | (1.7) |
| Results on returned lease assets | | 2.6 | (2.6) |
| Average operating lease assets | 11.9 | 8.7 | 3.2 |
| Revenue and cost per asset | (.1) | 1.0 | (1.1) |
| Currency translation and other | (25.0) | (21.4) | (3.6) |
| **Total decrease** | (12.2) | (6.4) | (5.8) |
| **Six Months Ended June 30, 2015** | $ 356.5 | $ 286.3 | $ 70.2 |

- A higher volume of used truck sales increased operating lease, rental and other revenues by $1.0 million and increased depreciation and other expense by $2.7 million.
- Average operating lease assets increased $177.8 million (excluding foreign exchange effects), which increased revenues by $11.9 million and related depreciation and other expense by $8.7 million.

- Revenue per asset decreased $.1 million due to lower rental income in Mexico and lower fuel surcharges in the U.S., partially offset by higher rental rates in Europe and the U.S. Cost per asset increased $1.0 million primarily due to higher depreciation and maintenance costs in Europe, partially offset by lower depreciation costs in Mexico and lower fuel expense in the U.S.
- The currency translation effects reflect a decline in the value of foreign currencies relative to the U.S. dollar, primarily the euro.

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

| | Three Months Ended June 30, 2015 | | Six Months Ended June 30, 2015 | |
|---|---|---|---|---|
| **($ in millions)** | **Provision For Losses on Receivables** | **Net Charge-Offs** | **Provision For Losses on Receivables** | **Net Charge-Offs** |
| **U.S. and Canada** | **$ 2.7** | **$ 1.0** | **$ 3.3** | **$ 1.3** |
| **Europe** | **.1** | **.5** | **1.2** | **1.3** |
| **Mexico and Australia** | **.8** | **.8** | **1.8** | **1.8** |
| | **$ 3.6** | **$ 2.3** | **$ 6.3** | **$ 4.4** |

| | Three Months Ended June 30, 2014 | | Six Months Ended June 30, 2014 | |
|---|---|---|---|---|
| ($ in millions) | Provision For Losses on Receivables | Net Charge-Offs | Provision For Losses on Receivables | Net Charge-Offs |
| U.S. and Canada | $ 1.4 | $ 1.5 | $ 2.9 | $ 2.0 |
| Europe | 1.2 | .9 | 3.4 | 3.1 |
| Mexico and Australia | 1.4 | 1.3 | 1.4 | 1.3 |
| | $ 4.0 | $ 3.7 | $ 7.7 | $ 6.4 |

The provision for losses on receivables was $3.6 million for the second quarter of 2015, a decrease of $.4 million compared to the second quarter of 2014, mainly due to improved portfolio performance in all markets, partially offset by a higher portfolio balance in the U.S. and Canada. For the first half of 2015, the provision for losses on receivables was $6.3 million, a decrease of $1.4 million compared to the same period in 2014 due to improved portfolio performance in all markets except Mexico, partially offset by a higher portfolio balance in the U.S. and Canada.

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

The post-modification balance of accounts modified during the six months ended June 30, 2015 and 2014 are summarized below:

| ($ in millions)<br>Six Months Ended June 30, | **2015**<br>**Recorded Investment** | **% of Total Portfolio*** | 2014<br>Recorded Investment | % of Total Portfolio* |
|---|---|---|---|---|
| Commercial | **$ 90.3** | **2.5%** | $ 100.7 | 2.7% |
| Insignificant delay | **32.9** | **.9%** | 47.7 | 1.3% |
| Credit - no concession | **27.2** | **.8%** | 11.8 | .3% |
| Credit - TDR | **8.6** | **.2%** | 6.7 | .2% |
| | **$ 159.0** | **4.4%** | $ 166.9 | 4.5% |

* Recorded investment immediately after modification as a percentage of ending retail portfolio, on an annualized basis.

During the first six months of 2015, total modification activity decreased compared to the same period of 2014 primarily due to lower modifications for commercial reasons and insignificant delays, partially offset by an increase in credit modifications. The decrease in commercial modifications primarily reflects lower volumes of refinancing. The decline in modifications for insignificant delay reflects a 2014 two-month extension granted to one large fleet customer in the U.S. Credit – no concession modifications increased primarily due to extensions granted to two customers in Australia.

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

| | **June 30 2015** | December 31 2014 | June 30 2014 |
|---|---|---|---|
| Percentage of retail loan and lease accounts 30+ days past due: | | | |
| U.S. and Canada | **.3%** | .1% | .2% |
| Europe | **.8%** | 1.1% | .9% |
| Mexico and Australia | **2.3%** | 2.0% | 2.0% |
| Worldwide | **.6%** | .5% | .6% |

Accounts 30+ days past due were .6% at June 30, 2015 and have increased slightly from .5% at December 31, 2014, primarily due to higher past due accounts in North America, partially offset by lower past dues in Europe. The Company continues to focus on maintaining low past due balances.

When the Company modifies a 30+ days past due account, the customer is then generally considered current under the revised contractual terms. The Company modified $4.0 million of accounts worldwide during the second quarter of 2015, $4.0 million during the fourth quarter of 2014 and $4.3 million during the second quarter of 2014 that were 30+ days past due and became current at the time of modification. Had these accounts not been modified and continued to not make payments, the pro forma percentage of retail loan and lease accounts 30+ days past due would have been as follows:

| | **June 30 2015** | December 31 2014 | June 30 2014 |
|---|---|---|---|
| Pro forma percentage of retail loan and lease accounts 30+ days past due: | | | |
| U.S. and Canada | **.3%** | .1% | .2% |
| Europe | **.8%** | 1.2% | 1.1% |
| Mexico and Australia | **2.6%** | 2.3% | 2.1% |
| Worldwide | **.7%** | .6% | .7% |

Modifications of accounts in prior quarters that were more than 30 days past due at the time of modification are included in past dues if they were not performing under the modified terms at June 30, 2015, December 31, 2014 and June 30, 2014. The effect on the allowance for credit losses from such modifications was not significant at June 30, 2015, December 31, 2014 and June 30, 2014.

The Company's annualized pre-tax return on average earning assets for Financial Services was 3.2% for both the second quarter and first six months of 2015 compared to 3.3% and 3.2% for the same periods in 2014.

***Other***

Other includes the winch business as well as sales, income and expenses not attributable to a reportable segment, including a portion of corporate expense. Other sales represented approximately 1% of consolidated net sales and revenues for both the second quarter and first half of 2015 and 2014. Other SG&A for the second quarter was $14.0 million in 2015 and $12.3 million in 2014, and for the first half, other SG&A was $29.5 million in 2015 compared to $27.8 million in 2014. The increase in SG&A for both periods was primarily due to higher salaries and related expenses. For the second quarter, other income (loss) before tax was a loss of $9.7 million in 2015 compared to a loss of $2.5 million in 2014. For the first six months, other income (loss) before tax was a loss of $20.1 million in 2015 compared to a loss of $11.7 million in 2014. The lower results in 2015 for both periods was primarily due to lower income before tax from the winch business.

Investment income for the second quarter was $5.3 million in 2015 compared to $5.5 million in 2014, and for the first six months, investment income was $10.4 million in 2015 compared to $11.3 million in 2014. The lower investment income in the second quarter and first six months of 2015 primarily reflects the translation effects of weaker foreign currencies to the U.S. dollar, primarily the euro and the Australian dollar, and lower yields on investments, partially offset by higher realized gains.

The effective income tax rate in the second quarter of 2015 of 31.4% decreased from 33.6% in the same period of 2014, and the effective income tax rate in the first half of 2015 of 32.0% decreased from 33.2% in the same period of 2014. The decreases for the second quarter and first half were primarily due to the mix of income generated in jurisdictions with lower tax rates in 2015 as compared to 2014.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| ($ in millions) | **2015** | 2014 | **2015** | 2014 |
| Domestic income before taxes | **$ 466.4** | $ 308.3 | **$ 873.5** | $ 538.5 |
| Foreign income before taxes | **185.8** | 172.7 | **340.4** | 349.0 |
| Total income before taxes | **$ 652.2** | $ 481.0 | **$ 1,213.9** | $ 887.5 |
| Domestic pre-tax return on revenues | **14.3%** | 12.6% | **14.1%** | 11.5% |
| Foreign pre-tax return on revenues | **10.2%** | 8.1% | **9.1%** | 8.2% |
| Total pre-tax return on revenues | **12.8%** | 10.5% | **12.2%** | 9.9% |

For the second quarter and first half of 2015, the improvement in income before income taxes and return on revenues for domestic operations was due to higher revenues from truck and parts operations and higher truck and parts margins.

For the second quarter of 2015, the improvement in income before income taxes and return on revenues for foreign operations was primarily due to the higher revenue and margins from European truck and parts operations, which was partially offset by the translation effects of weaker foreign currencies to the U.S. dollar, primarily the euro. For the first half of 2015, the lower income before income taxes for foreign operations was primarily due to the translation effects of weaker foreign currencies to the U.S. dollar, primarily the euro.

## LIQUIDITY AND CAPITAL RESOURCES:

| ($ in millions) | | June 30 2015 | | December 31 2014 |
|---|---|---|---|---|
| Cash and cash equivalents | **$** | **1,963.1** | $ | 1,737.6 |
| Marketable debt securities | | **1,397.3** | | 1,272.0 |
| | **$** | **3,360.4** | $ | 3,009.6 |

The Company's total cash and marketable debt securities at June 30, 2015 increased $350.8 million from the balances at December 31, 2014, primarily due to an increase in cash and cash equivalents.

The change in cash and cash equivalents is summarized below:

| ($ in millions) Six Months Ended June 30, | | 2015 | | 2014 |
|---|---|---|---|---|
| Operating activities: | | | | |
| Net income | **$** | **825.6** | $ | 593.1 |
| Net income items not affecting cash | | **409.7** | | 422.2 |
| Changes in operating assets and liabilities, net | | **(48.2)** | | (174.5) |
| Net cash provided by operating activities | | **1,187.1** | | 840.8 |
| Net cash used in investing activities | | **(914.7)** | | (653.2) |
| Net cash provided by (used in) financing activities | | **5.3** | | (565.7) |
| Effect of exchange rate changes on cash | | **(52.2)** | | 8.3 |
| Net increase (decrease) in cash and cash equivalents | | **225.5** | | (369.8) |
| Cash and cash equivalents at beginning of period | | **1,737.6** | | 1,750.1 |
| Cash and cash equivalents at end of period | **$** | **1,963.1** | $ | 1,380.3 |

*Operating activities:* Cash provided by operations of $1,187.1 million increased $346.3 million in the first half of 2015 from $840.8 million in 2014. Higher operating cash flow reflects higher net income of $232.5 million and a higher inflow of $358.9 million for purchases of goods and services in accounts payable and accrued expenses in excess of payments. In addition, higher operating cash flows reflects $153.5 million from inventory as there was $1.5 million in net inventory reductions in 2015 compared to $152.0 million in net inventory increases in 2014. These inflows were partially offset by $418.2 million from Financial Services segment wholesale receivables, whereby originations exceeded cash receipts in 2015 ($353.4 million) compared to cash receipts exceeding originations in 2014 ($64.8 million).

*Investing activities:* Cash used in investing activities of $914.7 million increased $261.5 million from the $653.2 million used in the first half of 2014, primarily due to higher cash used in the acquisitions of equipment for operating leases of $199.4 million and $124.6 million in higher net purchases of marketable securities in the first half of 2015. This was partially offset by lower payments for property, plant and equipment of $58.6 million and higher proceeds from asset disposals of $53.3 million.

