PACCAR

2015 ANNUAL REPORT

STATEMENT OF COMPANY BUSINESS

PACCAR is a global technology company that designs and manufactures premium quality light, medium and heavy duty commercial vehicles sold worldwide under the Kenworth, Peterbilt and DAF nameplates. PACCAR designs and manufactures diesel engines for use in its own products and for sale to third party manufacturers of trucks and buses. PACCAR distributes aftermarket truck parts to its dealers through a worldwide network of Parts Distribution Centers. Finance and leasing subsidiaries facilitate the sale of PACCAR products in many countries worldwide. PACCAR manufactures and markets industrial winches under the Braden, Carco and Gearmatic nameplates. PACCAR maintains exceptionally high standards of quality for all of its products: they are well engineered, highly customized for specific applications and sell in the premium segments of their markets, where they have a reputation for superior performance and pride of ownership.

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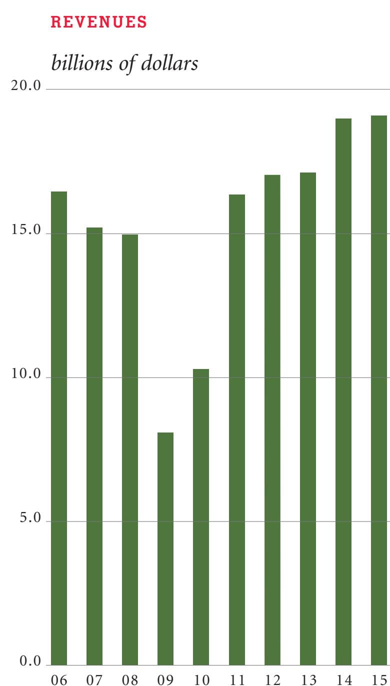
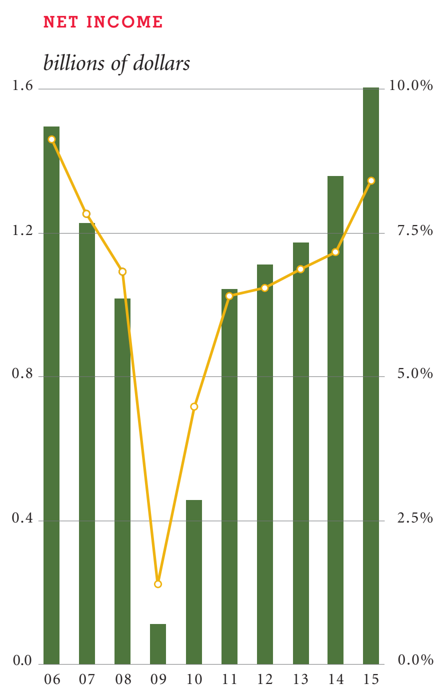
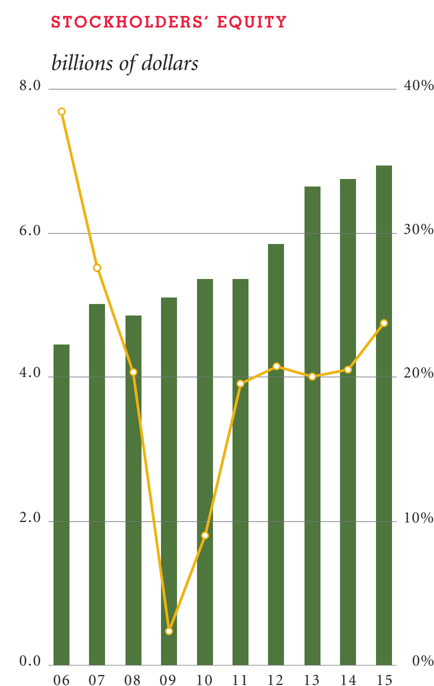
FINANCIAL HIGHLIGHTS

	2015	2014
	(millions, except per share data)	
Truck, Parts and Other Net Sales and Revenues	**$17,942.8**	$17,792.8
Financial Services Revenues	**1,172.3**	1,204.2
Total Revenues	**19,115.1**	18,997.0
Net Income	**1,604.0**	1,358.8
Total Assets:		
Truck, Parts and Other	**8,855.2**	8,701.5
Financial Services	**12,254.6**	11,917.3
Financial Services Debt	**8,591.5**	8,230.6
Stockholders' Equity	**6,940.4**	6,753.2
Per Common Share:		
Net Income:		
Basic	**$ 4.52**	$ 3.83
Diluted	**4.51**	3.82
Cash Dividends Declared	**2.32**	1.86







PACCAR is celebrating 110 years of success and delivered record revenue and net profits to its shareholders in 2015. It is a major milestone that speaks eloquently to the steady and consistent leadership of the company and the unwavering commitment of all employees to exceed our customers' expectations by delivering the highest quality products and services. PACCAR has achieved excellent financial results by focusing on the premium quality segment of its industry – a notable record considering the cyclicality of the capital goods business. PACCAR has strived to be at the forefront of technology for over a century and the company's world class range of products and services reflect that dedicated resolve. PACCAR is one of the leading technology companies worldwide, and innovation is a cornerstone of its success. PACCAR continues to integrate new technology into its daily operations, such as computerized parts selection in its distribution centers and introducing electronic connected architecture in its vehicles to profitably support its business, as well as its dealers, customers and suppliers.

PACCAR had an excellent year in 2015 due to strong truck markets in North America and Europe and excellent results in the financial services and aftermarket parts businesses. Customers renewed and expanded their fleets, reflecting strong freight demand. PACCAR's financial results benefited from global diversification. The company has realized excellent synergies globally in product development, sales and finance activities, purchasing and manufacturing.

The company is a recognized environmental leader and has introduced unique water recycling technologies, solar panels to minimize energy costs and lowered emissions from its paint operations – all activities focused on reducing its carbon footprint. The company leads the industry in sales of alternative fuel vehicles. Our shareholders have enjoyed excellent returns, with steady regular dividend growth and increased shareholder value over the years. I would like to thank the tens of thousands of employees whose hard work, ingenuity and drive for quality through the decades have enabled PACCAR to grow into a global technology company.

PACCAR's superb credit rating of A+/A1 results from consistent profitability, a strong balance sheet and excellent cash flow. PACCAR increased its regular quarterly dividend by 9 percent to $0.24/share and declared a special dividend of $1.40/share in 2015. The special dividend was the highest in company history. Regular quarterly cash dividends have more than doubled in the last ten years. Shareholders' equity was a record $6.94 billion at year end.

PACCAR and its employees are proud of the remarkable achievement of 77 consecutive years of net profit. The PACCAR Board of Directors embraces a long-term view of the business, and our shareholders have benefited from that approach. The embedded principles of integrity, quality and consistency of purpose define the course in PACCAR's operations. The proven business strategy –

deliver technologically advanced premium products and provide an extensive array of tailored aftermarket customer services – enables PACCAR to pragmatically approach growth opportunities.

PACCAR continues to enhance its stellar reputation as a leading technology company in the capital goods and financial services marketplace.

Mark Pigott

MARK C. PIGOTT
Executive Chairman
February 18, 2016

PACCAR had an outstanding year in 2015, achieving record revenues of $19.12 billion and record net income of $1.60 billion. PACCAR's financial results reflect the company's premium-quality products and services and strong truck markets in North America and Europe, complemented by excellent aftermarket parts and financial services results worldwide. The company has earned 77 consecutive years of net income. These remarkable achievements reflect the efforts of our 23,000 employees delivering industry-leading product quality and innovation, and outstanding operating efficiency. PACCAR's superior financial strength enabled the company to invest $548.2 million in capital projects and research and development in 2015 to enhance its manufacturing capability, expand its range of vehicles and engines and strengthen its aftermarket capabilities. PACCAR delivered 154,700 trucks to its customers and sold $3.06 billion of aftermarket parts. PACCAR's excellent credit rating of A+/A1 supported PACCAR Financial Services' new loans and leases of $4.44 billion. Shareholders' equity was a year-end record $6.94 billion.

Class 8 industry truck sales in North America, including Mexico, were 301,000 vehicles in 2015 compared to 270,000 the prior year. The European 16+ tonne market in 2015 increased to 269,000 vehicles compared to 226,000 in 2014. Customers in North America and Europe are generating good profits due to strong freight tonnage, low fuel prices and the superior operating efficiency of Kenworth, Peterbilt and DAF trucks.

PACCAR's excellent financial performance in 2015 benefited from PACCAR Parts' record pre-tax profits and another strong profit year for PACCAR Financial Services. The company's 2015 after-tax return on revenues was 8.4%. After-tax return on beginning shareholder equity (ROE) was 23.8% in 2015 compared to 20.5% in 2014. PACCAR's long-term financial performance has enabled the company to distribute $5.0 billion in dividends during the last 10 years. PACCAR's average annual total shareholder return over the last fifteen years was 14.6%, versus 5.0% for the S&P 500 Index.

