

## PACCAR Environmental, Social and Governance (ESG) Report

PACCAR is a global technology leader in the design, manufacture and customer support of premium light-, medium- and heavy-duty trucks under the Kenworth, Peterbilt and DAF nameplates. PACCAR also designs and manufactures advanced powertrains, provides financial services, information technology, and distributes aftermarket parts related to its principal business.

PACCAR conducts business to achieve above-average market returns for stockholders, reflect the highest ethical standards, fulfill our legal obligations, and meet our social responsibilities. We strive to gain the favorable regard of customers, shareholders, employees, regulatory authorities, and the general public through superior performance and effective communications.

PACCAR's ESG approach is focused on environmental leadership, social responsibility, ethical business conduct, and corporate governance practices that enhance shareholder value.

### **Environmental Leadership**

Reducing the environmental impact of our activities is an integral part of our process of continuous improvement. Our commitment to the environment is demonstrated in our energy efficient operations and technologically advanced products.

PACCAR's environmental policy applies to all company activities. The company-wide environmental policy is posted on <https://www.paccar.com/about-us/environmental-and-social/environmental/environmental-policy/>.

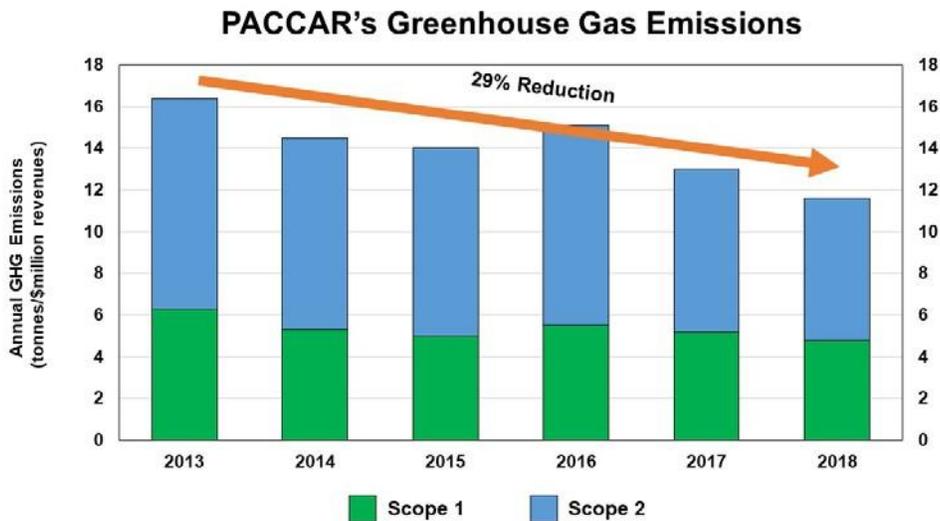
Specific environmental requirements for supplier operations are detailed in the Supplier Code of Conduct available at <https://www.paccar.com/about-us/environmental-and-social/social/supplier-code-of-conduct/>.

### **Operations**

PACCAR is committed to environmental responsibility in the vehicle production process. Finding ways to reduce waste, reuse materials, conserve energy and reduce the environmental impact of our activities occurs daily in both small and significant ways across the Company. PACCAR is driving clean manufacturing into every aspect of its business because it helps the environment and makes good long-term business sense.

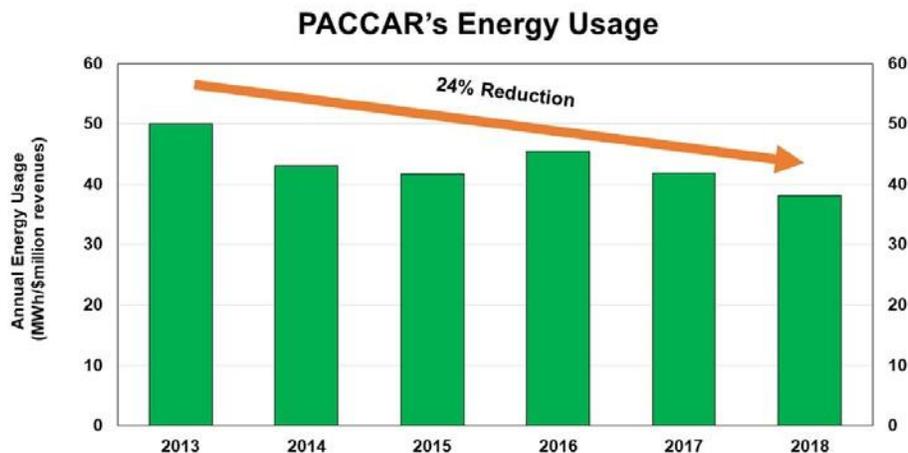
PACCAR discloses greenhouse gas emissions and energy usage per unit of revenue. This normalizes the data for fluctuations in our business that occur due to industry cyclicality.