*Financing activities:* Cash provided by financing activities was $5.3 million for the first half of 2015 compared to cash used in financing activities of $565.7 million in 2014. The Company paid $510.5 million of dividends in the first half of 2015 compared to $467.8 million paid in the first half of 2014, an increase of $42.7 million. In the first half of 2015, the Company issued $1,306.3 million of long-term debt and $106.3 million of commercial paper to repay long-term debt of $909.5 million. In the first half of 2014, the Company issued $951.5 million of long-term debt and $243.7 million of commercial paper to repay long-term debt of $1,306.4 million. This resulted in cash provided by borrowing activities of $503.1 million in the first half of 2015, $614.3 million higher than the cash used in borrowing activities of $111.2 million in the first half of 2014.

## Credit Lines and Other

The Company has line of credit arrangements of $3.45 billion, of which $3.34 billion were unused at June 30, 2015. Included in these arrangements are $3.0 billion of syndicated bank facilities, of which $1.0 billion matures in June 2016, $1.0 billion matures in June 2019 and $1.0 billion matures in June 2020. The Company intends to replace these credit facilities as they expire with facilities of similar amounts and duration. These credit facilities are maintained primarily to provide backup liquidity for commercial paper borrowings and maturing medium-term notes. There were no borrowings under the syndicated bank facilities for the six months ended June 30, 2015.

In December 2011, PACCAR's Board of Directors approved the repurchase of $300.0 million of the Company's common stock, and as of June 30, 2015, $234.7 million of shares have been repurchased pursuant to the authorization.

### *Truck, Parts and Other*

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

Investments for property, plant and equipment in the first half of 2015 were $87.0 million compared to $108.9 million for the same period of 2014, as 2014 included higher investments for the DAF Brasil factory.

In 2015, capital investments are expected to be approximately $325 to $375 million and are targeted for enhanced powertrain development and increased operating efficiency of the Company's factories and parts distribution centers. Spending on R&D in 2015 is expected to be $225 to $250 million as PACCAR will continue to focus on developing new products and services.

The Company conducts business in Spain, Italy, Portugal, Ireland, Greece, Russia, Ukraine and certain other countries which have been experiencing significant financial stress, fiscal or political strain and are subject to potential default. The Company routinely monitors its financial exposure to global financial conditions, its global counterparties and its operating environments. As of June 30, 2015, the Company had finance and trade receivables in these countries of approximately 1% of consolidated total assets. As of June 30, 2015, the Company did not have any marketable debt security investments in corporate or sovereign government securities in these countries. As of June 30, 2015, the Company's derivative counterparty credit exposures in these countries were insignificant.

### *Financial Services*

The Company funds its financial services activities primarily from collections on existing finance receivables and borrowings in the capital markets. The primary sources of borrowings in the capital markets are commercial paper and medium-term notes issued in the public markets and, to a lesser extent, bank loans. An additional source of funds is loans from other PACCAR companies.

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

In November 2012, the Company's U.S. finance subsidiary, PACCAR Financial Corp. (PFC), filed a shelf registration under the Securities Act of 1933. The total amount of medium-term notes outstanding for PFC as of June 30, 2015 was $4.45 billion. The registration expires in November 2015 and does not limit the principal amount of debt securities that may be issued during that period. PFC intends to file a new registration statement prior to its expiration in November 2015.

As of June 30, 2015, the Company's European finance subsidiary, PACCAR Financial Europe, had €301.7 million available for issuance under a €1.50 billion medium-term note program listed on the Professional Securities Market of the London Stock Exchange. This program replaced an expiring program in the second quarter of 2015 and is renewable annually through the filing of new listing particulars.

In April 2011, PACCAR Financial Mexico registered a 10.00 billion peso medium-term note and commercial paper program with the Comision Nacional Bancaria y de Valores. The registration expires in 2016 and limits the amount of commercial paper (up to one year) to 5.00 billion pesos. At June 30, 2015, 7.45 billion pesos remained available for issuance.

PACCAR believes its Financial Services companies will be able to continue funding receivables, servicing debt and paying dividends through internally generated funds, access to public and private debt markets and lines of credit.

## FORWARD-LOOKING STATEMENTS:

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements relating to future results of operations or financial position and any other statement that does not relate to any historical or current fact. Such statements are based on currently available operating, financial and other information and are subject to risks and uncertainties that may affect actual results. Risks and uncertainties include, but are not limited to: a significant decline in industry sales; competitive pressures; reduced market share; reduced availability of or higher prices for fuel; increased safety, emissions, or other regulations resulting in higher costs and/or sales restrictions; currency or commodity price fluctuations; lower used truck prices; insufficient or under-utilization of manufacturing capacity; supplier interruptions; insufficient liquidity in the capital markets; fluctuations in interest rates; changes in the levels of the Financial Services segment new business volume due to unit fluctuations in new PACCAR truck sales or reduced market shares; changes affecting the profitability of truck owners and operators; price changes impacting truck sales prices and residual values; insufficient supplier capacity or access to raw materials; labor disruptions; shortages of commercial truck drivers; increased warranty costs or litigation; cybersecurity risks to the Company's information technology systems; changes in tax rates; or legislative and governmental regulations. A more detailed description of these and other risks is included under the heading Part 1, Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company's market risk during the six months ended June 30, 2015. For additional information, refer to Item 7A as presented in the 2014 Annual Report on Form 10-K.

## ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Principal Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the period covered by this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

There have been no significant changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

For Items 3, 4 and 5, there was no reportable information for the six months ended June 30, 2015.

### ITEM 1. LEGAL PROCEEDINGS

In January 2011, the European Commission (EC) commenced an investigation of all major European commercial vehicle manufacturers, including subsidiaries of the Company, concerning whether such companies participated in agreements or concerted practices to coordinate their commercial policy in the European Union. On November 20, 2014, the EC issued a Statement of Objections to the manufacturers, including DAF Trucks N.V., its subsidiary DAF Trucks Deutschland GmbH and PACCAR Inc as their parent. The Statement of Objections is a procedural step in which the EC expressed its preliminary view that the manufacturers had participated in anticompetitive practices in the European Union. The EC indicated that it will seek to impose significant fines on the manufacturers. DAF is cooperating with the EC and is preparing its response to the Statement of Objections. The EC will review the manufacturers' responses before issuing a decision. Any decision would be subject to appeal. The Company is unable to estimate the potential fine at this time and accordingly, no accrual for any potential fine has been made as of June 30, 2015.

The Company and its subsidiaries are parties to various lawsuits incidental to the ordinary course of business. Except for the EC matter noted above, management believes that the disposition of such lawsuits will not materially affect the Company's business or financial condition.

### ITEM 1A. RISK FACTORS

For information regarding risk factors, refer to Part I, Item 1A as presented in the 2014 Annual Report on Form 10-K. There have been no material changes in the Company's risk factors during the six months ended June 30, 2015.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

For Items 2(a) and (b), there was no reportable information for the six months ended June 30, 2015.

(c) Issuer purchases of equity securities.

On December 6, 2011, the Company's Board of Directors approved a plan to repurchase up to $300 million of the Company's outstanding common stock. As of June 30, 2015, the Company has repurchased 5.7 million shares for $234.7 million under this plan. There were no repurchases made under this plan during the first six months of 2015.

### ITEM 6. EXHIBITS

Any exhibits filed herewith are listed in the accompanying index to exhibits.

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PACCAR Inc
(Registrant)

Date August 6, 2015

By /s/ M. T. Barkley
M. T. Barkley
Vice President and Controller
(Authorized Officer and Chief Accounting Officer)

**INDEX TO EXHIBITS**

Exhibit (in order of assigned index numbers)

| Exhibit Number | | | Exhibit Description | Form | Date of First Filing | Exhibit Number | File Number |
|---|---|---|---|---|---|---|---|
| (3) | (i) | | Articles of Incorporation: | | | | |
| | | (a) | Restated Certificate of Incorporation of PACCAR Inc | 8-K | September 19, 2005 | 99.3 | 001-14817 |
| | | (b) | Certificate of Amendment of Certificate of Incorporation of PACCAR Inc dated April 28, 2008 | 10-Q | May 2, 2008 | 3(b) | 001-14817 |
| | (ii) | | Bylaws: | | | | |
| | | (a) | Third Amended and Restated Bylaws of PACCAR Inc | 8-K | December 13, 2013 | 3(ii) | 001-14817 |
| (4) | | | Instruments defining the rights of security holders, including indentures**: | | | | |
| | | (a) | Indenture for Senior Debt Securities dated as of November 20, 2009 between PACCAR Financial Corp. and The Bank of New York Mellon Trust Company, N.A. | 10-K | February 26, 2010 | 4(c) | 001-11677 |
| | | (b) | Forms of Medium-Term Note, Series M (PACCAR Financial Corp.) | S-3 | November 20, 2009 | 4.2 and 4.3 | 333-163273 |
| | | (c) | Forms of Medium-Term Note, Series N (PACCAR Financial Corp.) | S-3 | November 7, 2012 | 4.2 and 4.3 | 333-184808 |
| | | (d) | Form of InterNotes, Series B (PACCAR Financial Corp.) | S-3 | November 7, 2012 | 4.4 | 333-184808 |
| | | (e) | Terms and Conditions of the Notes applicable to the €1,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. prior to May 9, 2014 | 10-Q | November 7, 2013 | 4(i) | 001-14817 |
| | | (f) | Terms and Conditions of the Notes applicable to the €1,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Base Prospectus dated May 9, 2014 | 10-Q | November 6, 2014 | 4(h) | 001-14817 |
| | | (g) | Terms and Conditions of the Notes applicable to the €1,500,000,000 Medium Term Note Programme of PACCAR Financial Europe B.V. set forth in the Listing Particulars dated May 11, 2015* | | | | |

** Pursuant to the Instructions to Exhibits, certain instruments defining the rights of holders of long-term debt securities of the Company and its wholly owned subsidiaries are not filed because the total amount of securities authorized under any such instrument does not exceed 10 percent of the Company's total assets. The Company will file copies of such instruments upon request of the Commission.