INVESTING FOR THE FUTURE — PACCAR's consistent profitability, strong balance sheet and intense focus on quality, technology and productivity have allowed the company to invest $6.0 billion in the last decade in world-class facilities, innovative products and new technologies. Productivity and efficiency improvements of 5-7% annually and capacity expansions in the last five years have enhanced the capability of the company's manufacturing and parts facilities.

In 2015, capital investments were $308 million and research and development expenses were $240 million. PACCAR expanded its vehicle product range, invested in global expansion and enhanced its manufacturing efficiency during the year. The new Kenworth 76-inch mid-roof sleeper, Peterbilt 58-inch sleeper and the DAF XF, CF and LF ultra-quiet, Silent models provide customers the specifications that deliver the lowest total cost of ownership. DAF Brasil began assembly of the versatile DAF CF series and the PACCAR MX-13 engine in 2015. PACCAR's engine factories produced a record number of PACCAR MX-13 and MX-11 engines in 2015. Kenworth and Peterbilt have installed 105,000 PACCAR engines since engine production began in 2010. To meet the growing demand for PACCAR vehicles and engines, investments in additional capacity are being made, including €100 million to construct a new DAF cab paint facility in Westerlo, Belgium.

The PACCAR Technical Center in Pune, India provided excellent support to PACCAR's global product and technology initiatives as well as certifying many world-class automotive suppliers. In China, the world's largest truck market, PACCAR expanded its purchasing activities and continued to examine joint venture opportunities.

SIX SIGMA — Six Sigma is integrated into all business activities at PACCAR and has been adopted at over 300 of the company's suppliers and many of the company's dealers and customers. Six Sigma's statistical methodology is critical in the development of new product designs, customer services and manufacturing processes. Since 1997, Six Sigma has delivered billions of dollars in savings in all facets of the company. The majority of PACCAR's employees have been trained in Six Sigma and over 30,000 projects have been implemented. Six Sigma, in conjunction with Supplier Quality, has been vital to improving logistics performance and component quality from company suppliers.

INFORMATION TECHNOLOGY — PACCAR's Information Technology Division and its 770 innovative employees are an important competitive asset for the company. PACCAR develops and integrates software and hardware to enhance the quality and efficiency of all products and operations throughout the company. In 2015, PACCAR was again recognized as a technology leader by *InformationWeek* magazine's "2015 Elite 100 Companies." Over 28,000 dealers, customers, suppliers and employees have experienced PACCAR's Technology Centers, which highlight electronic work instructions, mobile computing, an electronic leasing and finance office and an automated service analyst.

TRUCKS — U.S. and Canadian Class 8 industry retail sales in 2015 were 278,000 units and the Mexican market totaled 23,000. The European Union (EU) industry 16+ tonne sales were 269,000 units.

PACCAR's Class 8 retail sales in the U.S. and Canada achieved a market share of 27.4% in 2015. DAF achieved a 14.6% share in the 16+ tonne truck market in Europe, compared to 13.8% the prior year. Industry Class 6 and 7 truck retail sales in the U.S. and Canada were 82,000 units, up 12% from the previous year. In the EU, the 6 to 16-tonne market was 49,000 units, up 5% compared to 2014. PACCAR's market share in the U.S. and Canada medium-duty truck segment was a record 17.4%. PACCAR's share of the medium-duty truck market in Europe was 9.0%. The company delivered a record 27,300 medium-duty vehicles in 2015.

A tremendous team effort by the company's engineering, purchasing, human resources, materials and production employees took advantage of the strong market conditions in Europe and North America and achieved production records at Kenworth's Chillicothe, Ohio factory, Peterbilt's Denton, Texas factory and DAF's Eindhoven factory in the Netherlands.

PACCAR's product innovation and manufacturing expertise continued to be recognized as the industry leader in 2015. Peterbilt's truck factory in Denton, Texas earned Frost and Sullivan's "*Manufacturing Leadership*" awards for improvements in operational efficiencies, product innovation and next-generation leadership development. The DAF LF was awarded "*Truck of the Year*" by *Commercial Fleet* magazine and Leyland earned the "*Best Factory Award for Supply Chain*" in the United Kingdom.

PACCAR Mexico continued its sales leadership, achieving a 40.4% Class 8 market share. PACCAR Mexico also produced a record number of trucks exported to the U.S. and Canada.

PACCAR Australia achieved strong results in 2015 with a combined heavy-duty market share for Kenworth and DAF of 23.2%. PacLease Australia began operations by offering customers Kenworth and DAF rental, full-service lease and contract maintenance programs tailored to their specific needs.

AFTERMARKET CUSTOMER SERVICES — PACCAR Parts had strong revenues and record pre-tax profits in 2015 as dealers and customers accelerated adoption of innovative eCommerce platforms and global fleet service programs offering national pricing and centralized billing. With sales of $3.06 billion, PACCAR Parts is the primary source for aftermarket parts and services for PACCAR vehicles, as well as supplying its "TRP" branded parts for all makes of trucks, trailers and buses. Over six million heavy-duty trucks operate in North America and Europe. The large vehicle parc and the growing number of PACCAR MX engines installed in Peterbilt and Kenworth trucks in North America create excellent demand for parts and service and moderate the cyclicality of truck sales.

PACCAR Parts expanded its facilities to enhance logistics performance to dealers and customers. PACCAR Parts' construction of a new 160,000 square-foot distribution center in Renton, Washington will be completed in the second quarter of 2016 to support increased parts demand in the U.S. and Canada. PACCAR Parts continues to lead the industry with technology that offers competitive advantages at PACCAR dealerships.

FINANCIAL SERVICES — PACCAR Financial Services' (PFS) conservative business approach, coupled with PACCAR's superb S&P credit rating of A+ and the strength of the dealer network, enabled PFS to earn excellent pre-tax profits in 2015. PACCAR issued $1.9 billion in medium-term notes at attractive rates during the year. The PACCAR Financial Services group of companies has operations covering four continents and 22 countries. The global breadth of PFS and its rigorous credit application process support a portfolio of 175,000 trucks and trailers, with total assets of $12.3 billion. PACCAR Financial Corp. is the preferred funding source in North America for Peterbilt and Kenworth trucks, financing 19% of dealer Class 8 sales in the U.S. and Canada in 2015. Strategically located used truck centers, interactive webcasts and targeted marketing enabled PFS to sell over 8,800 used trucks worldwide.

PACCAR Financial Europe (PFE) focuses on the financing of new and used DAF trucks. PFE provides wholesale and retail financing for DAF dealers and customers in 15 European countries, and in 2015 financed 24% of DAF's 6+ tonne vehicle sales.

PACCAR Leasing (PacLease) represents one of the largest full-service truck rental and leasing operations in North America and Germany and began operations in Australia in 2015. PacLease placed 6,600 new PACCAR vehicles in service and expanded its fleet to a record 39,000 vehicles.

ENVIRONMENTAL LEADERSHIP — PACCAR is a global environmental leader. All PACCAR manufacturing facilities have earned ISO 14001 environmental certification. The company's manufacturing facilities enhanced their "Zero Waste to Landfill" programs during the year. PACCAR joined the CDP (formerly known as the Carbon Disclosure Project), which aligns corporate environmental goals with national and

local "green" initiatives. PACCAR earned an excellent disclosure score of 97 (out of 100) and a performance score of A-, placing it in the top 5 percent of globally reporting companies.

A LOOK AHEAD — PACCAR's 23,000 employees enable the company to distinguish itself as a global leader in the technology, capital goods, financial services and aftermarket parts businesses. The outlook for 2016 is good in North America as the economy is expected to generate growth of 2-3%. The European economy is expected to grow 1.5-2%.

The North American truck market demand is expected to be good this year and the European truck market is forecast to be strong again in 2016 as anticipated economic growth will support heavy-duty truck demand. Current estimates for the 2016 Class 8 truck industry in the U.S. and Canada indicate that truck sales could range from 230,000-260,000 units. Sales of Class 6-7 trucks are expected to be between 70,000-80,000 vehicles. The European 16+ tonne truck market in 2016 is estimated to be in the range of 260,000-290,000 trucks, while demand for medium-duty trucks should range from 45,000-55,000 units.

PACCAR Parts' industry-leading services and strong freight demand in North America and Europe should deliver continued growth of the company's aftermarket parts business. PACCAR Financial is expected to perform well due to good economies in North America and Europe.

PACCAR's industry-leading range of vehicles, modern high technology factories and superb customer service in parts and financial services provide an excellent foundation for future growth. PACCAR is well positioned and committed to maintaining the profitable results its shareholders expect.