From 2013 to 2018, PACCAR reduced greenhouse gas emissions 29% on a per revenue basis as shown below:



PACCAR has disclosed greenhouse gas emissions through CDP (formerly Carbon Disclosure Project) since 2014. In 2018, PACCAR achieved an A score from CDP, placing in the top 2% of over 6,000 companies reporting and demonstrating a robust approach to reducing greenhouse gas emissions in Kenworth, Peterbilt and DAF vehicles and from our global facilities. PACCAR's CDP report is available on the CDP website (<https://www.cdp.net/en>).

PACCAR reduced its energy usage over the same time period by 24% on a per revenue basis.



PACCAR's hazardous air emissions have been reduced by over 200 tonnes per year in paint and other processes. The new state-of-the-art DAF Westerlo and Kenworth Chillicothe Cab Paint facilities will reduce hazardous waste emissions even further.



PACCAR has focused on responsible environmental stewardship since its founding in 1905. Eighty-eight percent of PACCAR manufacturing locations are ISO 14001 certified and 88% are zero-waste-to-landfill.

## **Innovative Products**

A key element of PACCAR's environmental strategy is to offer our customers commercial vehicles that reduce environmental impacts. The company invests in technologies that reduce greenhouse gas emissions such as highly fuel efficient diesel engines, natural gas and biofuel engines, as well as next generation electric, hybrid, and hydrogen fuel cell powertrains. To develop these industry-leading products and technologies, PACCAR makes significant research and development and capital investments every year.

PACCAR's commitment to making the highest quality, most sustainable vehicles begins with product design. Our engineers use "Design for Environment" or Eco Design software to identify non-hazardous, lighter weight materials while improving overall vehicle recyclability.

### **PACCAR's Zero Emission Trucks**

PACCAR's research and development efforts include several demonstration and development projects for Kenworth, Peterbilt and DAF vehicles, including battery electric, hydrogen fuel cell, and hybrid technologies.

Peterbilt and Kenworth are collaborating with supplier partners, environmental regulators and port authorities to develop electric trucks to meet potential new requirements for zero emissions port logistics. The battery electric Peterbilt Model 579 and the hydrogen fuel cell electric Kenworth T680 are accumulating miles in field tests designed to understand the economics and customer usage of these technologies, and inform future production vehicles.

Peterbilt has designed a battery electric Model 520 truck for the refuse segment. The truck's 90-mile range and quiet operation is an excellent solution for residential neighborhood refuse operations.

The DAF CF Hybrid has been developed for driving electrically with zero emissions in urban areas, while offering a much longer range to operate beyond those urban areas, thanks to the latest, ultra-clean diesel technology. The combination of electric and diesel power ensures the highest logistical efficiency.

DAF has developed battery electric DAF CF and DAF LF trucks, which offer zero emissions and ultra-low noise for heavy- and medium-duty urban distribution. The DAF CF Electric is a 4x2 tractor unit developed for up to 37-tonne distribution applications. The DAF LF Electric is a medium-duty truck with a modular battery pack that can be scaled to the range required by customers.

## **Low Carbon and Renewable Fuels**

PACCAR is the market leader for natural gas heavy-duty vehicles. Based on the latest information from the research firm R.L. Polk, Kenworth and Peterbilt achieved market share of approximately 50% of compressed natural gas heavy-duty vehicle registrations in the U.S. and Canada in 2018.

PACCAR's MX 13 and MX 11 engines are certified to use B10/B20/B30 and XTL biofuels in Europe and B20 biofuel in the U.S. Biofuel capable unit sales represent 45% of PACCAR's total global truck sales.