| Exhibit Number | | Exhibit Description | Form | Date of First Filing | Exhibit Number | File Number |
|---|---|---|---|---|---|---|
| (10) | | Material Contracts: | | | | |
| | (a) | PACCAR Inc Amended and Restated Supplemental Retirement Plan | 10-K | February 27, 2009 | 10(a) | 001-14817 |
| | (b) | Amended and Restated Deferred Compensation Plan | 10-Q | May 5, 2012 | 10(b) | 001-14817 |
| | (c) | Deferred Incentive Compensation Plan (Amended and Restated as of December 31, 2004) | 10-K | February 27, 2006 | 10(b) | 001-14817 |
| | (d) | Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors | DEF14A | March 14, 2014 | 10(v) | 001-14817 |
| | (e) | PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Restricted Stock Agreement for Non-Employee Directors | 10-K | February 27, 2009 | 10(e) | 001-14817 |
| | (f) | PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Deferred Restricted Stock Unit Agreement for Non-Employee Directors | 8-K | December 10, 2007 | 99.3 | 001-14817 |
| | (g) | Amendment to Compensatory Arrangement with Non-Employee Directors | 10-K | February 26, 2015 | 10(g) | 001-14817 |
| | (h) | PACCAR Inc Senior Executive Yearly Incentive Compensation Plan | DEF14A | March 10, 2011 | Appendix B | 001-14817 |
| | (i) | PACCAR Inc Senior Executive Yearly Incentive Compensation Plan (effective 01/01/16)* | | | | |
| | (j) | PACCAR Inc Long Term Incentive Plan* | | | | |
| | (k) | PACCAR Inc Long Term Incentive Plan, Nonstatutory Stock Option Agreement and Form of Option Grant Agreement | 8-K | January 25, 2005 | 99.1 | 001-14817 |

| Exhibit Number | Exhibit Description | | Form | Date of First Filing | Exhibit Number | File Number |
|---|---|---|---|---|---|---|
| | (l) | Amendment One to PACCAR Inc Long Term Incentive Plan, Nonstatutory Stock Option Agreement and Form of Option Grant Agreement | 10-Q | August 7, 2013 | 10(k) | 001-14817 |
| | (m) | PACCAR Inc Long Term Incentive Plan, 2014 Form of Nonstatutory Stock Option Agreement | 10-Q | August 7, 2013 | 10(l) | 001-14817 |
| | (n) | PACCAR Inc Long Term Incentive Plan, Form of Restricted Stock Award Agreement | 8-K | February 5, 2007 | 99.1 | 001-14817 |
| | (o) | PACCAR Inc Long Term Incentive Plan, 2010 Form of Restricted Stock Award Agreement | 10-K | February 26, 2010 | 10(m) | 001-14817 |
| | (p) | PACCAR Inc Long Term Incentive Plan, Alternate Form of Restricted Stock Award Agreement | 10-K | March 1, 2011 | 10(n) | 001-14817 |
| | (q) | PACCAR Inc Long Term Incentive Plan, 2016 Restricted Stock Award Agreement* | | | | |
| | (r) | PACCAR Inc Savings Investment Plan, Amendment and Restatement effective January 1, 2009 | 10-K | March 1, 2011 | 10(r) | 001-14817 |
| | (s) | Memorandum of Understanding, dated as of May 11, 2007, by and among PACCAR Engine Company, the State of Mississippi and certain state and local supporting government entities | 8-K | May 16, 2007 | 10.1 | 001-14817 |
| | (t) | Letter Waiver Dated as of July 22, 2008 amending the Memorandum of Understanding, dated as of May 11, 2007, by and among PACCAR Engine Company, the State of Mississippi and certain state and local supporting governmental entities | 10-Q | October 27, 2008 | 10(o) | 001-14817 |
| | (u) | Second Amendment to Memorandum of Understanding dated as of September 26, 2013, by and among PACCAR Engine Company, the Mississippi Development Authority and the Mississippi Major Economic Impact Authority | 10-Q | November 7, 2013 | 10(u) | 001-14817 |

| Exhibit Number | | Exhibit Description | Form | Date of First Filing | Exhibit Number | File Number |
|---|---|---|---|---|---|---|
| | (v) | Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Amended Deferred Restricted Stock Unit Grant Agreement | 10-K | February 26, 2015 | 10(t) | 001-14817 |
| | (w) | Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Form of Amended Restricted Stock Grant Agreement | 10-K | February 26, 2015 | 10(u) | 001-14817 |
| (12) | | Statements Re: Computation of Ratios: | | | | |
| | (a) | Computation of ratio of earnings to fixed charges of the Company pursuant to SEC reporting requirements for six months ended June 30, 2015 and 2014* | | | | |
| | (b) | Statement re: computation of ratio of earnings to fixed charges of the Company pursuant to SEC reporting requirements for each of the five years ended December 31, 2010 – 2014 | 10-K | February 26, 2015 | 12(a) | 001-14817 |
| (31) | | Rule 13a-14(a)/15d-14(a) Certifications: | | | | |
| | (a) | Certification of Principal Executive Officer* | | | | |
| | (b) | Certification of Principal Financial Officer* | | | | |
| (32) | | Section 1350 Certifications: | | | | |
| | | Certification pursuant to rule 13a-14(b) and section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350)* | | | | |
| (101.INS) | | XBRL Instance Document* | | | | |
| (101.SCH) | | XBRL Taxonomy Extension Schema Document* | | | | |
| (101.CAL) | | XBRL Taxonomy Extension Calculation Linkbase Document* | | | | |
| (101.DEF) | | XBRL Taxonomy Extension Definition Linkbase Document* | | | | |
| (101.LAB) | | XBRL Taxonomy Extension Label Linkbase Document* | | | | |
| (101.PRE) | | XBRL Taxonomy Extension Presentation Linkbase Document* | | | | |

* filed herewith

# TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions which, as completed by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below. All capitalized terms that are not defined in the terms and conditions shall have the meanings given to them in the relevant Pricing Supplement. References in the terms and conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

## 1. Introduction

(a) *Programme:* PACCAR Financial Europe B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid)* incorporated under the laws of The Netherlands, having its corporate seat at Eindhoven (the "**Issuer**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to €1,500,000,000 in aggregate principal amount of notes (the "**Notes**").

(b) *Pricing Supplement:* Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a Pricing Supplement (the "**Pricing Supplement**") which completes these Conditions. The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Pricing Supplement.

(c) *Agency Agreement:* The Notes are the subject of and issued pursuant to an amended and restated agency agreement dated 11 May 2015 (the "**Agency Agreement**") between the Issuer and Citibank, N.A., London Branch as fiscal agent (the "**Fiscal Agent**," which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "Paying Agents," which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and with the benefit of a deed of covenant executed by the Issuer dated 11 May 2015 (the "**Deed of Covenant**") in relation to the Notes.

(d) *The Notes:* All subsequent references in these Conditions to "**Notes**" are to the Notes that are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available during normal business hours at the Specified Office of the Fiscal Agent or at the office of the Paying Agent in London, the initial Specified Offices of which are set out below.

(e) *Summaries:* Certain provisions of these Conditions are summaries of the Agency Agreement and are subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**," respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

## 2. Interpretation

(a) *Definitions:* In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" means the amount as specified in the relevant Pricing Supplement;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Business Day**" means:

(i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

(ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention**" means, in relation to any particular date, the business day convention specified in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention,**" "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Fiscal Agent or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

"**Calculation Amount**" means the amount specified in the relevant Pricing Supplement;

"**Consolidated Assets**" means the aggregate amount of assets (less applicable reserves for depreciation, amortization, unearned finance charges, allowance for credit losses and other properly deductible items) after deducting therefrom all goodwill, trade names, trademarks, patents, organization expenses and other like intangibles, all as set forth on the most recent balance sheet of the Issuer and its Subsidiaries and computed in accordance with generally accepted accounting principles;

“**Coupon Sheet**” means, in respect of a Note, a coupon sheet relating to the Note;

“**Day Count Fraction**” means, in respect of the calculation of an amount for any period of time (the “**Calculation Period**”), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

(i) if “**Actual/Actual (ICMA)**” is so specified, means:

(a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(b) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(ii) if “**Actual/365**” or “**Actual/Actual (ISDA)**” is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if “**Actual/365 (Fixed)**” is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if “**Sterling/FRN**” is so specified, means the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(v) if “**Actual/360**” is so specified, means the actual number of days in the Calculation Period divided by 360;

(vi) if “**30/360**” is so specified, means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(vii) if “**30E/360**” or “**Eurobond Basis**” is so specified means, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the date of final maturity is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);

“**Early Redemption Amount (Tax)**” means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

“**Early Termination Amount**” means, in respect of any Note, its principal amount or such other amount as may be specified in the Pricing Supplement and/or determined in accordance with these Conditions;

"**EURIBOR**" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Banking Federation (or any other person which takes over administration for that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor);

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**First Interest Payment Date**" means the date specified in the relevant Pricing Supplement;

"**Fixed Coupon Amount**" means the amount specified in the relevant Pricing Supplement;

"**Indebtedness**" means any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Issuer;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"**Interest Determination Date**" means the date specified in the relevant Pricing Supplement;

"**Interest Payment Date**" means the First Interest Payment Date and any other date or dates specified as such in the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the First Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.) or, if so specified in the relevant Pricing Supplement, the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.);

"**Issue Date**" means the date specified in the relevant Pricing Supplement;

"**LIBOR**" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the London interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic LIBOR rates can be obtained from the designated distributor);

"**Liens**" means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, including but not limited to a security interest arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt, or a lease, consignment or bailment for security purposes. For the purposes of this definition, a Person shall be deemed to be the owner of any Property which it has or holds subject to a conditional sale arrangement, financing lease or other arrangement pursuant to which title to the Property has been retained by or is vested in some other Person for security purposes;

"**Margin**" means the margin specified in the relevant Pricing Supplement;

"**Maturity Date**" means the date specified in the relevant Pricing Supplement;

"**Maximum Redemption Amount**" means the amount specified in the relevant Pricing Supplement;

"**Minimum Redemption Amount**" means the amount specified in the relevant Pricing Supplement;

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**Optional Redemption Date (Call)**" means the date specified in the relevant Pricing Supplement;

"**Optional Redemption Date (Put)**" means the date specified in the relevant Pricing Supplement;

"**Participating Member State**" means a Member State of the European Union that adopts the euro as its lawful currency in accordance with the Treaty;

"**Payment Business Day**" means:

(i) if the currency of payment is euro, any day which is:

   (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

   (B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, any day which is:

   (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

   (B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organization, state or agency of a state or other entity, whether or not having separate legal personality;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency *provided, however, that* in relation to euro, it means the principal financial centre of such Member State of the European Union as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"**Property**" means any kind of property or asset, whether real, personal or mixed, tangible or intangible;

"**Put Option Notice**" means a notice that must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement and/or calculated or determined in accordance with the provisions of these Conditions;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in the relevant Pricing Supplement;

"**Reference Banks**" means the reference banks specified in the relevant Pricing Supplement or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"**Reference Price**" means the reference price specified in the relevant Pricing Supplement;

"**Reference Rate**" means EURIBOR or LIBOR as specified in the relevant Pricing Supplement in respect of the currency and period specified in the relevant Pricing Supplement;

"**Regular Period**" means:

(i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the First Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Financial Centre**" means the relevant financial centre specified in the relevant Pricing Supplement;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, the Reuter Money 3000 Service) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" means the time specified in the relevant Pricing Supplement;

"**Reserved Matter**" means any proposal

(i) to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment;

(ii) to effect the exchange or substitution of the Notes for, or the conversation of the Notes into, shares bonds or other obligations or securities of the Issuer or any other Person or body corporate formed or to be formed;

(iii) to change the currency in which amounts due in respect of the Notes are payable;

(iv) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution; or

(v) to amend this definition;

"**Restricted Debt**" when used with respect to the Issuer or any Subsidiary of the Issuer, means any present or future indebtedness for money borrowed evidenced by any note, bond, debenture or other evidence of indebtedness for money borrowed which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the counter market), for which the Issuer or such Subsidiary of the Issuer is liable, directly or indirectly, absolutely or contingently. Restricted Debt shall not include any indebtedness for the payment, redemption or satisfaction of which money (or other Property permitted under the instrument creating or evidencing such indebtedness) in the necessary amount shall have been deposited in trust with a trustee or proper depository at or before the maturity or redemption date thereof. For the purposes of this definition, "indebtedness for money borrowed" shall include, without limitation, obligations created or arising under any conditional sale, financing lease, or other title retention agreement and obligations to pay for Property;

"**Specified Currency**" means the currency specified in the relevant Pricing Supplement;

"**Specified Denomination(s)**" means the denomination(s) specified in the relevant Pricing Supplement;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" means the period specified in the relevant Pricing Supplement;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "second **Person**"):

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"**Talon**" means a talon for further Coupons;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilizes a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**Treaty**" means the Treaty on the Functioning of the European Union, as amended; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Pricing Supplement.