RONALD E. ARMSTRONG
Chief Executive Officer
February 18, 2016

PACCAR Executive Operating Committee
First Row Left to Right: Dan Sobic, Ron Armstrong, Bob Christensen, Marco Davila, Dave Anderson
Back Row Left to Right: Kyle Quinn, Bob Bengston, Harrie Schippers, Gary Moore, Michael Barkley, Jack LeVier

Peterbilt

Peterbilt's Denton manufacturing facility celebrated its 35th anniversary and achieved record production. Peterbilt launched a new set-forward front axle version of its vocational Model 567 and introduced its *SmartLINQ* connected truck technology.

Peterbilt's Denton, Texas assembly facility produced a record number of trucks in 2015 as it celebrated its 35th anniversary. Peterbilt's continuous improvement in operational efficiencies and production innovation was recognized by Frost & Sullivan's Manufacturing Leadership Council. Peterbilt earned two *"Operational Excellence Leadership"* awards and an award in *"Next-Generation Leadership"*.

The 100,000th PACCAR MX-13 engine produced for North America was installed in a Peterbilt Model 579. Peterbilt announced availability of the new lightweight, fuel-efficient PACCAR MX-11 engine for the Model 579, Model 567 and Model 320 in 2016.

Peterbilt introduced new technologies and strengthened its vocational truck leadership with the new set-forward front axle (SFFA) Model 567. It is the newest set-forward model in the industry, features up to three percent more payload and is construction-ready for severe-service applications. Peterbilt's Model 567 SFFA optimizes weight distribution and is bridge law compliant.

Peterbilt increased fuel efficiency by up to three percent with Predictive Cruise Control technology on its Model 579 and Model 567. Predictive Cruise Control integrates the powertrain and cruise control with satellite mapping to anticipate terrain changes which optimizes fuel economy.

SmartLINQ connected truck technology provides Peterbilt customers with real-time diagnostic information to maximize vehicle performance. *SmartLINQ* is factory installed and integrated on all Peterbilt vehicles equipped with the PACCAR MX-13 engine.

Peterbilt's new 58-inch sleeper enables vocational and short- and regional-haul operations to reduce weight by up to 100 lbs. with an updated driver environment that includes excellent storage, a refrigerator and a luxurious sleeping area. Peterbilt expanded its natural gas powered vehicle offerings with the introduction of its Model 579 and Model 567 in Liquefied Natural Gas (LNG) configurations and the medium-duty Model 337 and Model 348 in Compressed Natural Gas (CNG) configurations.

Peterbilt launched its Red Oval pre-owned truck program providing premium used trucks throughout its dealer network and PACCAR Financial used truck centers.

Peterbilt added 25 dealerships, growing its North American dealer network to a record 332 locations.

The Peterbilt Model 579 EPIQ package offers state-of-the-art aerodynamics, industry-leading performance and the fuel economy of the PACCAR MX-13 engine. The "Class" of the industry appeals to customers who demand uncompromising quality, reliability and low cost of operation in their fleets.

The Kenworth T880, equipped with the PACCAR MX-13 engine, earned the prestigious "2015 Commercial Truck of the Year" award from the American Truck Dealers. Kenworth delivered a record number of trucks and grew market share to 14.8 percent.

Kenworth, "The World's Best", introduced a new, integral 76-inch mid-roof sleeper configuration that offers bulk hauling and flatbed operations a lightweight, fuel-efficient option with 100-lb. weight savings and up to a five percent fuel economy gain. The sleeper features excellent functionality and best-in-class comfort to maximize driver satisfaction.

Kenworth continues to be an industry fuel economy leader. In 2015, Kenworth improved vehicle fuel economy by five percent by designing an optimized powertrain based on the PACCAR MX-13 engine, coupled with Predictive Cruise Control that utilizes GPS to anticipate changes in terrain. Over 40 percent of Kenworth's new heavy-duty trucks are powered by the reliable, technologically advanced PACCAR MX engine.

Kenworth's state-of-the-art truck assembly plants in Chillicothe, Ohio; Renton, Washington; and the PACCAR plant in Ste.-Thérèse, Quebec set a new production record of 48,000 trucks, while achieving reductions in greenhouse gas emissions, energy and water usage and solid waste. Kenworth's Renton plant is a leader in environmental stewardship and earned King County's *"Best Workplace for Waste Prevention and Recycling Award"* for the seventh consecutive year. The Ste.-Thérèse plant produced its milestone 150,000th truck, a Kenworth T370.

Kenworth "Right Choice" customer events held at the Kenworth truck plants, PACCAR Engine plant and the PACCAR Technical Center gave thousands of customers the opportunity to experience Kenworth's product range, innovative technology and PACCAR engine performance.

Kenworth launched the proprietary *Truck Tech+* advanced diagnostics system that delivers real-time information to fleet managers and dealers on vehicle performance. Kenworth introduced its Driver Performance Assistant and shift advice aid, which provides in-dash information that can be used by a driver to improve operating efficiency with up to a three percent fuel economy increase.

Kenworth set a medium-duty market share record of 9.2 percent. Kenworth increased sales of the medium-duty K270 and K370 cabover trucks by expanding its range of vocational medium-duty options and increased sales of the T270 and T370 conventional trucks by over 26 percent. All Kenworth medium-duty vehicles are powered exclusively by the PACCAR PX-7 and PX-9 engines.

The Kenworth dealer network expanded to 362 locations in the U.S. and Canada. Dealers invested $137 million in their new facilities.

The award-winning Kenworth T880 establishes an unsurpassed standard of industry excellence with rugged reliability, exceptional performance, low operating cost and remarkable comfort for demanding vocational truck applications. The T880 has enabled Kenworth to achieve an industry-leading market share for vocational truck sales for five years in a row.

DAF

DAF Trucks N.V. produced its one millionth truck, enhanced its Euro 6 product range and expanded in the ASEAN, African and South American markets, strengthening its position as a leading global commercial vehicle manufacturer.

DAF launched the DAF Transport Efficiency program which includes innovative upgrades of its state-of-the-art PACCAR MX-11 and MX-13 engines. Advanced vehicle technologies, such as Predictive Cruise Control and Predictive Shifting based on sophisticated GPS technology were integrated with the PACCAR MX engines.

The versatile DAF CF series, with the fuel-efficient PACCAR PX-7 engine, is available in three axle configurations delivering 6.5 tonnes of additional payload. The new, ultra-silent DAF LF, CF and XF models can operate at sound levels less than 72 dB, which enables goods to be distributed in urban locations with strict night or early morning noise restrictions.

The DAF CF Silent earned the "*Fleet Transport Truck Innovation Award*" in Ireland for its sophisticated design and ease of operation. In the United Kingdom, *Commercial Fleet* magazine named the LF "*Truck of the Year*" - up to 7.5 tonnes, and awarded DAF "*Truck Fleet Manufacturer of the Year*".

At the RAI vehicle exhibition in Amsterdam, the Netherlands, DAF announced a new online fleet management system that will become available on Euro 6 CF and XF vehicles in the first half of 2016. *DAF Connect* provides the operator with real-time information about truck diagnostics and location in order to maximize efficiency.

DAF strengthened its presence in markets outside the EU. In Taiwan, a new DAF assembly plant doubled production capacity for LF, CF and XF trucks to further expand market leadership. DAF trucks were introduced in Malaysia and Colombia. A company-owned sales and marketing organization was established in Turkey.

DAF began construction of a new state-of-the-art €100 million cab paint facility at its Westerlo, Belgium plant. The new facility is scheduled to be operational in the first half of 2017 and will support DAF's global growth. DAF's production plant in Eindhoven, the Netherlands manufactured its one millionth truck and established a new quarterly production record in the fourth quarter 2015.

DAF's market-leading TRP aftermarket parts program has been expanded to over 110,000 truck, bus and trailer parts, supported by DAF's excellent dealer network. In addition, 22 dedicated TRP retail stores were opened to offer customers all-makes parts supply.

DAF's independent dealer network expanded to 1,100 locations. In 2015, DAF further extended its distribution network by adding 67 new dealer facilities in Western and Central Europe, Russia, the Middle East, South America and Asia.

The DAF XF Euro 6 is a leader in a variety of transport and vocational applications, offering customers superior quality, ergonomics, comfort and operating efficiency. DAF is at the forefront of product innovation, offering sophisticated vehicle technologies like Predictive Cruise Control and Predictive Shifting.

PACCAR Australia achieved a 23.2 percent share in the Australian heavy-duty truck market. Since 1971, PACCAR Australia has delivered over 56,000 Kenworth and DAF vehicles which operate in one of the world's most demanding environments.