PACCAR has partnered with Toyota Motor North America to develop zero-emission Kenworth T680 trucks powered by Toyota hydrogen fuel cell electric powertrains for use in drayage operations. The hydrogen fuel cell electric powered Kenworth T680s will have a range of over 300 miles under normal drayage operating conditions.

DAF has developed the DAF CF Hybrid truck featuring the efficient PACCAR MX-11 engine. This vehicle can drive with fully electric power, quiet operation and zero emissions in urban areas, while offering a much longer range to operate outside of cities.

## **Advanced Vehicles**

Two PACCAR teams are participating in the Department of Energy's SuperTruck II program, with ambitious goals to achieve 100% improvement in freight efficiency and 55% improvement in engine brake efficiency, improve fuel economy, reduce costs and reduce emissions. The PACCAR Technical Center, DAF and Kenworth, in collaboration with UPS, are participating in one of PACCAR's SuperTruck II projects. Peterbilt and Cummins are partnering in a separate Supertruck II project.

DAF's model year 2018 XF and CF models were honored as International Truck of the Year. These trucks are equipped with highly efficient PACCAR MX engines, a new compact after-treatment system, and sophisticated software and aerodynamic optimization, reducing fuel consumption and CO2 emissions by 7% compared with previous models.

Peterbilt and Kenworth recently introduced enhancements to the Peterbilt Model 579 EPIQ and the Kenworth T680 Advantage trucks, which reduce fuel consumption and CO2 emissions by 8% over previous models. Enhancements included the PACCAR Powertrain, lower weight, predictive cruise control and a redesigned power distribution system.

Model year 2019 Kenworth, Peterbilt and DAF trucks reduce fuel consumption and CO2 emissions up to 14% compared to 2014 models.

## **Platooning**

PACCAR also innovates with platooning technology to provide customers and communities with more efficient freight transport with reduced emissions. DAF Trucks has been a leader in truck

platooning since early 2015 with the launch of the EcoTwin project. Platooning enables trucks to drive in close formation, leading to reduced fuel consumption and CO2 emissions up to 10%, and improved traffic flow. The advanced driver assistance systems used in platooning are expected to enhance road safety. DAF test drivers have driven truck platoons tens of thousands of miles on both public roads and on test tracks. In its latest platooning project, DAF is partnering with the United Kingdom Transport Research Laboratory, along with TNO, Ricardo, and DHL in truck-platooning trials in the United Kingdom.

## **Remanufacturing**

Remanufacturing is the industrial process of returning a previously used component to “like-new” condition. Remanufacturing helps the environment by reducing waste. PACCAR’s aftermarket parts division sells remanufactured engines and many other remanufactured components.

## **Connected Trucks and Driver Training**

The DAF Connect fleet management system gives fleet customers real-time information on vehicle and driver performance including fuel consumption, fleet utilization, idle time and route optimization. This information enables customers to improve fleet operating efficiency and reduce fuel consumption and CO2 emissions.

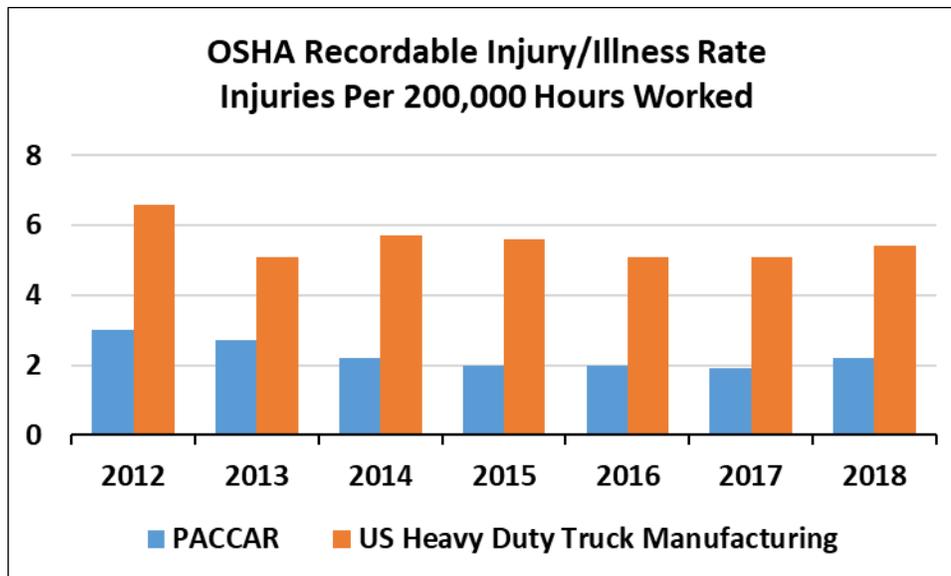
PACCAR has introduced technologies that train drivers to operate vehicles more efficiently. Kenworth and Peterbilt’s Driver Performance Assistant offers interactive in-dash coaching to drivers to reduce fuel consumption and CO2 emissions. DAF’s EcoDrive Training enhances driver efficiency, resulting in up to 5% reduced fuel consumption and CO2 emissions from every properly trained driver. More information is available on <https://www.paccar.com/about-us/environmental-and-social/environmental/product-sustainability/>.