(b) *Interpretation*: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 11 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 11 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement;

(vii) if an expression is stated in Condition 2(a) to have a meaning as specified in the relevant Pricing Supplement, but the relevant Pricing Supplement does not so specify or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and

(viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement as amended and/or supplemented up to and including the Issue Date of the Notes.

## 3. Form, Denomination and Title

The Notes are in bearer form in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. The minimum Specified Denomination shall be €1,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder. No Person shall have any right to enforce any term or condition of any Note under the *Contracts (Rights of Third Parties) Act 1999*.

4. **Status of Notes**

The Notes constitute direct, general, unconditional, unsubordinated and (without prejudice to the provisions of Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application and subject to Condition 5 (*Negative Pledge)*.

5. **Negative Pledge**

After the date hereof, the Issuer will not itself, and will not permit any Subsidiary of the Issuer to, create, incur or suffer to exist, any Lien on any Property of the Issuer or any Subsidiary of the Issuer securing any Restricted Debt, without effectively providing that the Notes (together with, if the Issuer shall so determine, any other indebtedness of the Issuer or such Subsidiary then existing or thereafter created) shall be secured equally and rateably with (or, at the option of the Issuer, prior to) such secured Restricted Debt, so long as such secured Restricted Debt shall be so secured, unless, after giving effect thereto, the aggregate amount of all Restricted Debt of the Issuer and its Subsidiaries secured by Liens on Property of the Issuer and its Subsidiaries would not exceed 15 per cent. of Consolidated Assets; *provided, however, that* this Condition 5 shall not apply to, and there shall be excluded from Restricted Debt secured by Liens in any computation under this Condition 5, Restricted Debt secured only by:

(i) Liens on Property of, or on any shares of capital stock of, any corporation existing at the time such corporation becomes a Subsidiary of the Issuer;

(ii) Liens in favour of the Issuer or any Subsidiary of the Issuer or Liens securing any indebtedness of a Subsidiary to the Issuer or of the Issuer or a Subsidiary to a Subsidiary of the Issuer;

(iii) Liens in favour of any governmental body (or surety for any governmental body) to secure progress, advance or other payments pursuant to any contract or provision of any statute or rule of court;

(iv) Liens of any other creditors on Property repossessed in the ordinary course of business which comprises collateral security for defaulted indebtedness or additional Liens created on any such Property for the purpose of protecting the interest of the Issuer therein;

(v) A banker's Lien or other right of offset in favour of any lender or other holder of Restricted Debt on money deposited with such lender or holder in the ordinary course of business;

(vi) Liens on Property and rentals therefrom existing at the time of acquisition thereof, or to secure the payment of all or any part of the purchase price thereof or construction thereon or to secure any Restricted Debt incurred prior to, at the time of, or within 180 days after the later of the acquisition of such Property of the completion of construction for the purpose of financing all or any part of the purchase price thereof or construction thereon; or

(vii) Any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Lien referred to in the foregoing clauses (i) through (vi), inclusive; *provided, however, that* such extension, renewal or replacement Lien shall be limited to all or part of the same Property that secured the Lien extended, renewed or replaced (plus improvements on such Property).

For purposes of this Condition 5 an "acquisition" of Property shall include any transaction or Series of transactions by which the Issuer or a Subsidiary of the Issuer acquires, directly or indirectly, an interest, or an additional interest (to the extent thereof), in such Property, including without limitation an acquisition through merger or consolidation with, or an acquisition of an interest in, a Person owning an interest in such Property.

6. **Fixed Rate Note Provisions**

(a) *Application:* This Condition 6 (*Fixed Rate Note Provisions)* is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount*: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. **Floating Rate Note Provisions**

(a) *Application:* This Condition 7 (*Floating Rate Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:

(A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

***provided, however, that*** if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;

(iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) *ISDA Determination:* If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where “ISDA Rate” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement;

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement; and

(iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:

(A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period

***provided, however, that*** if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

(e) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(f) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant note divided by the Calculation amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(g) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and the London Stock Exchange as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(h) *Notifications etc.*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

## 8. Zero Coupon Note Provisions

(a) *Application*: This Condition 8 (*Zero Coupon Note Provisions)* is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 10 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as not being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) (x) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 11 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of The Netherlands or the United States of America or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and (y) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(B) the Issuer shall determine that any payment made outside the United States by the Issuer or any Paying Agents in respect of any Note or Coupon appertaining thereto would, under any present or future laws or regulations of the United States affecting taxation or otherwise, be subject to any certification, information or other reporting requirement of U.S. law or regulation with regard to the nationality, residence or identity of a beneficial owner (other than reporting requirements pursuant to Sections 1471 to 1474 of the Internal Revenue Code, pursuant to any intergovernmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions of the Internal Revenue Code, or pursuant to any agreement with the U.S. Internal Revenue Service), who is not a U.S. Person, of such instrument or Coupon (other than a requirement that: (x) would not be applicable to a payment made (1) directly to the beneficial owner or (2) to a custodian, nominee or other agent of the beneficial owner; or (y) could be satisfied by the holder, custodian, nominee or other agent certifying that the beneficial owner is not a U.S. Person, provided, however, that in each case referred to in (x)(2) or (y) payment by any such custodian, nominee or agent to the beneficial owner is not otherwise subject to any requirement referred to in this sentence; or (z) would not be applicable to a payment made by at least one paying agent), *provided, however, that* no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent (A) a certificate signed by two members of the Board of Management of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) (in the case of redemption under Condition 9(b)(A)) an opinion of independent legal advisers of recognized standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 9(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b).

(c) *Redemption at the option of the Issuer*: If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(d) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 9(c) (*Redemption at the option of the Issuer),* the Notes to be redeemed shall be selected by the drawing of lots in such place and in such manner as may be fair and reasonable in the circumstances, taking into account prevailing market practices, subject to compliance with applicable law and the rules of the London Stock Exchange and the notice to Noteholders referred to in Condition 9(c) (*Redemption at the option of the Issuer)* shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption at the option of Noteholders*: If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the holder of any Note, redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 9(e), the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 9(e), may be withdrawn; *provided, however, that* if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 9(e), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

(f) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (e) above.

(g) *Early redemption of Zero Coupon Notes*: Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 9(g) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.

(i) *Cancellation*: All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

10. **Payments**

(a) *Principal*: Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London). No payments on Notes will be made by mail to an address in the United States of America or by transfer to an account maintained in the United States of America.

(b) *Interest*: Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

(c) *Payments in The City of New York*: Payments of principal or interest in U.S. dollars may be made at the Specified Office of a Paying Agent in The City of New York if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in U.S. dollars when due, (ii) payment of the full amount of such interest in U.S. dollars at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 11 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deductions for unmatured Coupons*: If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that,* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

(f) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 10(f) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption of such Note pursuant to Condition 9(b) (*Redemption for tax reasons*), Condition 9(e) (*Redemption at the option of Noteholders*), Condition 9(c) (*Redemption at the option of the Issuer*) or Condition 12 (Events *of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) *Payments on Business Days*: If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in The City of New York if permitted by paragraph (c) above).

(i) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent or at the office of the Paying Agent in London for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 13 (*Prescription*)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

11. **Taxation**

(a) *Gross up:* All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of The Netherlands or the United States of America or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law or agreement of the Issuer. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(i) by or on behalf of a holder which is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

(ii) where such withholding or deduction is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iii) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the EU; or

(iv) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days; or

(v) where such withholding or deduction would not have been imposed but for the holder's past or present status as a personal holding company, foreign personal holding company or passive foreign investment company with respect to the United States or a corporation that accumulates earnings to avoid U.S. federal income tax; or

(vi) where such withholding or deduction would not have been imposed but for the holder's past or present status as a "10 per cent. shareholder" of the obligor of the Note as defined in Section 871(h)(3) of the U.S. Internal Revenue Code or any successor provisions, a controlled foreign corporation related to the obligor of the Note or a bank that has invested in the Note as an extension of credit in the ordinary course of its trade or business; or

(vii) where such withholding or deduction is required by the rules under Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the "**Code**") (or any amended or successor provisions), pursuant to any inter-governmental agreement, or implementing legislation adopted by another jurisdiction in connection with these provisions of the Code, or pursuant to any agreement with the U.S. Internal Revenue Service ("**FATCA withholding**") as a result of a holder, beneficial owner or an intermediary that is not an agent of the Issuer not being entitled to receive payments free of FATCA withholding.

(b) *Taxing jurisdiction:* If the Issuer becomes subject at any time to any taxing jurisdiction other than The Netherlands references in these Conditions to The Netherlands shall be construed as references to The Netherlands and/or such other jurisdiction.

12. **Events of Default**

If any of the following events occurs and is continuing:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 14 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by any Noteholder has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or

(c) *Cross-default of Issuer*: the Issuer defaults under any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, which default shall have resulted in Indebtedness in an aggregate principal amount exceeding €10,000,000 (or its equivalent in any other currency or currencies) (except that such euro amount shall not apply with respect to a default with respect to Notes of any other Series), becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such acceleration having been rescinded or annulled or such Indebtedness having been discharged within a period of 30 days after there shall have been given, by registered or certified mail, to the Issuer by any Noteholder, a written notice specifying such default and requiring the Issuer to cause such acceleration to be rescinded or annulled or such Indebtedness to be discharged and stating that such notice is a "Notice of Default" under this Condition 12(c); or

(d) *Security enforced*: a secured party or encumbrancer takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking, assets and revenues of the Issuer or any of its Subsidiaries; or

(e) *Insolvency etc.*: (i) the Issuer becomes insolvent or admits in writing that it is unable to pay its debts as they fall due, (ii) an administrator (including a *bewindvoerder*) or liquidator (including a *curator*) of the Issuer or the whole or a substantial part of the undertaking, assets and revenues of the Issuer is appointed (or application for any such appointment is made including an application for the Issuer to be declared bankrupt (*failliet*) or to be granted a moratorium of payments (*surseance van betaling*), unless such application is contested by the Issuer and/or discharged or stayed within 90 days or is cancelled or withdrawn within 90 days after the making thereof), (iii) the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition (*akkoord*) with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness; or

(f) *Winding up etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution (*ontbinding en vereffening*) of the Issuer or any of its Subsidiaries (otherwise than, in the case of a Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(g) *Attachment etc.*: an executory attachment (*executorial beslag*) or interlocutory attachment (*conservatoir beslag*) is made on all or a substantial part of the assets of the Issuer, or a similar measure under foreign law is made, unless such application is contested by the Issuer and/or discharged or stayed within 90 days, or is cancelled or withdrawn within 90 days after the making thereof; or

(h) *Enforcement proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or a substantial part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 90 days,

(i) *Keep Well Agreement etc. not in force*: the Keep Well Agreement is not (or is claimed by either party thereto not to be) in full force and effect or is modified, amended or terminated in contravention of the provisions thereof, or the Issuer waives, or fails to take all reasonable steps to exercise, any of its rights under the Keep Well Agreement or PACCAR or the Issuer fails to perform or observe any obligation on its part under the Keep Well Agreement so as to affect materially and adversely the interests of any Noteholder or Couponholder;

then any outstanding Notes of a particular Series may by written notice, addressed by any Noteholder, delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon they shall become immediately due and payable at their Early Termination Amount together with accrued interest (if any) without further action or formality. Upon payment of the Early Termination Amount, all obligations of the Issuer in respect of payment of the principal amount of the Notes of such Series shall terminate.