PACCAR Australia's market leadership was enhanced by the launch of the Limited Edition Kenworth Legend 950. Based on the Kenworth T950 model, the Legend 950 combines features that celebrate Kenworth's heritage in Australia with updated options, including LED headlights. The comfort and productivity of the Kenworth K200 was enhanced with the introduction of the Automated Cab Entry system, which deploys cab access steps to assist drivers with cab entry and exit.

The new DAF LF 2016 edition was introduced at the Brisbane Truck Show, earning excellent reviews for its class-leading performance. The PACCAR MX-13 engine continued to increase share due to its unparalleled productivity, industry-leading performance and fuel efficiency.

PacLease Australia began operations by offering Kenworth and DAF vehicles with rental, full-service lease and contract maintenance programs tailored to customers' specific needs. PACCAR Parts expanded its Fleet Services program, which provides fleets with guaranteed national pricing and centralized billing, and achieved 34 percent growth in its TRP all-makes parts brand for trucks and trailers.

Kenworth and DAF trucks are renowned in Australia for their reliability under the most challenging operating conditions. Paclease Australia provides customers with flexible leasing and rental solutions to meet the dynamic needs of their businesses.

PACCAR Mexico (KENMEX) achieved a 40.4 percent share of the Class 8 market in Mexico in 2015 and introduced new Euro 4 and Euro 5 vehicles in Latin America. KENMEX has manufactured 251,000 vehicles since its founding in 1959.

KENMEX produces a broad range of Kenworth and Peterbilt Class 5-8 vehicles for NAFTA, Central America and Andean countries in its state-of-the-art 590,000 square-foot production facilities in Mexicali, Mexico. KENMEX built 16,000 vehicles in 2015 and introduced the new Kenworth T680 and T880, equipped with Euro 4 and Euro 5 engines, at major Latin American truck shows, including COLFECAR in Colombia and Expotransporte in Guadalajara, Mexico.

KENMEX is a leader in continuous improvement investments that resulted in a 20 percent increase in production capacity, as well as improvements in factory operational efficiency. KENMEX's new T680/T880 hood bonding project makes KENMEX one of the leading composite part manufacturers and will improve production efficiency by 30 percent.

KENMEX's 237 dealer locations in Mexico and Latin America and the world-class PACCAR Parts Distribution Centers (PDC) in San Luis Potosi, Mexico and Santiago, Chile offer unrivaled customer support.

The Kenworth T680, equipped with the PACCAR MX-13 engine, offers customers advanced aerodynamics, lower operating costs and premium styling and comfort.

Leyland, the United Kingdom's leading truck manufacturer, produced its 400,000th vehicle in 2015 and delivered 14,500 DAF vehicles to customers in Europe, Asia, Australia, the Middle East, Russia and the Americas.

Leyland's highly efficient 710,000-square-foot manufacturing facility features a technologically advanced production system which incorporates a robotic chassis paint system and electronic work instructions to deliver engineering designs and build instructions to employees. Leyland builds the full DAF product range of LF, CF and XF models for right- and left-hand drive markets. Leyland produced its 400,000th vehicle in 2015.

The new DAF LF 2016 Edition, equipped with the PACCAR PX-5 engine, increases fuel efficiency by up to five percent. A new vehicle aero package contributes to fuel efficiency gains of up to four percent with additional features including a 12 speed AS-Tronic automated gearbox, longer wheel base options and enhanced fuel tank configurations. Advanced technologies such as Lane Departure Warning, Advanced Emergency Braking and Forward Collision Warning enhance safety.

Leyland earned the *"Best Factory Award for Supply Chain"* in the United Kingdom, recognizing Leyland's innovative material handling systems as well as its world-class manufacturing capabilities. The DAF LF was named *"Truck of the Year"* at the Commercial Fleet Awards 2015 and DAF Trucks was awarded *"Truck Fleet Manufacturer of the Year"*.

Leyland manufactures the full DAF product range of LF, CF and XF models for right- and left-hand drive markets, offering superior operating efficiency, technology and productivity. The DAF LF is the ideal truck for urban and vocational applications.

PACCAR sells DAF, Kenworth and Peterbilt trucks and parts to customers in 100 countries on six continents. In 2015, PACCAR expanded its geographic diversification through significant investments in Brasil, ASEAN and India.

DAF Brasil began assembly of the versatile DAF CF series and the PACCAR MX-13 engine in 2015. The DAF CF's excellent maneuverability, sturdy design, powerful PACCAR MX engine and broad range of chassis and axle configurations make it ideal for many applications. The DAF CF is an excellent vehicle that complements the DAF XF in the marketplace. DAF Brasil dealers opened new dealership facilities in 2015, offering customers best-in-class products, service and facilities.

A new DAF assembly plant in Taiwan doubled production capacity of DAF LF, CF and XF trucks to further expand market leadership. DAF trucks were introduced in Malaysia and Colombia. A new dealer was appointed in Angola, further supporting DAF's sales and marketing efforts on the African continent.

DAF achieved additional growth in Qatar and Israel. New dealerships will open in ASEAN countries, the Middle East and West Africa in 2016 to enhance sales opportunities. PACCAR has expanded its component purchases from ASEAN, India and China for production and aftermarket operations.

The DAF assembly facility in Taiwan builds the full range of DAF XF, CF and LF models. DAF Brasil's Ponta Grossa plant began assembly of PACCAR engines. PACCAR engineering teams in India support the PACCAR truck divisions around the world. PACCAR engines power buses throughout Europe and Asia.

PACCAR Parts achieved record pre-tax profit and strong worldwide revenue in 2015, delivering 1.4 million parts shipments to over 2,000 Kenworth, Peterbilt and DAF dealer locations.

PACCAR Parts expanded its global Fleet Services program offering national pricing and centralized billing to over 650 commercial vehicle fleets with more than 600,000 vehicles. PACCAR Parts' advanced eCommerce program allows customers 24/7 online ordering access to quality aftermarket products. eCommerce delivers the benefits of the Kenworth *Privileges*, Peterbilt *Preferred*, DAF *MAX* and TRP *Performance* loyalty programs.

PACCAR Parts operates 17 Parts Distribution Centers worldwide with 2.2 million square-feet of warehouse space. In 2015, PACCAR Parts began construction of a new 160,000 square-foot Parts Distribution Center in Renton, Washington to support increased parts demand in the U.S. and Canada. This new facility, scheduled to open in 2016, will support the distribution of PACCAR Genuine and TRP parts.

PACCAR Parts' successful TRP aftermarket brand for trucks, trailers and buses offers 110,000 part numbers. PACCAR dealers expanded TRP aftermarket parts retail stores to 36 locations in 19 countries. TRP offers customers cost-effective choices for quality parts for vehicle and trailer repair and maintenance.

PACCAR Parts Distribution Centers use advanced inventory management technology. PACCAR Customer Support Centers provide industry-leading support to global truck operators. TRP branded stores sell quality TRP aftermarket parts for all makes of trucks, trailers, and buses. PACCAR Parts' new Renton distribution center, to be completed in 2016, will expand customer support in North America.

PACCAR engines were installed in 40 percent of Kenworth and Peterbilt heavy-duty vehicles in 2015, and in all DAF vehicles. Customers realized the benefits of PACCAR MX engines' superior reliability, excellent fuel economy and low cost of ownership.

PACCAR is one of the premier diesel engine manufacturers in the world, with over 800,000 square-feet of production facilities in Columbus, Mississippi and Eindhoven, the Netherlands. PACCAR also operates two world-class engine research and development centers with 46 sophisticated engine test cells and a full climatic chassis dyno to enhance its engine design and manufacturing capability. With over 55 years of engine development and manufacturing expertise, PACCAR has delivered over 1.3 million engines, with the Columbus facility producing its 100,000th engine since opening in 2010.

The PACCAR MX-13 engine is a global engine platform incorporating precision manufacturing, advanced design and premium materials to deliver best-in-class operating efficiency, performance and durability. The new PACCAR MX-11 engine, with power ratings up to 440 horsepower and 1,550 lb.-ft. of torque, was successfully launched in Europe in 2013 and is available in Kenworth and Peterbilt trucks beginning January 2016.