## **Social Responsibility**

### **Workplace Safety**

Continued focus on workplace safety keeps our employees safe and our facilities profitable. Safety is a key priority during employee orientation at all facilities and safety is the responsibility of every PACCAR employee. PACCAR’s major manufacturing facilities are equipped with safety and health departments staffed with trained medical personnel.

Company managers address safety enhancements every day in morning meetings; they provide regular and ongoing safety training; and they use displays located in factories to provide all employees with safety-related information. Senior management demonstrates its commitment to workplace safety by awarding the President's Cup for Excellence in Safety at an annual Company ceremony attended by senior executives from all Company locations. PACCAR's consistent focus on workplace safety has resulted in a fatality rate of zero, and a recordable injury/illness rate lower than the U.S. industry average.



## Employee Training and Well-Being

PACCAR's employee training and development programs are extensive and comprehensive. All new employees receive an orientation and training for their specific positions. Ongoing job-related training is available to meet employees' and the Company's needs. Training programs include professional and technical skills training, compliance training, leadership development and management training. Employee participation is encouraged and tracked. Many PACCAR divisions offer apprenticeship and tuition assistance programs to enhance skills through education. PACCAR also offers extensive internship programs to attract future employees.

PACCAR provides robust benefits packages that support physical, emotional and financial well-being. Employee satisfaction and engagement are measured through periodic surveys that result in quantitative metrics leading to workplace enhancements.

PACCAR is an equal opportunity employer and provides a workplace free from discrimination and harassment. PACCAR values workplace diversity. Diversity councils, which are led by business leaders and staffed with employees, operate throughout PACCAR's global business. Diversity councils have goals to enhance business success through diverse and inclusive workplaces. The PACCAR Women's Association seeks to increase women in PACCAR leadership roles by providing educational, networking and mentoring opportunities to female employees at all levels. More information about PACCAR's commitment to diversity and inclusion can be found at [https://jobs.paccar.com/content/Diversity-and-Inclusion/?locale=en\\_US](https://jobs.paccar.com/content/Diversity-and-Inclusion/?locale=en_US).

## Community

PACCAR and its employees are leaders in our communities. Strong communities assist those less fortunate with a range of social services. Employees organize support for various charities and civic organizations such as United Way, Juvenile Diabetes Research Foundation, Race for



the Cure, and local food banks. To prepare school-age children for the skills to succeed in the 21st century workforce, PACCAR and its many committed employee volunteers support literacy and other educational programs. This includes purchasing books for children in need, and contributing funds and volunteer time to supplemental education programs such as Junior Achievement.

## **Philanthropy**

PACCAR's proud tradition of giving back to the community began 114 years ago with the founding of the company and continues today through PACCAR and the PACCAR Foundation. PACCAR has made more than \$200 million in grants around the world for education, social services, and the arts to enrich the communities in which its employees live and work.

PACCAR and its employees are proud to be long-standing supporters of United Way organizations across the United States. PACCAR and its employees generously donate money and volunteer time each year to United Way organizations in their communities.