## 13. **Prescription**

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

## 14. **Replacement of Notes and Coupons**

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, subject to all applicable laws and requirements of the London Stock Exchange, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

## 15. **Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent or Calculation Agent and additional or successor paying agents; *provided, however, that*:

(a) the Issuer shall at all times maintain a Fiscal Agent; and

(b) the Issuer undertakes that it will ensure that it maintains a paying agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(c) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent; and

(d) if and for so long as the Notes are admitted to listing and trading on the London Stock Exchange and it requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent having its Specified Office in the place required by the London Stock Exchange.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Notes denominated in U.S. dollars in the circumstances described in Condition 10(c).

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

16. **Meetings of Noteholders; Modification and Waiver**

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate principal amount of the outstanding Notes will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification*: The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of the Issuer, not materially prejudicial to the interests of the Noteholders.

17. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

18. **Notices**

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the Financial Times) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

19. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer, shall give rise to a separate and independent cause of action and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Note or Coupon or any other judgment or order.

20. **Rounding**

For the purposes of any calculations referred to in these Conditions, (unless otherwise specified in these Conditions, or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, (b) U.S. dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

21. **Governing Law and Jurisdiction**

(a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes (including a dispute relating to the existence, validity or termination of the Notes or any non-contractual obligation arising out of or in connection with the Notes) or the consequences of their nullity.

(c) *Appropriate forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Rights of the Noteholders to take proceedings outside England*: Condition 21(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 21 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Process agent*: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to PACCAR Financial PLC at Croston Road, Leyland, Preston, Lancashire PR5 3LZ, United Kingdom or, if different, its registered office for the time being. If such Person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a Person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

**Exhibit 10 (i)**

PACCAR Inc

# SENIOR EXECUTIVE YEARLY
# INCENTIVE COMPENSATION PLAN

## 1. *PURPOSE*

The Plan was approved by the Company's stockholders in 1997, 2002, 2006 and 2011. The purpose of the Plan is to promote the success of the Company and the creation of shareholder value by (a) encouraging senior executives to focus maximum effort on achieving high-quality performance objectives, Company profitability, and continued Company growth, (b) encouraging the attraction and retention of senior executives with exceptional qualifications and (c) preserving for the Company the benefit of federal income tax deductions with respect to annual incentive compensation paid to senior executives.

## 2. *ELIGIBILITY*

The Company's chief executive officer, the other covered employees within the meaning of Code Section 162(m) and such other senior executives as designated by the Committee shall be eligible to participate in the Plan.

## 3. *ADMINISTRATION*

The Plan shall be administered by the Compensation Committee of the Board. The Committee shall consist exclusively of three or more directors of the Company, who shall meet the independence requirements of NASDAQ and the Securities and Exchange Commission and be appointed by the Board. In addition, the composition of the Committee shall satisfy:

(a) Such requirements as the Securities and Exchange Commission may establish for administrators acting under plans intended to qualify for exemption under Rule 16b-3 (or its successor) under the Exchange Act; and

(b) Such requirements as the Internal Revenue Service may establish for outside directors acting under a plan intended to qualify for exemption under Section 162(m)(4)(C) of the Code.

The Committee shall have the authority to interpret the Plan and make all other decisions relating to the operations of the Plan. The Committee may adopt such rules or guidelines as it deems appropriate to administer the Plan. The Committee's determinations under the Plan shall be final and binding on all persons.

4. *AWARD DETERMINATION*

Incentive awards paid under the Plan will be based solely on the attainment of specified performance goals established by the Committee during the first 90 days of the Plan Year. Performance goals will be based on objective criteria specifically defined by the Committee on a Company, business unit or peer group comparison basis, which may include or exclude specified items of an unusual or non-recurring nature and are based on one or more of the following: net income, return on assets, return on net assets, return on sales, return on capital, return on equity, return on revenue, sales growth, market share, cash flow, cost reduction, total shareholder return, economic value added, cash flow return on investment and cash value added. Performance goals may include a minimum, maximum and target level of performance with the size of individual awards, if any, based on the level attained. Actual goal attainment will be certified in writing by the Committee before payout.

The Committee, in its sole discretion, may reduce or eliminate any award otherwise earned based on an assessment of individual performance, but in no event may any such reduction result in an increase of the award payable to any other participant. The Committee shall determine the amount of any such reduction by taking into account such factors as it deems relevant including, without limitation: (a) performance against other financial or strategic objectives; (b) its subjective assessment of the executive's overall performance for the year; and (c) prevailing levels of total compensation among similar companies. The maximum amount that may be paid to any eligible participant in any year under the Plan is $4,500,000.

5. *CHANGE IN CONTROL*

In the event of a Change in Control of the Company, each participant will be entitled to the maximum prorated award based on the number of full or partial months completed prior to the Change in Control during the Plan Year in which the Change in Control occurs.

6. *TERMINATION OF EMPLOYMENT*

Participants who retire, resign or are terminated before the end of the Plan Year are not eligible for an award for the Plan Year. In the event of death or disability, payout will be prorated based on actual goal achievement and salary received for the portion of the year worked.

7. *EMPLOYMENT RIGHTS*

Neither the Plan, nor the payment of an award, nor any other action taken pursuant to the Plan, shall constitute or be evidence of any agreement or understanding, express or implied, that the Company or a Subsidiary will employ any individual for any period of time, in any position or at any particular rate of compensation.

8. EFFECT OF MATERIAL RESTATEMENTS

If the Board, in its sole discretion, determines that:

(i) Any award under the Plan was received by a Section 16 Officer or former Section 16 Officer of the Company during the three completed fiscal years immediately preceding the date the Company was required to prepare a material restatement of its financial statements; and

(ii) The Section 16 Officer engaged in fraud that caused or substantially contributed to the material restatement; and

(iii) The award was in whole or in part based on financial results that were subsequently subject to the material restatement.

Then the Board in its sole discretion may recover from the Section 16 Officer or former Section 16 Officer all or some of such award as it deems appropriate.

9. *AMENDMENT OR TERMINATION OF THE PLAN*

The Board of Directors may alter, amend or terminate the Plan at any time. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws, regulations or rules. No awards shall be granted under the Plan after the termination thereof.

10. *EFFECTIVE DATE*

The Plan shall be effective as of January 1, 2016 subject to its approval by the Company's stockholders at the 2016 Annual Meeting of Stockholders.

11. *DEFINITIONS*

(a) *"Board"* means the Board of Directors of the Company, as constituted from time to time.

(b) *"Change in Control"* for purposes of this Plan means any of the events described in Section 16.4 of the Long Term Incentive Plan.

(c) *"Code"* means the Internal Revenue Code of 1986, as amended.

(d) *"Committee"* means the Compensation Committee of the Board.

(e) *"Company"* means PACCAR Inc, a Delaware corporation.

(f) *"Exchange Act"* means the Securities Exchange Act of 1934, as amended.

(g) *"Plan"* means this amended and restated PACCAR Inc Senior Yearly Executive Incentive Compensation Plan, as it may be amended from time to time.

(h) *"Plan Year"* means a calendar year.

(i) "*Section 16 Officer*" means an executive officer as defined in section 16 of the Exchange Act.

(j) "*Subsidiary*" means a company in which the Company and/or one or more Subsidiaries of the Company own a majority of all classes of outstanding stock.

**Exhibit 10 (j)**

PACCAR Inc

LONG TERM INCENTIVE PLAN

ARTICLE 1. INTRODUCTION.

The Plan was first adopted by the Board on February 11, 1991 and approved by the Company's stockholders in 1991. Amendments to the Plan were approved by the stockholders in 1997, 2002, 2006 and 2011. The purpose of the Plan is to promote the long term success of the Company and the creation of stockholder value by (a) encouraging Key Employees to focus on critical long range objectives, (b) encouraging the attraction and retention of Key Employees with exceptional qualifications, and (c) linking Key Employees directly to stockholder interests through increased stock ownership. The Plan seeks to achieve this purpose by providing for Awards in the form of Restricted Shares, Stock Units, Options (which may constitute incentive stock options or nonstatutory stock options), stock appreciation rights, or cash. The Plan shall be governed by and construed in accordance with the laws of the State of Washington.

ARTICLE 2. ADMINISTRATION.

2.1 Committee Composition. The Plan shall be administered by the Committee. The Committee shall consist exclusively of three or more directors of the Company, who meet the independence requirements of NASDAQ and the Securities and Exchange Commission and shall be appointed by the Board. In addition, the composition of the Committee shall satisfy:

(a) Such requirements as the Securities and Exchange Commission may establish for administrators acting under plans intended to qualify for exemption under Rule 16b-3 under the Exchange Act (as amended from time to time); and

(b) Such requirements as the Internal Revenue Service may establish for outside directors acting under plans intended to qualify for exemption under Section 162(m)(4)(C) of the Code (as amended from time to time).

2.2 Committee Responsibilities. The Committee shall (a) select the Key Employees who are to receive Awards under the Plan, (b) determine the type, number, vesting requirements, and other conditions of such Awards, (c) interpret the Plan, and (d) make all other decisions relating to the operation of the Plan. The Committee may adopt such rules or guidelines as it deems appropriate to implement the Plan. The Committee's determinations under the Plan shall be final and binding on all persons.

ARTICLE 3. SHARES AVAILABLE FOR GRANTS.

Any Common Shares issued pursuant to the Plan may be authorized but unissued shares or treasury shares. The aggregate number of Restricted Shares, Stock Units, SARs, and Options awarded under the Plan shall not exceed 45,562,500. If any Restricted Shares, Stock Units, or Options are forfeited or if any Options terminate for any other reason before being exercised, then the Common Shares covered by such Restricted Shares, Stock Units or Options shall again become available for Awards under the Plan. However, if Options are surrendered upon the exercise of related SARs, then such Options shall not be restored to the pool available for Awards. Any dividend equivalents distributed under the Plan shall not be applied against the number of Restricted Shares, Stock Units, or Options available for Awards, whether or not such dividend equivalents are converted into Stock Units. The limitation of this Article 3 shall be subject to adjustment pursuant to Article 10.

ARTICLE 4. ELIGIBILITY.

Only Key Employees shall be eligible for designation as Participants. A Key Employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company or any of its Subsidiaries shall not be eligible for the grant of an ISO unless the requirements set forth in Section 422(c)(5) of the Code are satisfied.

ARTICLE 5. OPTIONS.

5.1 Stock Option Agreement. Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The Stock Option Agreement shall specify whether the Option is an ISO or a NSO. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical.

5.2 Transferability. No Option granted under the Plan shall be transferable by the Optionee other than by will, or by a beneficiary designation executed by the Optionee and delivered to the Company, or by the laws of descent and distribution unless the Committee provides otherwise in a nonstatutory stock option agreement. An Option may be exercised during the lifetime of the Optionee only by him or her or by his or her guardian or legal representative unless the Committee provides otherwise in a nonstatutory Stock Option Agreement. No Option or interest therein may be, assigned, pledged, or hypothecated by the Optionee during his or her lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

5.3 Number of Shares. Each Stock Option Agreement shall specify the number of Common Shares subject to the Option provided that the maximum number of Common Shares awarded to any participant in any year shall be 1,265,625 (subject to adjustment in accordance with Article 10). The Stock Option Agreement shall provide for the adjustment of such number including the maximum number in accordance with Article 10.