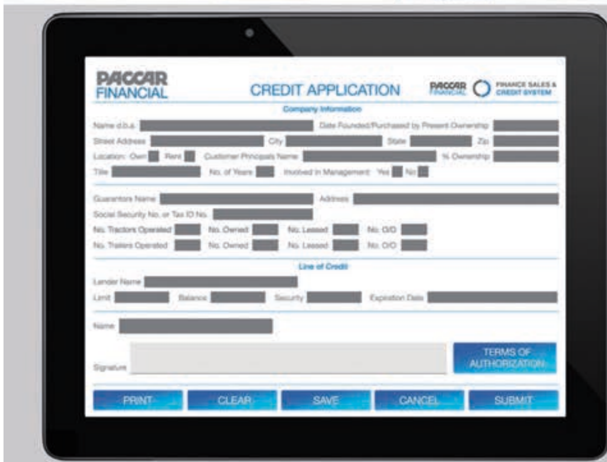
PACCAR engine factories in the Netherlands and Mississippi represent technology leadership in commercial vehicle diesel engine production. PACCAR engines are standard in DAF, Kenworth and Peterbilt vehicles worldwide, where they have earned a reputation for superior reliability, durability and operating efficiency.

PACCAR Financial Services (PFS), which supports the sale of PACCAR trucks worldwide, achieved retail market share of 26 percent and earned pre-tax profits of $363 million in 2015.

The PFS portfolio is comprised of 175,000 trucks and trailers, with total assets of $12.3 billion. PACCAR's excellent balance sheet, complemented by its A+/A1 credit rating, enabled PFS to issue $1.9 billion in three-, four-, and five-year medium term notes in 2015. Consistent access to the capital markets allowed PFS to support the sale of Kenworth, Peterbilt and DAF trucks in 22 countries on four continents. PFS sold over 8,800 pre-owned PACCAR trucks worldwide in 2015.

For over 50 years, PACCAR Financial Corp. (PFC) has facilitated the sale of premium Kenworth and Peterbilt trucks in the U.S. and Canada. PFC financed 66 percent of dealer inventories and 19 percent of new Kenworth and Peterbilt Class 8 trucks sold or leased. PFC enhanced its state-of-the-art Finance Sales and Credit system, further streamlining the credit application and contract funding process.

PACCAR Financial Europe (PFE) has $2.8 billion in assets and provides financial services to DAF dealers and customers in 15 European countries. PFE achieved a 24 percent retail market share in 2015.



PACCAR Financial facilitates the sale of premium-quality PACCAR vehicles worldwide by offering a full range of financial products and by utilizing leading-edge web-based information technologies to streamline communication for dealers and customers.

PACCAR Leasing provided a strong profit contribution as it celebrated its 35th anniversary and increased its worldwide fleet to over 39,000 vehicles.

PacLease offers premium-quality Kenworth, Peterbilt and DAF vehicles exclusively, and is a leasing industry leader in introducing new technologies, such as advanced safety features, on-board telematics and the latest aerodynamic capabilities. In 2015, PacLease delivered over 6,600 Kenworth, Peterbilt and DAF vehicles to customers in North America, Europe and Australia.

In its 35th anniversary year, PacLease expanded internationally by entering the Australia full-service truck rental and leasing market. The first Australian PacLease location opened in Melbourne, with additional expansion planned for 2016.

Kenworth and Peterbilt vehicles powered by PACCAR MX-13 engines represented 61 percent of all PacLease Class 8 orders in the U.S. and Canada due to the engine's superior productivity, reliability and fuel efficiency. PacLease will offer the PACCAR MX-11 engine in Peterbilt and Kenworth vehicles in 2016.

PacLease Mexico continued its expansion and has a record fleet size of 7,800 trucks and trailers, making it the largest full-service lease provider in Mexico. PacLease operates a fleet of over 2,800 trucks and trailers in Europe.

PacLease provides its customers with innovative transportation solutions and premium-quality Kenworth, Peterbilt and DAF vehicles. Already offering one of the most extensive truck leasing networks in the world, PacLease opened its first location in Australia in 2015.

PACCAR's Technical Centers' (PTC) world-class product development, simulation and validation capabilities accelerate product development and ensure that PACCAR continues to deliver the highest quality products in the industry.

PACCAR's Technical Centers in Europe and North America are equipped with state-of-the-art product development and validation capabilities and staffed with experts in powertrain and vehicle development. The advanced engineering tools in the Technical Centers are utilized to innovate and accelerate the launch of new products. A new climatic wind tunnel and engine test cells were opened at the Mt. Vernon PTC in 2015. These investments enable testing of full-size truck aerodynamics and powertrain performance under a wide range of operating temperatures and altitude conditions. Proprietary road simulators replicate millions of road miles in weeks instead of years. Sophisticated computer simulations and advanced analysis of engine and vehicle control systems optimize vehicle safety, aerodynamics and durability.

PACCAR's Technical Centers partner with government agencies and academic institutions to evaluate emerging vehicle technologies. The PTCs leverage these partnerships to identify innovative designs that will further improve the industry-leading performance and fuel efficiency of Kenworth, Peterbilt and DAF trucks.

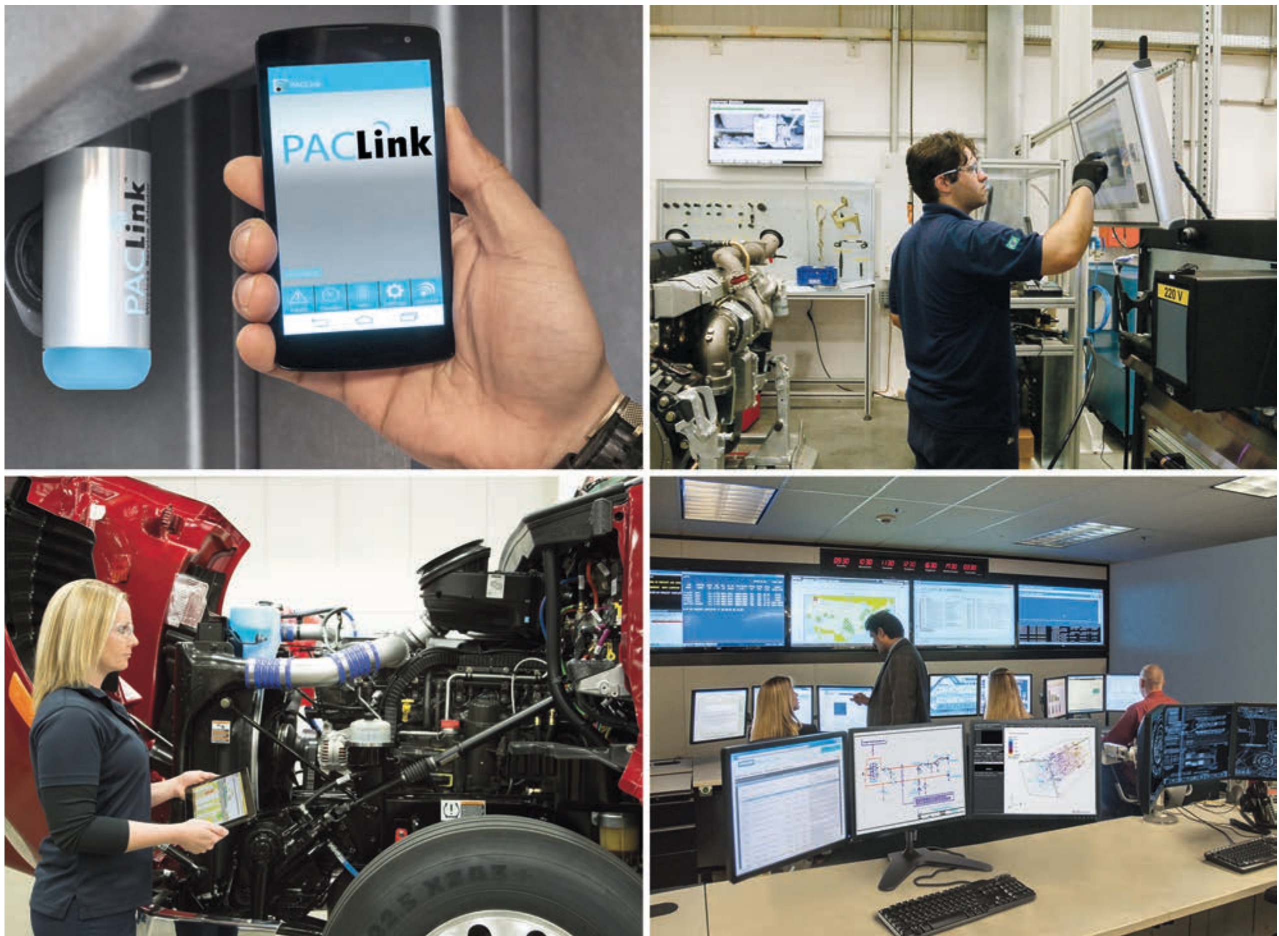
PACCAR Technical Centers in Europe and North America advance the quality and competitiveness of PACCAR products worldwide. In 2015, PACCAR opened a new climatic wind tunnel, further enhancing the state-of-the-art capabilities at its Mt. Vernon, Washington facility.