More information can be found at <https://www.paccar.com/about-us/philanthropy/>

## **Code of Business Conduct**

The manner in which PACCAR conducts its business, and the opinion of our shareholders, employees, customers and the public, are all very important to the continued success of PACCAR. Over the years PACCAR, through its commitment to integrity and honesty as demonstrated by PACCAR's directors, officers and employees, has earned an excellent reputation as a responsible corporate citizen. It is the responsibility of each director, officer and employee of PACCAR to review the Code of Business Conduct and become familiar with how it applies to specific business situations. All PACCAR employees receive ongoing training regarding the Code of Conduct and are expected to comply with the law and the highest standards of honest and ethical conduct.

PACCAR has a long history of achieving high standards of performance related to human rights and compliance with laws and regulations in all countries where the Company does business.

The PACCAR Code of Business Conduct contains information explaining how employees can confidentially report violations of the Code through a hotline, and PACCAR's anti-retaliation policy. The Code of Business Conduct also includes policies regarding conflicts of interest, bribery, corruption, discrimination, harassment, competition law, and other topics. The Code of Business Conduct can be found at <https://www.paccar.com/about-us/board-of-directors/code-of-business-conduct/>.

## **Supplier Code of Conduct**

PACCAR expects its suppliers to comply with the standards set forth in its Supplier Code of Conduct, and all laws, rules and regulations in the countries in which they operate. PACCAR

selects suppliers after detailed reviews of their operations. PACCAR conducts periodic on-site supplier visits, announced and unannounced, for various reasons, including verification and auditing of contract compliance. These expectations apply to all PACCAR suppliers, their affiliates and locations worldwide. Suppliers who fail to meet these standards risk the loss of all existing and future business with PACCAR.

PACCAR's Supplier Code of Conduct addresses freedom of association, collective bargaining, working hours, slavery, legal employment age, compensation, human trafficking, discrimination, safe workplace, corruption, intellectual property, conflict minerals, product safety, whistle blower protections, hazardous waste, emissions, solid waste and wastewater minimization.

The Supplier Code of Conduct is available at <https://www.paccar.com/about-us/environmental-and-social/social/supplier-code-of-conduct/>.

PACCAR's State of California Transparency in Supply Chains Act policy can be found at <https://www.paccar.com/about-us/environmental-and-social/social/state-of-california-transparency-in-supply-chains-act/>.

## **Conflict Minerals and Critical Materials**

PACCAR is committed to complying with the Dodd-Frank Act's disclosure requirements concerning "Conflict Minerals" – tin, tungsten, tantalum and gold – whose sourcing has been identified with human rights abuses in the Democratic Republic of Congo and adjoining countries (the "Conflict Area"). PACCAR has developed a due diligence process, based on the guidance provided by the Organisation for Economic Cooperation and Development (OECD), to mitigate the risk of inclusion of Conflict Minerals in its products. PACCAR is participating in the Automotive Industry Action Group and the Conflict-Free Smelter Program developed by the Electronic Industry Citizenship Coalition, Incorporated and Global e-Sustainability Initiative to identify the sources of Conflict Minerals in its products. If any sources within the Conflict Area are identified, PACCAR will work with its suppliers, in accordance with OECD guidance, to take reasonable steps to verify that they are Conflict-Free.

A critical material is defined as a material both essential in use and subject to the risk of supply restriction. PACCAR uses a limited number of critical materials in its business, including platinum group metals. PACCAR does not directly source any critical materials. Rather, these materials are present primarily in exhaust aftertreatment system components provided by suppliers. PACCAR mitigates risk from critical materials by entering long-term agreements with high quality, reputable suppliers that adhere to PACCAR's Code of Supplier Conduct. PACCAR is also prepared to work with alternative suppliers in the case of supply disruption of critical materials.

More information about PACCAR's Conflict Minerals policy and critical materials can be found at <https://www.paccar.com/about-us/environmental-and-social/social/conflict-minerals-and-critical-materials/>.

## **Corporate Governance**

PACCAR has excellent corporate governance policies and practices that enhance stockholder returns. Its policies ensure that the Company is governed in accordance with the highest standards of integrity and in the best interest of its stockholders.