5.4 Exercise Price. Each Stock Option Agreement shall specify the Exercise Price. The Exercise Price under an Option shall not be less than the closing price of a Common Share on the date of grant. Subject to adjustment pursuant to Article10, the Exercise Price of outstanding Options fixed by the Committee shall not be modified.

5.5 Exercisability and Term. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option; provided that the term of an ISO shall in no event exceed 10 years from the date of grant. A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability or retirement and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's service. NSOs may also be awarded in combination with Restricted Shares or Stock Units, and such an Award may provide that the NSOs will not be exercisable unless the related Restricted Shares or Stock Units are forfeited.

5.6 Effect of Change in Control. The Committee may determine, at the time of granting an Option or thereafter, that such Option (and any SARs included therein) shall become fully exercisable as to all Common Shares subject to such Option in the event that a Change in Control occurs with respect to the Company. If the Committee finds that there is a reasonable possibility that, within the next six months, a Change in Control will occur with respect to the Company, then the Committee may determine that all outstanding Options (and any SARs included therein) shall become fully exercisable as to all Common Shares subject to such Options.

## ARTICLE 6. PAYMENT FOR OPTION SHARES.

6.1 General Rule. The entire Exercise Price of Common Shares issued upon exercise of Options shall be payable in cash at the time when such Common Shares are purchased, except as follows:

(a) In the case of an ISO granted under the Plan, payment shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. The Stock Option Agreement may specify that payment may be made in any form(s) described in this Article 6.

(b) In the case of an NSO, the Committee may at any time accept payment in any form(s) described in this Article 6.

6.2 Surrender of Stock. To the extent that this Section 6.2 is applicable, payment for all or any part of the Exercise Price may be made with Common Shares which have already been owned by the Optionee Such Common Shares shall be valued at their Fair Market Value on the date when the new Common Shares are purchased under the Plan.

6.3 Exercise/Sale. To the extent that this Section 6.3 is applicable, payment may be made by the delivery (on a form prescribed by the Company) of an irrevocable direction to a securities broker approved by the Company to sell Common Shares and to deliver all or part of the sales proceeds to the Company in payment of all or part of the Exercise Price and any withholding taxes.

6.4 Exercise/Pledge. To the extent that this Section 6.4 is applicable, payment may be made by the delivery (on a form prescribed by the Company) of an irrevocable direction to pledge Common Shares to a securities broker or lender approved by the Company, as security for a loan, and to deliver all or part of the loan proceeds to the Company in payment of all or part of the Exercise Price and any withholding taxes.

6.5 Promissory Note. To the extent that this Section 6.5 is applicable, payment for all or any part of the Exercise Price may be made with a full-recourse promissory note; provided that the par value of newly issued Common Shares must be paid in lawful money of the U.S. at the time when such Common Shares are purchased.

6.6 Other Forms of Payment. To the extent that this Section 6.6 is applicable, payment may be made in any other form that is consistent with applicable laws, regulations, and rules.

ARTICLE 7. STOCK APPRECIATION RIGHTS.

7.1 Grant of SARs. Each Option granted under the Plan may include a SAR. The maximum number of SARs that may be awarded to any participant in any year shall be 1,265,625 (subject to adjustment in accordance with Article 10). Such SAR shall entitle the Optionee (or any person having the right to exercise the Option after the Optionee's death) to surrender to the Company, unexercised, all or any part of that portion of the Option which then is exercisable and to receive from the Company Common Shares or cash, or a combination of Common Shares and cash, as the Committee shall determine. If a SAR is exercised, the number of Common Shares remaining subject to the related Option shall be reduced accordingly, and vice versa. The amount of cash and/or the Fair Market Value of Common Shares received upon exercise of a SAR shall, in the aggregate, be equal to the amount by which the Fair Market Value (on the date of surrender) of the Common Shares subject to the surrendered portion of the Option exceeds the Exercise Price. In no event shall any SAR be exercised if such Fair Market Value does not exceed the Exercise Price. A SAR may be included in an ISO only at the time of grant but may be included in a NSO at the time of grant or at any subsequent time.

7.2 Exercise of SARs. A SAR may be exercised to the extent that the Option in which it is included is exercisable, subject to any restrictions imposed by Rule 16b-3 under the Exchange Act (as amended from time to time). If, on the date when an Option expires, the Exercise Price under such Option is less than the Fair Market Value on such date but any portion of such Option has not been exercised or surrendered, then any SAR included in such Option shall automatically be deemed to be exercised as of such date with respect to such portion. An Option granted under the Plan may provide that it will be exercisable as a SAR only in the event of a Change in Control.

ARTICLE 8. RESTRICTED SHARES AND STOCK UNITS.

8.1 Time, Amount, and Form of Awards. Restricted Shares or Stock Units with respect to an Award Year may be granted during such Award Year or at any time thereafter. Awards under the Plan may be granted in the form of Restricted Shares, in the form of Stock Units, or in any combination of both. Restricted Shares or Stock Units may also be awarded in combination with NSOs, and such an Award may provide that the Restricted Shares or Stock Units will be forfeited in the event that the related NSOs are exercised. The maximum number of Restricted Shares and/or Stock Units, awarded to any participant in any year shall be 450,000 (subject to adjustment in accordance with Article 10). The Stock Award Agreement shall provide for the adjustment of such number including the maximum number in accordance with Article 10.

8.2 Performance Based Awards. The Committee may authorize that Awards of Restricted Shares and Stock Units be made subject to or granted upon the attainment of specified performance goals over a designated performance period of at least one year in addition to time-vesting and other vesting requirements. If so authorized, Awards intended to qualify as "performance-based compensation" under Code Section 162(m) shall be made in accordance with the requirements thereof. Performance goals for this purpose will be based on objective criteria specifically defined by the Committee on a Company, business unit or peer group comparison basis, which may include or exclude specified items of an unusual or nonrecurring nature and are based on one or more of the following: earnings per share, net income, return on assets, return on sales, return on capital, return on equity, return on revenue, cash flow, cost reduction, total shareholder return, economic value added, cash flow return on investment, and cash value added. The Committee, in its sole discretion, may reduce or eliminate any Award otherwise earned based on an assessment of individual performance, but in no event may any such reduction result in an increase of the Award payable to any other participant. The Committee shall determine the amount of any such reduction by taking into account such factors as it deems relevant including, without limitation: (a) performance against other financial or strategic objectives; (b) its subjective assessment of the executive's overall performance for the year; and (c) prevailing levels of total compensation among similar companies.

8.3 Vesting Conditions. Each Award of Restricted Shares or Stock Units shall become vested, in full or in installments, upon satisfaction of the conditions specified in the Stock Award Agreement. A Stock Award Agreement may provide for accelerated vesting in the event of the Participant's death, disability, or retirement. The Committee may determine, at the time of making an Award or thereafter, that such Award shall become fully vested in the event that a Change in Control occurs with respect to the Company.

8.4 Form and Time of Settlement of Stock Units. Settlement of vested Stock Units may be made in the form of cash, in the form of Common Shares, or in any combination of both. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Common Shares over a series of trading days. Vested Stock Units may be settled in a lump sum or in installments. The distribution may occur or commence when all vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred to any later date consistent with the requirements of Section 409A of the Code if subject to Section 409A of the Code. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Article 10.

8.5 Death of Recipient. Any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's beneficiary or beneficiaries. Each recipient of a Stock Units Award under the Plan shall designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Award recipient's death. If no beneficiary was designated or if no designated beneficiary survives the Award recipient, then any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's estate.

8.6 Creditors' Rights. A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Award Agreement.

ARTICLE 9. VOTING AND DIVIDEND RIGHTS.

9.1 Restricted Shares. The holders of Restricted Shares awarded under the Plan shall have the same voting, dividend, and other rights as the Company's other stockholders. Cash dividends on Restricted Shares reinvested in additional Restricted Shares and any stock dividends paid on Restricted Shares shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid. Such additional Restricted Shares shall not reduce the number of Common Shares available under Article 3.

9.2 Stock Units. The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan shall carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Common Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Common Shares, or in a combination of both. Prior to distribution, any dividend equivalents which are not paid shall be subject to the same conditions and restrictions as the Stock Units to which they attach.

ARTICLE 10. PROTECTION AGAINST DILUTION.

10.1 Adjustments. In the event of a subdivision of the outstanding Common Shares, a declaration of a dividend payable in Common Shares, a declaration of a dividend payable in a form other than Common Shares in an amount that has a material effect on the price of Common Shares, a combination or consolidation of the outstanding Common Shares (by reclassification or otherwise) into a lesser number of Common Shares, a recapitalization, a spin-off or a similar occurrence, the Committee shall make appropriate adjustments in one or more of (a) the number of Common Shares authorized, Options, Restricted Shares, and Stock Units, SARs available for future Awards under Article 3, (b) the number of Stock Units included in any prior Award which has not yet been settled, (c) the number of Common Shares covered by each outstanding Option Award , (d) the Exercise Price under each outstanding Option and SAR, or (e) the per person per year limitations on Awards under the Plan. Except as provided in this Article 10, a Participant shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

10.2 Reorganizations. In the event that the Company is a party to a merger or other reorganization, outstanding Options, Restricted Shares, and Stock Units shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of outstanding Awards by the surviving corporation or its parent, for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting, or for settlement in cash.

ARTICLE 11. LONG TERM PERFORMANCE CASH AWARDS.

11.1 The Committee may grant long term performance cash awards to any Participant in its sole discretion. Payment of cash awards will be based on the attainment of specified performance goals over a designated performance period in excess of one year. Performance awards for the Chief Executive Officer, the other four highest compensated officers of the Company and such other senior executives as designated by the Committee are intended to qualify as "performance-based compensation" under Code Section 162(m) and shall be made in accordance with the requirements thereof. Performance goals for this purpose will be based on objective criteria specifically defined by the Committee on a Company, business unit or peer group comparison basis, which may include or exclude specified items of an unusual or nonrecurring nature and are based on one or more of the following: earnings per share, net income, return on assets, return on sales, return on capital, return on equity, return on revenue, cash flow, cost reduction, total shareholder return, economic value added, cash flow return on investment, and cash value added.

11.2 The Committee, in its sole discretion, may reduce or eliminate any award otherwise earned based on an assessment of individual performance, but in no event may any such reduction result in an increase of the award payable to any other Participant. The Committee shall determine the amount of any such reduction by taking into account such factors as it deems relevant including, without limitation: (a) performance against other financial or strategic objectives; (b) its subjective assessment of the executive's overall performance for the year; and (c) prevailing levels of total compensation among similar companies. The maximum amount that may be paid to any eligible Participant in any year with respect to a long term performance cash award is $7,000,000.

11.3 In the event of a Change of Control of the Company, each Participant will be entitled to the maximum prorated award based on the number of full or partial months completed prior to the Change of Control during the performance period in which the Change of Control occurs. Each participant shall be entitled to be paid the sums in his deferred income and/or stock account on the earliest date permitted by law.