PACCAR's Information Technology Division (ITD) is an industry leader in innovative digital technologies which enhance the quality of all PACCAR operations and systematically connect dealers, suppliers and customers.

PACCAR was recognized as a leader in *InformationWeek* magazine's list of "2015 Elite 100 companies", highlighting leading innovators of advanced technologies. ITD achieved 2015 recognition for its development of mobile applications using a leading-edge toolset.

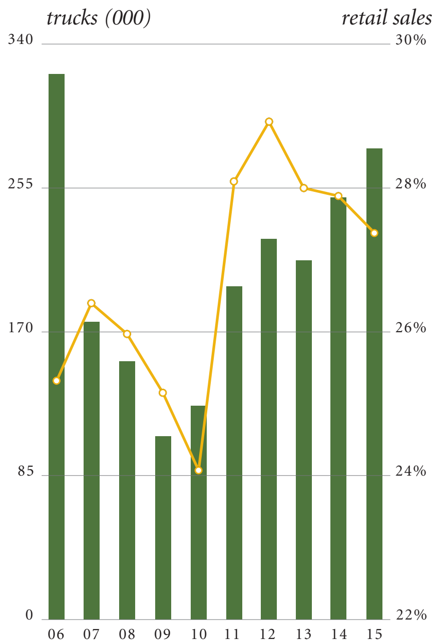
ITD's 770 employees collaborate with PACCAR divisions in the application of new technologies to enhance manufacturing, financial services, aftermarket logistics and engineering design. This year ITD partnered with Kenworth and Peterbilt to develop and launch Remote Diagnostics for vehicles with the PACCAR MX-13 engine. ITD also introduced *PacLink*, a mobile diagnostic tool that fits into a technician's pocket.

ITD partnered with DAF to deliver manufacturing automation to support engine assembly in the DAF Brasil factory. ITD also expanded the use of data analytics technologies for manufacturing, aftermarket and finance programs.

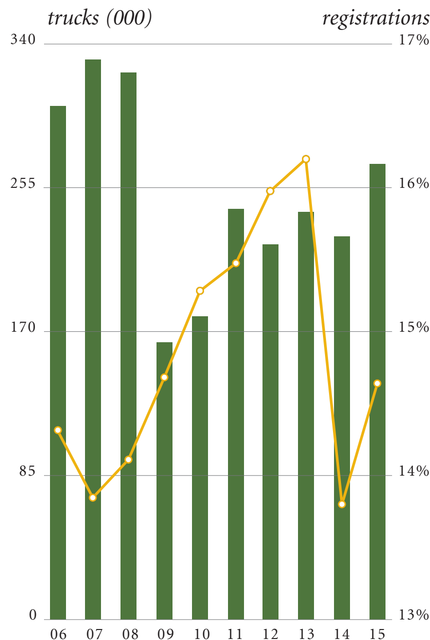


One of the most innovative information technology organizations in the world, PACCAR ITD partners with leading hardware and software companies to enhance PACCAR's competitiveness, manufacturing efficiency, product quality, customer service and profitability.

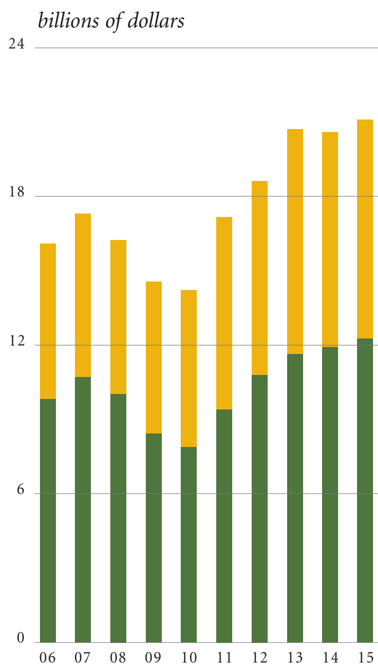
U.S. AND CANADA CLASS 8 MARKET SHARE



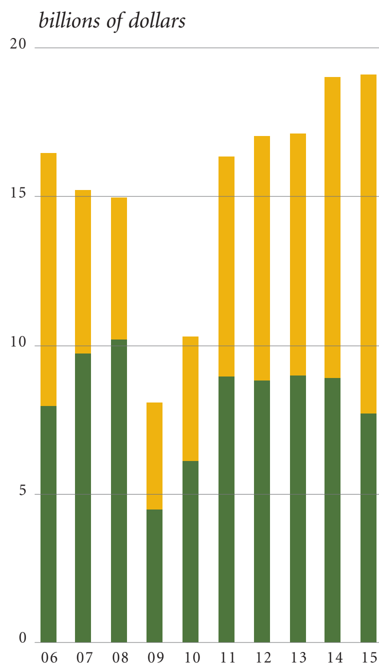
WESTERN AND CENTRAL EUROPE 16+ TONNE MARKET SHARE



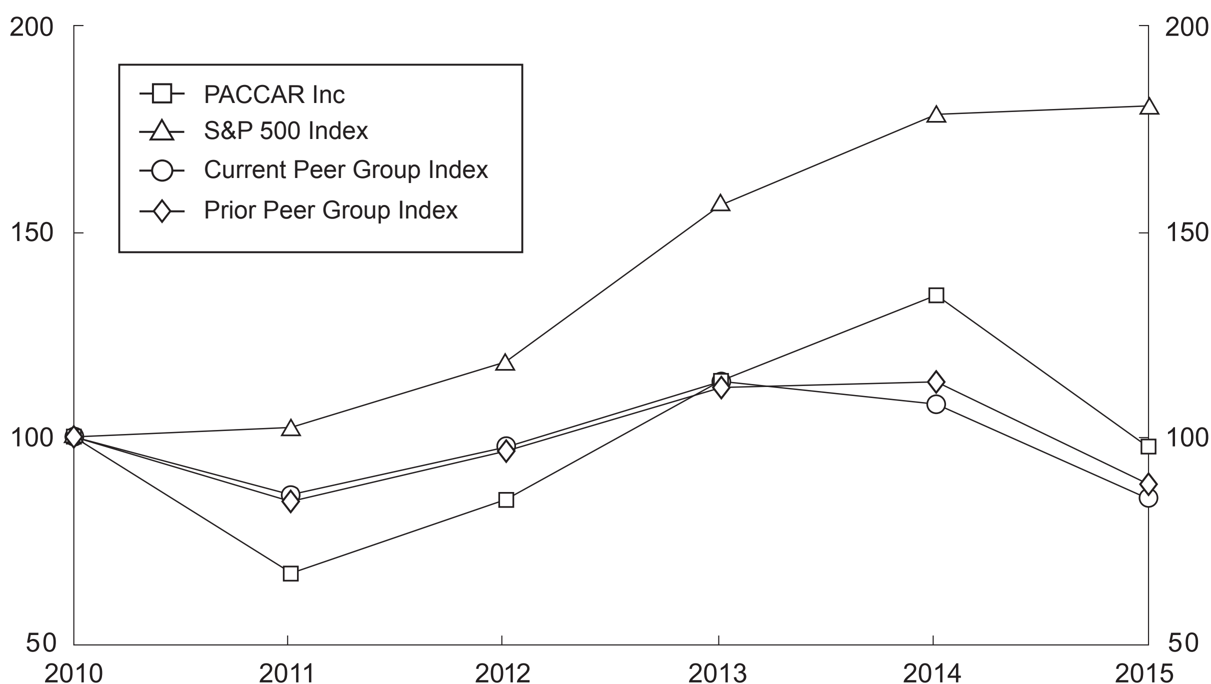
TOTAL ASSETS



GEOGRAPHIC REVENUE



The following line graph compares the yearly percentage change in the cumulative total stockholder return on the Company's common stock, to the cumulative total return of the Standard & Poor's Composite 500 Stock Index and the return of the industry peer groups of companies identified in the graph (the "Current Peer Group Index" and the "Prior Peer Group Index") for the last five fiscal years ended December 31, 2015. Effective January 1, 2015, the Company revised its peer group to include CNH Industrial N.V. (the parent company of Iveco) and removed Scania AB, which was acquired in 2014 and is no longer publicly traded. Standard & Poor's has calculated a return for each company in the peer group indices weighted according to its respective capitalization at the beginning of each period with dividends reinvested on a monthly basis. Management believes that the identified companies and methodology used in the graph for the peer group indices provides a better comparison than other indices available. The Current Peer Group Index consists of AGCO Corporation, Caterpillar Inc., Cummins Inc., Dana Holding Corporation, Deere & Company, Eaton Corporation, Meritor Inc., Navistar International Corporation, Oshkosh Corporation, AB Volvo and CNH Industrial N.V. CNH Industrial N.V. is included from September 30, 2013, when it began trading on the New York Stock Exchange. The Prior Peer Group Index consists of AGCO Corporation, Caterpillar Inc., Cummins Inc., Dana Holding Corporation, Deere & Company, Eaton Corporation, Meritor Inc., Navistar International Corporation, Oshkosh Corporation, AB Volvo and Scania AB. The comparison assumes that $100 was invested December 31, 2010, in the Company's common stock and in the stated indices and assumes reinvestment of dividends.