### **Board of Directors**

PACCAR's Board of Directors is comprised of 11 directors who bring a diversity of perspectives, skills and business experience relevant to the Company's global operations. Each director has achieved significant success in business, education or public service and has demonstrated the highest ethical standards and integrity as well as mature judgment, objectivity, practicality and a willingness to ask difficult questions. The directors are committed to work together to reach consensus for the betterment of the stockholders and the long-term viability of the Company. In selecting nominees for the Board of Directors, the Nominating and Governance Committee recognizes the importance of having a diversity of gender, heritage and backgrounds to ensure that a variety of opinions and perspectives are represented on the Board.

PACCAR's Corporate Governance Guidelines are available at <https://www.paccar.com/about-us/board-of-directors/governance-guidelines/> and are structured to ensure the Board has the necessary authority and practices to evaluate business operations and to make decisions independent of PACCAR's management. Each director is expected to act with integrity, understand the importance of representing the entire shareholder constituency and increasing shareholder value, contribute actively and objectively at Board and Committee meetings and participate in management evaluation and succession planning.

Key facts about the Board of Directors include:

- 73% of PACCAR's directors are independent.
- Two of the 11 directors are women.
- One director serves as the lead independent director.
- The Board is required to evaluate its performance on an annual basis.
- Directors are required to own PACCAR stock and/or deferred stock units in an amount equal to five times their annual cash retainer.
- All directors on the Compensation, Nominating & Governance and Audit Committees are independent.
- The average compensation of non-employee directors is comparable to the median of company peers.
- The Board has a mandatory retirement age of 72.

## Executive Compensation

PACCAR's compensation programs are directed by the Compensation Committee of the Board of Directors, which is composed exclusively of independent directors. The objective of the programs is to attract and retain high-quality executives, link incentives to the Company's performance and align the interests of management with those of stockholders. The Company emphasizes pay for performance and uses equity-based incentive programs designed to compensate executives for generating outstanding performance for stockholders. Each of the Company's Say-on-Pay proposals was approved by 95% or more of the shares voted in 2011, 2014 and 2017.

Key compensation practices include:

- PACCAR does not have an employment agreement with its CEO or any other officer.
- No employees are eligible for multi-year guaranteed bonuses.
- PACCAR does not discount, backdate, reprice or retroactively grant equity awards and prohibits the buy-out of underwater options.
- The Company prohibits the hedging or pledging of Company stock or purchasing of stock on margin by executive officers.
- The CEO does not have a golden parachute.
- The CEO is required to own PACCAR stock in an amount equal to five times the CEO's annual base salary.
- PACCAR discloses full information on the performance measures used in the long-term incentives granted to executives. <https://www.paccar.com/media/2857/2019-proxy.pdf>
- The Company does not provide for excise tax gross-ups on change-in-control payments.

## Shareholder Rights

The Company's corporate governance structure provides for meaningful and significant stockholder input in director elections and governance. Stockholders have the opportunity to include their own proposals and director nominees for election in the Company's proxy and to present them at the annual meeting of stockholders. The Nominating and Governance Committee of the Board of Directors regularly reviews developments in corporate governance and recommends governance enhancements to the Board of Directors.

PACCAR's excellent stockholder rights and corporate governance practices include:

- PACCAR has one class of stock with equal voting rights.
- All common shareholders are entitled to vote for all current director nominees.
- Directors are elected annually.
- Shareholders have a proxy access right.
- Shareholders holding 25% of PACCAR's total outstanding shares may convene a special meeting.

- There are no material restrictions on shareholders' right to call special meetings.
- The Company does not have a controlling shareholder.
- The Company does not have a poison pill in effect.

## **Audit and Risk Oversight**

The Company's audit committee is made up of four independent directors. The committee reviews the Company's annual and quarterly financial statements, monitors the integrity and effectiveness of the audit process and reviews the corporate compliance programs. It also monitors the Company's system of internal controls over financial reporting and oversees the internal audit function.

- There are four financial experts serving on PACCAR's audit committee.
- The Company has not restated its financial statements for any period within the past five years.
- The Company has timely released all financial disclosure filings in the past five years.
- The Company has disclosed no material weaknesses in its internal controls in the past five years.
- Non-audit fees represented 7% of total auditor fees in 2018.
- A regulator has not taken action against a director or officer of the company in the past five years.

Additional governance information can be found at <https://www.paccar.com/about-us/board-of-directors/governance-guidelines/> and in PACCAR's Proxy Statement at <https://www.paccar.com/media/2857/2019-proxy.pdf>.