11.4 The Company may grant long term performance awards under other plans or programs consistent with the limitations described in Article 11. Such awards and all stock units credited under the Company's Deferred Incentive Compensation Plan and Deferred Compensation Plan may be settled in the form of Common Shares issued under this Plan. Such Common Shares shall be treated for all purposes under the Plan like Common Shares issued in settlement of Stock Units and shall reduce the number of Common Shares available under Article 3.

11.5 The Committee may permit the deferral of any award and may permit payment on deferrals to be made in cash or shares of Common Stock subject to rules and procedures it may establish which shall comply with Section 409A of the Code for deferrals subject to Section 409A of the Code. These rules may include provisions for crediting dividend equivalents on deferred stock unit accounts and crediting interest on deferred cash accounts.

ARTICLE 12. LIMITATION ON RIGHTS.

12.1 Employment Rights. Neither the Plan nor any Award granted under the Plan shall be deemed to give any individual a right to remain an employee of the Company or a Subsidiary. The Company and its Subsidiaries reserve the right to terminate the service of any employee at any time, with or without cause, subject only to a written employment agreement (if any).

12.2 Stockholders' Rights. A Participant shall have no dividend rights, voting rights, or other rights as a stockholder with respect to any Common Shares covered by his or her Award prior to the issuance of the stock, except as expressly provided in Section 9.1. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such certificate is issued, except as expressly provided in Articles 8, 9, and 10.

12.3 Regulatory Requirements. Any other provision of the Plan notwithstanding, the obligation of the Company to issue Common Shares under the Plan shall be subject to all applicable laws, rules and regulations, and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Common Shares pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Common Shares, to their registration, qualification or listing, or to an exemption from registration, qualification or listing.

12.4 Repricing, Exchange, or Cash-Out Prohibited. Except as permitted in Article 10 above:

(i) no reduction in the Exercise Price of any Award is permitted;

(ii) no previously granted Award may be exchanged for another Award with a lower Exercise Price; and

(iii) no previously granted Award whose Exercise Price is higher than the Fair Market Value of Company stock may be cancelled in exchange for cash or another Award.

ARTICLE 13. WITHHOLDING TAXES.

13.1 General. To the extent required by applicable federal, state, local, or foreign law, the recipient of any payment or distribution under the Plan shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise by reason of the receipt or vesting of such payment or distribution. The Company shall not be required to issue any Common Shares or make any cash payment under the Plan until such obligations are satisfied.

13.2 Share Withholding. The Committee may permit the recipient of any payment or distribution under the Plan to satisfy his or her minimum tax withholding obligations by having the Company withhold a portion of any Common Shares that otherwise would be issued to him or her or by surrendering a portion of any Common Shares that previously were issued to him or her. Such Common Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. Any payment of taxes by assigning Common Shares to the Company may be subject to restrictions, including any restrictions required by rules of the Securities and Exchange Commission.

ARTICLE 14. ASSIGNMENT OR TRANSFER OF AWARDS.

Except as provided in Article 13 and Section 5.2, any Award granted under the Plan shall not be anticipated, assigned, attached, garnished, optioned, transferred, or made subject to any creditor's process, whether voluntarily, involuntarily, or by operation of law. Any act in violation of this Article 14 shall be void. However, this Article 14 shall not preclude a Participant from designating a beneficiary who will receive any undistributed Awards in the event of the Participant's death, nor shall it preclude a transfer by will or by the laws of descent and distribution. In addition, neither this Article 14 nor any other provision of the Plan shall preclude a Participant from transferring or assigning Restricted Shares or Stock Units to (a) the trustee of a trust that is revocable by such Participant alone, both at the time of the transfer or assignment and at all times thereafter prior to such Participant's death, or (b) the trustee of any other trust to the extent approved in advance by the Committee in writing. A transfer or assignment of Restricted Shares or Stock Units from such trustee to any person other than such Participant shall be permitted only to the extent approved in advance by the Committee in writing, and Restricted Shares or Stock Units held by such trustee shall be subject to all of the conditions and restrictions set forth in the Plan and in the applicable Stock Award Agreement, as if such trustee were a party to such Agreement.

ARTICLE 15. EFFECT OF MATERIAL RESTATEMENTS

If the Board, in its sole discretion, determines that:

(i) Any Award under the Plan was received by a Section 16 Officer or former Section 16 Officer of the Company during the three completed fiscal years immediately preceding the date the Company was required to prepare a material restatement of its financial statements; and

(ii) The Section 16 Officer engaged in fraud that caused or substantially contributed to the material restatement; and

(iii) The Award was based in whole or in part on financial results that were subsequently subject to the material restatement.

Then the Board in its sole discretion may recover from the Section 16 Officer or former Section 16 Officer all or some of such Award as it deems appropriate.

ARTICLE 16. FUTURE OF THE PLAN.

16.1 Term of the Plan. The Plan shall remain in effect until it is terminated under Section 16.2, except that no ISOs shall be granted after December 6, 2020.

16.2 Amendment or Termination. The Board may, at any time and for any reason, amend or terminate the Plan. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws, regulations, or rules. No Awards shall be granted under the Plan after the termination thereof. The termination of the Plan, or any amendment thereof, shall not affect any Option previously granted under the Plan.

ARTICLE 17. DEFINITIONS.

17.1 "Award" means any award of an Option (with or without a related SAR), a Restricted Share, a Stock Unit or a long term performance cash award under the Plan.

17.2 "Award Year" means a fiscal year with respect to which an Award may be granted.

17.3 "Board" means the Company's Board of Directors, as constituted from time to time.

17.4 "Change in Control" means the occurrence of any of the following events:

(i) The acquisition by any individual, entity or group (within the meaning of Sections 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 15% or more of either (i) the then outstanding Common Shares (the "Outstanding Company Common Stock") or (y) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that the following acquisitions shall not constitute a Change in Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, (iv) any acquisition by the natural children and grandchildren of Paul Pigott and Theiline McCone Pigott (the "Immediate Pigott Family"), any trust or foundation to which any of the foregoing has transferred or may transfer securities of the Company, the trusts at Bank America Corporation or its successor, holding outstanding Common Shares for descendants of Paul Pigott and Theiline McCone Pigott, any trust established for the primary benefit of any member of the Immediate Pigott Family or any of their respective heirs or legatees, any trust of which any member of the Immediate Pigott Family serves as a trustee (or any affiliate or associate (within the meaning of Rule 12b-2 promulgated under the Exchange Act) of any of the foregoing) (the "Exempted Interests"), or (e) any acquisition by any corporation pursuant to a transaction described in clauses (A), (B) and (C) of subsection (iii) below;

(ii) Individuals who, as of the date this Plan is approved by the Company's stockholders, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(iii) The consummation of a reorganization, merger, share exchange, or consolidation (a "Business Combination"), in each case unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 85% of, respectively, the then outstanding Common Shares and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding (1) any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination or (2) the Exempted Interests) beneficially owns, directly or indirectly, 15% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) The consummation of (A) a complete liquidation or dissolution of the Company or (B) the sale or other disposition of all or substantially all of the COMPANY'S assets, other than to a corporation with respect to which, following such sale or other disposition, (1) more than 85% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) less than 15% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by any Person (excluding (x) any employee benefit plan (or related trust) of the Company or such corporation or (y) the Exempted Interests), except to the extent that such Person owned 15% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities prior to the sale or disposition, and (3) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such sale or other disposition of assets of the Company or were elected, appointed or nominated by the Board.

(v) The change of control requirements identified in regulations implementing Section 409A(e)(2) of the Code will prevail over any conflicting provisions of 17.4(i) to (iv) for those nonqualified deferred compensation plans governed by Section 409A of the Code.

17.5 "<u>Code</u>" means the Internal Revenue Code of 1986, as amended.

17.6 "<u>Committee</u>" means the Compensation Committee of the Board, as described in Article 2.

17.7 "<u>Common Share</u>" means one share of the common stock of the Company.

17.8 "<u>Company</u>" means PACCAR Inc, a Delaware corporation.

17.9 "<u>Exchange Act</u>" means the Securities Exchange Act of 1934, as amended.

17.10 "<u>Exercise Price</u>" means the amount for which one Common Share may be purchased upon exercise of an Option, as specified in the applicable Stock Option Agreement.

17.11 "<u>Fair Market Value</u>" shall mean the closing price of a Common Share on the trading day immediately preceding the day in question.

17.12 "<u>ISO</u>" means an incentive stock option described in Section 422(b) of the Code.

17.13 "Key Employee" means a key common law employee of the Company or of a Subsidiary, as determined by the Committee.

17.14 "NSO" means an employee stock option not described in sections 422 through 424 of the Code.

17.15 "Option" means an ISO or NSO granted under the Plan and entitling the holder to purchase one Common Share.

17.16 "Optionee" means an individual or estate who holds an Option.

17.17 "Participant" means an individual or estate who holds an Award.

17.18 "Plan" means this PACCAR Inc Long Term Incentive Plan, as it may be amended from time to time.

17.19 "Restricted Share" means a Common Share awarded under the Plan.

17.20 "SAR" means a stock appreciation right granted under the Plan.

17.21 "Section 16 Officer" means an executive officer as defined in section 16 of the Exchange Act.

17.22 "Stock Award Agreement" means the agreement between the Company and the recipient of a Restricted Share or Stock Unit which contains the terms, conditions, and restrictions pertaining to such Restricted Share or Stock Unit.

17.23 "Stock Option Agreement" means the agreement between the Company and an Optionee which contains the terms, conditions, and restrictions pertaining to his or her Option.

17.24 "Stock Unit" means a bookkeeping entry representing the equivalent of one Common Share awarded under the Plan.

17.25 "Subsidiary" means any company, if the Company and/or one or more other Subsidiaries own not less than 50% of the total combined voting power of all classes of outstanding stock of such company. A company that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

ARTICLE 18. EXECUTION.

To record the amendment and restatement of the Plan by the Board, the Company has caused its duly authorized officer to affix the corporate name and seal hereto.

**Exhibit 10 (q)**

PACCAR Inc

**LONG TERM INCENTIVE PLAN**

**2016 RESTRICTED STOCK AWARD AGREEMENT FOR 2015 PERFORMANCE**

THIS <award_date> RESTRICTED STOCK AWARD AGREEMENT (the “Agreement”), is entered into as of this <award_date> (the “Award Date”) between PACCAR Inc, a Delaware corporation (the “Company”), and <first_name> <last_name> (the “Recipient”).

WHEREAS, The Company has established the PACCAR Inc Long Term Incentive Plan (the “LTIP”) in order to provide key employees of the Company and its subsidiaries with an opportunity to acquire shares of the Company’s common stock, par value $1 per share (the “Common Shares”); and

WHEREAS, the Compensation Committee of the Board of Directors charged with administering the LTIP (the “Committee”) has determined that it would be in the best interests of the Company and its stockholders to grant the Restricted Shares described in this Agreement to the Recipient as an inducement to enter into or remain in the service of the Company and as an incentive for extraordinary efforts during such service;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, it is agreed as follows:

1. Award. The Company hereby grants the Recipient <shares_awarded> Common Shares (the “Restricted Shares”), subject to the terms and conditions of the LTIP and this Agreement (the “Award”). The provisions of the LTIP are incorporated into this Agreement by this reference. The Recipient acknowledges having received a copy of the LTIP, read it, and understood its provisions.

2. Rights as Stockholder. On and after the Award Date, and except to the extent provided in the LTIP and this Agreement, the Recipient will be entitled to all of the rights of a stockholder with respect to the Restricted Shares, including the right to vote the Restricted Shares and to receive dividends and other distributions payable with respect to the Restricted Shares.