	2010	2011	2012	2013	2014	2015
PACCAR Inc	100	67.51	84.46	113.93	134.66	98.14
S&P 500 Index	100	102.11	118.45	156.82	178.29	180.75
Current Peer Group Index	100	86.52	97.64	113.61	108.97	85.51
Prior Peer Group Index	100	84.66	97.53	111.95	114.14	88.97

OVERVIEW:

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

Consolidated net sales and revenues of $19.12 billion in 2015 were the highest in the Company's history. The increase from $18.99 billion in 2014 was 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.

In 2015, PACCAR earned net income for the 77th consecutive year. Net income in 2015 of $1.60 billion was the highest in the Company's history, increasing from $1.36 billion in 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 benefited from record freight demand and expansion of industry fleet capacity. Earnings per diluted share were $4.51 compared to $3.82 in 2014.

The Company is expanding its range of PACCAR engines in North America with the introduction of the PACCAR MX-11 engine, with an output of up to 430 HP and 1,550 lb.-ft. of torque. The PACCAR MX-11 is scheduled to be available in Kenworth and Peterbilt trucks in early 2016. The PACCAR MX-11 engine is designed to deliver excellent performance and fuel economy, industry-leading durability and reliability, and a quiet operating environment for the driver.

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. In addition, Predictive Cruise Control is in production for Kenworth T680 and T660 trucks and Peterbilt Model 579 and Model 567 trucks, specified with the PACCAR MX-13 engine. The new driver assist systems integrate cruise control with global positioning system data to anticipate road contours, enabling the PACCAR MX-13 engine to achieve outstanding fuel economy.

Kenworth and Peterbilt have developed additional technologies to enhance customers' driver performance and profitability. Driver Performance Assistant and Driver Shift Aid are standard equipment on Kenworth T680 and T660 trucks and Peterbilt Model 579 and Model 567 trucks, specified with the PACCAR MX-13 engine. Driver Performance Assistant provides drivers with real-time coaching on driving behavior and a scoring system to optimize driver performance and fuel economy. Driver Shift Aid provides drivers in vehicles with manual transmissions a visual cue to shift at the optimal RPM and engine torque to maximize fuel economy.

DAF introduced the new LF 2016 Edition which features enhancements to the PACCAR PX-5 4.5 liter engine, resulting in up to 5% better fuel efficiency. In addition, a new DAF aerodynamic package results in 4% better fuel efficiency, while advanced technologies such as Lane Departure Warning System, Advanced Emergency Braking System, Forward Collision Warning and Adaptive Cruise Control enhance comfort and safety.

PACCAR Parts added 18 dealer-owned TRP stores in 2015, building on the success of PACCAR Parts' TRP brand of aftermarket parts for all makes of medium- and heavy-duty trucks, trailers and buses. TRP stores are strategically located to bring TRP products and technical expertise close to the customer. PACCAR's new 160,000 square-foot distribution center in Renton, Washington is under construction and is expected to open in the second quarter of 2016.

The PACCAR Financial Services (PFS) group of companies has operations covering four continents and 22 countries. The global breadth of PFS and its rigorous credit application process support a portfolio of loans and leases with total assets of $12.25 billion that earned pre-tax profit of $362.6 million. PFS issued $1.92 billion in medium-term notes during the year to support portfolio growth.

In 2015, the Company's capital investments were $308.4 million compared to $223.1 million in 2014, and research and development (R&D) expenses were $239.8 million in 2015 compared to $215.6 million in 2014.

Truck Outlook

Truck industry retail sales in the U.S. and Canada in 2016 are expected to be 230,000 to 260,000 units compared to 278,400 in 2015. In Europe, the 2016 truck industry registrations for over 16-tonne vehicles are projected to increase to a range of 260,000 to 290,000 units, compared to the 269,100 truck registrations in 2015. In South America, heavy-duty truck industry sales were 74,000 units in 2015, and the 2016 heavy-duty truck industry sales are estimated to be in a range of 70,000 to 80,000 units.

Parts Outlook

In 2016, PACCAR Parts sales in North America are expected to increase 3-5%, reflecting steady economic growth and high fleet utilization. In 2016, Europe aftermarket sales are expected to increase 3-5%, 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.

Financial Services Outlook

Based on the truck market outlook, average earning assets in 2016 are expected to be comparable to the record levels achieved in 2015. Current strong levels of freight tonnage, freight rates and fleet utilization are contributing to customers' profitability and cash flow. If current freight transportation conditions decline due to weaker economic conditions, then past due accounts, truck repossessions and credit losses would likely increase from the current low levels and new business volumes would likely decline.

Capital Spending and R&D Outlook

Capital investments in 2016 are expected to be $325 to $375 million, and R&D is expected to be $240 to $270 million focused on enhanced aftermarket support, manufacturing facilities and new product development.

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

RESULTS OF OPERATIONS:

($ in millions, except per share amounts) *Year Ended December 31,*	**2015**	2014	2013
Net sales and revenues:			
Truck	**$ 14,782.5**	$ 14,594.0	$ 13,002.9
Parts	**3,060.1**	3,077.5	2,822.2
Other	**100.2**	121.3	123.8
Truck, Parts and Other	**17,942.8**	17,792.8	15,948.9
Financial Services	**1,172.3**	1,204.2	1,174.9
	$ 19,115.1	$ 18,997.0	$ 17,123.8
Income (loss) before income taxes:			
Truck	**$ 1,440.3**	$ 1,160.1	$ 936.7
Parts	**555.6**	496.7	416.0
Other	**(43.2)**	(31.9)	(26.5)
Truck, Parts and Other	**1,952.7**	1,624.9	1,326.2
Financial Services	**362.6**	370.4	340.2
Investment income	**21.8**	22.3	28.6
Income taxes	**(733.1)**	(658.8)	(523.7)
Net Income	**$ 1,604.0**	$ 1,358.8	$ 1,171.3
Diluted earnings per share	**$ 4.51**	$ 3.82	$ 3.30
Return on revenues	**8.4%**	7.2%	6.8%

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 77% of total revenues for both 2015 and 2014.

($ in millions) *Year Ended December 31,*	**2015**	2014	% CHANGE
Truck net sales and revenues:			
U.S. and Canada	**$ 9,774.3**	$ 8,974.5	9
Europe	**3,472.1**	3,657.6	(5)
Mexico, South America, Australia and other	**1,536.1**	1,961.9	(22)
	$ 14,782.5	$ 14,594.0	1
Truck income before income taxes	**$ 1,440.3**	$ 1,160.1	24
Pre-tax return on revenues	**9.7%**	7.9%	

The Company's worldwide truck net sales and revenues increased to $14.78 billion from $14.59 billion in 2014, primarily due to higher truck deliveries in the U.S and Europe. The effects of translating weaker foreign currencies to the U.S. dollar, primarily the euro, reduced 2015 worldwide truck net sales and revenues by $940.0 million.

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 American MX engine components imported from Europe.

The Company's new truck deliveries are summarized below:

Year Ended December 31,	**2015**	2014	% CHANGE
U.S. and Canada	**91,300**	84,800	8
Europe	**47,400**	39,500	20
Mexico, South America, Australia and other	**16,000**	18,600	(14)
Total units	**154,700**	142,900	8

In 2015, industry retail sales in the heavy-duty market in the U.S. and Canada increased to 278,400 units from 249,400 units in 2014. The Company's heavy-duty truck retail market share was 27.4% compared to 27.9% in 2014. The medium-duty market was 82,400 units in 2015 compared to 73,300 units in 2014. The Company's medium-duty market share was a record 17.4% in 2015 compared to 16.7% in 2014.

The over 16-tonne truck market in Western and Central Europe in 2015 was 269,100 units, a 19% increase from 226,300 units in 2014. DAF market share was 14.6% in 2015, an increase from 13.8% in 2014. The 6 to 16-tonne market in 2015 was 49,000 units compared to 46,500 units in 2014. DAF market share was 9.0% in 2015, an increase from 8.9% in 2014.