3. Vesting.

   (a) Conditions. The Award of Restricted Shares shall vest according to the schedule set forth below in Section 3(b):

   (b) Schedule. The restrictions set out in Section 3 above shall lapse in accordance with the following schedule provided that the Recipient has been continuously employed by the Company in an LTIP-eligible position through the applicable vesting date:

   One-fourth shall vest on the first day of the month following certification of the performance goal, and an additional one-fourth on each succeeding first of January, so as to be 100% vested on January 1, 2017.

   (c) Retirement, Disability, Death. If Recipient’s employment with the Company subsequently terminates by reason of Recipient’s retirement on or after age 62, (determined under the terms of the Company’s defined benefit plan) disability (determined under the Company’s long-term disability plan), or death, then all Restricted Shares held by the Grantee shall become fully vested, notwithstanding the provisions of Section 3(b) hereof, and the Grantee (or the Grantee’s estate or a person who acquired the shares of Restricted Stock by bequest or inheritance) shall have the right to sell, transfer or otherwise dispose of such shares at any time.

(c) Change in Control. Notwithstanding anything in this agreement to the contrary, in the event of a Change in Control as provided in Section 16.4 of the LTIP, the Restricted Shares shall immediately vest in full.

(d) Ownership. On the Vesting Date, Grantee shall own the vested shares of Restricted Stock free and clear of all restrictions imposed by this Agreement (except those imposed by Section 8).

(e) Forfeiture of Restricted Shares. If Recipient terminates employment by reason of resignation or termination by the Company voluntarily or involuntarily, all Restricted Shares will be immediately forfeited. The Committee has sole discretion to determine the reason for Recipient's departure and its determination shall be final and binding on the Recipient.

4. Terms and Conditions of Distribution. The Company is not required to issue or deliver any certificates for the vested Shares before completing the steps necessary to comply with applicable federal and state securities laws (including any registration requirements and regulations governing short swing trading of securities) and applicable stock exchange rules and practices. The Company will use commercially reasonable efforts to cause compliance with those laws, rules and practices.

   If the Recipient dies before the Company has distributed any vested Shares, the Company will distribute certificates to the beneficiary or beneficiaries the Recipient designated, in the proportions the Recipient specified. To be effective, a beneficiary designation must be made in writing and filed with the Company. If the Recipient failed to designate a beneficiary or beneficiaries, the Company will distribute certificates for the Common Shares to the Recipient's surviving spouse or, if there is none, to his estate.

5. Stock Certificates. The Company will set up a book entry Restricted Shares account for the Recipient with the Company's transfer agent for the Restricted Shares as soon as practicable. The Company will distribute share certificates to the Recipient or, if applicable, his or her beneficiary, when the Restricted Stock becomes vested in accordance with Section 3 of this Agreement.

6. Payment for Shares. The Committee has determined that the services rendered by Recipient to the Company provided value equal to the $1.00 par value of the Vested Shares awarded and, therefore, no cash payment to the Company is required.

7. Withholding of Tax. To the extent that the receipt of the Restricted Shares or dividends results in income to the Employee for any federal or state income tax purposes, no later than the date as of which such tax withholding is first required, Recipient shall pay to the Company any federal or state income tax required to be withheld with respect to such amount. If the Recipient fails to do so, the Company will withhold shares of common stock having a fair market value on the date of withholding equal to the minimum tax withholding obligation.

8. Legality of Issuance; Restrictions on Transfer. No Vested Shares shall be issued unless and until the Company has determined that:

   (a) it and the Recipient have taken any actions required to register the Common Shares under the Securities Act of 1933, as amended (the "Securities Act") or to perfect an exemption from the registration requirements thereof;

(b) any applicable listing requirement of any stock exchange on which Common Shares are listed has been satisfied; and

(c) any other applicable provision of state or federal law has been satisfied.

(d) Regardless of whether the offering and sale of Common Shares under the LTIP have been registered under the Securities Act or have been registered or qualified under the securities laws of any state, the Company may impose restrictions upon the sale, pledge or other transfer of such Common Shares (including the placement of appropriate legends on stock certificates) if, in the judgment of the Company and its counsel, such restrictions are necessary or desirable in order to achieve compliance with the Securities Act, the securities laws of any state or any other law or with restrictions imposed by the Company's underwriters.

9. No Registration Rights. The Company may, but shall not be obligated to, register or qualify the issuance of Restricted Shares under the Securities Act or any other applicable law. The Company shall not be obligated to take any affirmative action in order to cause the issuance of Restricted Shares under this Agreement to comply with any law.

10. Removal of Legends. If, in the opinion of the Company and its counsel, any legend placed on a stock certificate representing Common Shares is no longer required, the holder of such certificate shall be entitled to exchange such certificate for a certificate representing the same number of Common Shares but lacking such legend.

11. Investment Intent. In the event that the issuance of Restricted Shares under the LTIP is not registered under the Securities Act but an exemption is available which requires an investment representation or other representation, the Recipient shall represent and agree at the time of exercise that the Common Shares being acquired upon exercising this option are being acquired for investment, and not with a view to the sale or distribution thereof, and shall make such other representations as are deemed necessary or appropriate by the Company and its counsel.

12. No Employment Rights. Nothing in this Agreement shall be construed as giving the Recipient the right to be retained as an employee. The Company reserves the right to terminate the Recipient's service at any time, with or without cause (subject to any employment agreement between the Recipient and the Company).

13. Administration. The Committee administers the LTIP and this Agreement. The Committee shall have sole discretion to interpret the LTIP and this Agreement, amend and rescind rules relating to its implementation and make all determinations necessary for administration of the LTIP and this Agreement. The Recipient's rights under this Agreement are expressly subject to the terms and conditions of the LTIP, including continued shareholder approval of the LTIP, and to any guidelines the Company adopts from time to time.

14. Entire Agreement. The Award is in all respects subject to the provisions set forth in the LTIP to the same extent and with the same effect as if the provisions of the LTIP were set forth fully herein. In the event that the terms of this Award conflict with the terms of the LTIP, the LTIP shall control. This Agreement is the entire Agreement between the parties to it, and any and all prior oral and written representations are merged into and superseded by this Agreement. This Agreement may be amended only by written agreement between the Recipient and the Company.

15. No Limitation on Rights of the Company. The award of Restricted Shares does not and will not in any way affect the right or power of the Company to make adjustments, reclassifications or changes in its capital or business structure, or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

16. Share Adjustments. If there are any changes in the number or value of shares of Common Shares by reason of stock dividends, stock splits, reverse stock splits, recapitalizations, mergers or other events as stated in Article 10 of the LTIP, then proportionate adjustments shall be made to the number of shares of Common Stock (i) issued pursuant to Section 1 and (ii) covered by an unvested grant of restricted stock, in order to prevent dilution or enlargement of rights. This provision does not, however, authorize the delivery of fractional Common Shares under the LTIP.

17. Notices. Any notice or other communication required or permitted under the LTIP or this Agreement must be in writing and must be delivered personally, sent by certified, registered or express mail, or sent by overnight courier, at the sender's expense. Notice will be deemed given when delivered personally or, if mailed, three days after the date of deposit in the United States mail or, if sent by overnight courier, on the regular business day following the date sent. Notice to the Company should be sent to PACCAR Inc, Attention: Corporate Secretary. Notice to the Recipient should be sent to his or her business address.

18. Data Privacy. By entering into this Agreement, Recipient:

    (a) agrees to disclose certain personal data requested by the Company to administer the LTIP and expressly consents to the Company's processing such data for purposes of the implementation or administration of the LTIP and this Agreement;

    (b) waives any data privacy rights Recipient may have with respect to such data; and

    (c) authorizes the Company and any of its authorized agents to store and transmit such information in electronic form.

19. Successors. All obligations of the Company under this Agreement will be binding on any successor to the Company, whether the existence of the successor results from a direct or indirect purchase of all or substantially all of the business and/or assets of the Company, or a merger, consolidation, or other event.

20. Governing Law. To the extent not preempted by federal law, this Agreement will be construed and enforced in accordance with, and governed by, the laws of the State of Washington as such laws are applied to contracts entered into and performed in such State.

21. Limitation on Rights; No Right to Future Awards; Extraordinary Item of Compensation. By entering into this Agreement and accepting the grant of an award evidenced hereby, Recipient acknowledges:

    (a) that the LTIP is discretionary in nature and may be suspended or terminated by the Company at any time;

    (b) that the Award of Restricted Stock is a one-time benefit which does not create any contractual or other right to receive future awards, grants of stock options, or benefits in lieu thereof;

    (c) that all determinations with respect to any such future Awards, including, but not limited to, the times when Awards shall be made, the number of Common Shares to be awarded, and the vesting of any Restricted Stock there under, will be at the sole discretion of the Company;

    (d) that the Recipient's participation in the LTIP is voluntary;

(e) that the value of the Award is an extraordinary item of compensation which is outside the scope of the Recipient's employment contract, if any;

(f) that the Award is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; and

(g) that the future value of the Commons Shares is unknown and cannot be predicted with certainty.

I agree to the terms and conditions of this restricted stock agreement and acknowledge having received the PACCAR Long Term Incentive Plan.

| OPTIONEE SIGNATURE: | | PACCAR Inc: | |
|---|---|---|---|
| By: | | | |
| <first_name> last_name> | Date | **VP Human Resources** | Date |
| | | Company's Address:<br>777 - 106th Avenue N.E.<br>P.O. Box 1518<br>Bellevue, WA 98009 | |

**EXHIBIT 12(a)**

**PACCAR Inc**

**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**

**PURSUANT TO SEC REPORTING REQUIREMENTS**
(Millions of Dollars)

| Six Months Ended June 30, | | 2015 | | 2014 |
|---|---|---|---|---|
| FIXED CHARGES | | | | |
| Interest expense | $ | 55.3 | $ | 68.8 |
| Portion of rentals deemed interest | | 2.7 | | 3.1 |
| TOTAL FIXED CHARGES | $ | 58.0 | $ | 71.9 |
| EARNINGS | | | | |
| Income before taxes | $ | 1,213.9 | $ | 887.5 |
| Fixed charges | | 60.5 | | 73.1 |
| EARNINGS AS DEFINED | $ | 1,274.4 | $ | 960.6 |
| RATIO OF EARNINGS TO FIXED CHARGES | | 21.97X | | 13.36X |

**EXHIBIT 31(a)**

## CERTIFICATIONS

I, Ronald E. Armstrong, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PACCAR Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date August 6, 2015

/s/ Ronald E. Armstrong
Ronald E. Armstrong
Chief Executive Officer
(Principal Executive Officer)

**EXHIBIT 31(b)**

## CERTIFICATIONS

I, Robert J. Christensen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PACCAR Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date August 6, 2015

/s/ Robert J. Christensen
Robert J. Christensen
President and Chief Financial Officer
(Principal Financial Officer)

**EXHIBIT 32**

**CERTIFICATION PURSUANT TO SECTION 906**
**OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of PACCAR Inc (the “Company”) on Form 10-Q for the quarter ended June 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350), that to the best of our knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date August 6, 2015

By /s/ Ronald E. Armstrong
Ronald E. Armstrong
Chief Executive Officer
PACCAR Inc
(Principal Executive Officer)

By /s/ Robert J. Christensen
Robert J. Christensen
President and Chief Financial Officer
PACCAR Inc
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.