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

($ in millions)	NET SALES	COST OF SALES	GROSS MARGIN
2014	**$ 14,594.0**	**$ 13,105.5**	**$ 1,488.5**
Increase (decrease)			
Truck delivery volume	**1,131.1**	**884.1**	**247.0**
Average truck sales prices	**78.2**		**78.2**
Average per truck material, labor and other direct costs		**(107.7)**	**107.7**
Factory overhead and other indirect costs		**29.6**	**(29.6)**
Operating leases	**(80.8)**	**(75.6)**	**(5.2)**
Currency translation	**(940.0)**	**(857.6)**	**(82.4)**
Total increase (decrease)	**188.5**	**(127.2)**	**315.7**
2015	**$ 14,782.5**	**$ 12,978.3**	**$ 1,804.2**

- Truck delivery volume reflects higher truck deliveries in the U.S. and Canada and Europe which resulted in higher sales ($1,413.2 million) and cost of sales ($1,113.6 million), partially offset by lower truck deliveries in Mexico and Australia which resulted in lower sales ($288.2 million) and costs of sales ($233.1 million).
- Average truck sales prices increased sales by $78.2 million, primarily due to improved price realization in Europe.
- Average cost per truck decreased cost of sales by $107.7 million, primarily due to lower material costs, reflecting lower commodity prices and lower costs of North American MX engine components imported from Europe which benefited from the decline in the value of the euro.
- Factory overhead and other indirect costs increased $29.6 million, primarily due to higher supplies and maintenance costs ($31.1 million).
- Operating lease revenues decreased by $80.8 million and cost of sales decreased by $75.6 million 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 margins in 2015 of 12.2% increased from 10.2% in 2014 due to the factors noted above.

Truck selling, general and administrative expenses (SG&A) for 2015 decreased to $192.6 million from $198.2 million in 2014. The decrease was primarily due to currency translation effect ($21.8 million), mostly related to a decline in the value of the euro relative to the U.S. dollar, partially offset by higher promotion and marketing costs ($11.6 million) and higher salaries and related expenses ($7.6 million). As a percentage of sales, SG&A decreased to 1.3% in 2015 compared to 1.4% in 2014, reflecting higher sales volume.

Parts

The Company's Parts segment accounted for 16% of total revenues for both 2015 and 2014.

($ in millions) *Year Ended December 31,*	**2015**	2014	% CHANGE
Parts net sales and revenues:			
U.S. and Canada	**$ 1,969.4**	$ 1,842.9	7
Europe	**773.9**	867.2	(11)
Mexico, South America, Australia and other	**316.8**	367.4	(14)
	$ 3,060.1	$ 3,077.5	(1)
Parts income before income taxes	**$ 555.6**	$ 496.7	12
Pre-tax return on revenues	**18.2%**	16.1%	

The Company's worldwide parts net sales and revenues were $3.06 billion in 2015 compared to $3.08 billion in 2014. Higher aftermarket demand in North America and Europe was 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 $193.3 million.

The increase in Parts segment income before income taxes and pre-tax return on revenues in 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 $34.1 million.

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

($ in millions)	NET SALES	COST OF SALES	GROSS MARGIN
2014	**$ 3,077.5**	**$ 2,281.7**	**$ 795.8**
Increase (decrease)			
Aftermarket parts volume	**123.5**	**69.1**	**54.4**
Average aftermarket parts sales prices	**52.4**		**52.4**
Average aftermarket parts direct costs		**2.9**	**(2.9)**
Warehouse and other indirect costs		**7.3**	**(7.3)**
Currency translation	**(193.3)**	**(128.6)**	**(64.7)**
Total (decrease) increase	**(17.4)**	**(49.3)**	**31.9**
2015	**$ 3,060.1**	**$ 2,232.4**	**$ 827.7**

- Higher market demand, primarily in the U.S. and Canada and Europe, resulted in increased aftermarket parts sales volume of $123.5 million and related cost of sales of $69.1 million.
- Average aftermarket parts sales prices increased sales by $52.4 million reflecting improved price realization in the U.S. and Canada ($31.1 million) and Europe ($21.3 million).
- Average aftermarket parts direct costs increased $2.9 million due to higher material costs.
- Warehouse and other indirect costs increased $7.3 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 margins in 2015 of 27.0% increased from 25.9% in 2014 due to the factors noted above.

Parts SG&A expense for 2015 decreased to $194.7 million from $207.5 million in 2014. The decrease was primarily due to the effects of currency translation ($21.7 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 ($10.3 million). As a percentage of sales, Parts SG&A decreased to 6.4% in 2015 from 6.7% in 2014.

Financial Services

The Company's Financial Services segment accounted for 6% of total revenues for both 2015 and 2014.

($ in millions) *Year Ended December 31,*	**2015**	2014	% CHANGE
New loan and lease volume:			
U.S. and Canada	**$ 2,758.7**	$ 2,798.3	(1)
Europe	**1,039.0**	988.1	5
Mexico and Australia	**639.5**	668.7	(4)
	$ 4,437.2	$ 4,455.1	
New loan and lease volume by product:			
Loans and finance leases	**$ 3,383.0**	$ 3,516.7	(4)
Equipment on operating lease	**1,054.2**	938.4	12
	$ 4,437.2	$ 4,455.1	
New loan and lease unit volume:			
Loans and finance leases	**33,300**	32,900	1
Equipment on operating lease	**10,700**	9,000	19
	44,000	41,900	5
Average earning assets:			
U.S. and Canada	**$ 7,458.3**	$ 6,779.0	10
Europe	**2,512.9**	2,683.8	(6)
Mexico and Australia	**1,536.1**	1,721.4	(11)
	$ 11,507.3	$ 11,184.2	3
Average earning assets by product:			
Loans and finance leases	**$ 7,239.9**	$ 7,269.3	
Dealer wholesale financing	**1,775.2**	1,462.0	21
Equipment on lease and other	**2,492.2**	2,452.9	2
	$ 11,507.3	$ 11,184.2	3
Revenues:			
U.S. and Canada	**$ 675.5**	$ 641.2	5
Europe	**278.6**	317.8	(12)
Mexico and Australia	**218.2**	245.2	(11)
	$ 1,172.3	$ 1,204.2	(3)
Revenue by product:			
Loans and finance leases	**$ 384.7**	$ 410.3	(6)
Dealer wholesale financing	**59.1**	52.3	13
Equipment on lease and other	**728.5**	741.6	(2)
	$ 1,172.3	$ 1,204.2	(3)
Income before income taxes	**$ 362.6**	$ 370.4	(2)

New loan and lease volume was $4.44 billion in 2015 compared to $4.46 billion in 2014. PFS finance market share on new PACCAR truck sales was 25.9% in 2015 compared to 27.7% in 2014 due to increased competition.

PFS revenue decreased to $1.17 billion in 2015 from $1.20 billion in 2014. The decrease was primarily due to the effects of translating weaker foreign currencies to the U.S. dollar and lower yields, partially offset by revenues on higher average earning asset balances. The effects of currency translation lowered PFS revenues by $79.3 million for 2015. PFS income before income taxes decreased to $362.6 million from $370.4 million in 2014, primarily due to the effects of translating weaker foreign currencies into the U.S. dollar and lower yields, partially offset by higher average earning asset balances and lower borrowing rates. The effects of currency translation lowered PFS income before income taxes by $21.9 million for 2015.

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

($ in millions)	INTEREST AND FEES	INTEREST AND OTHER BORROWING EXPENSES	FINANCE MARGIN
2014	**$ 462.6**	**$ 133.7**	**$ 328.9**
Increase (decrease)			
Average finance receivables	**42.8**		**42.8**
Average debt balances		**10.1**	**(10.1)**
Yields	**(28.2)**		**(28.2)**
Borrowing rates		**(15.4)**	**15.4**
Currency translation	**(33.4)**	**(10.4)**	**(23.0)**
Total decrease	**(18.8)**	**(15.7)**	**(3.1)**
2015	**$ 443.8**	**$ 118.0**	**$ 325.8**

- Average finance receivables increased $883.8 million (excluding foreign exchange effects) in 2015 as a result of retail portfolio new business volume exceeding collections.
- Average debt balances increased $713.8 million (excluding foreign exchange effects) in 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 (5.0% in 2015 compared to 5.3% in 2014) and lower borrowing rates (1.4% 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.

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

($ in millions) *Year Ended December 31,*	**2015**	2014
Operating lease and rental revenues	**$ 691.6**	$ 712.2
Used truck sales and other	**36.9**	29.4
Operating lease, rental and other revenues	**$ 728.5**	$ 741.6
Depreciation of operating lease equipment	**$ 466.6**	$ 472.3
Vehicle operating expenses	**90.7**	100.6
Cost of used truck sales and other	**26.4**	15.6
Depreciation and other expenses	**$ 583.7**	$ 588.5

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between 2015 and 2014 are outlined below:

($ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSES	LEASE MARGIN
2014	**$ 741.6**	**$ 588.5**	**$ 153.1**
Increase (decrease)			
Used truck sales	**9.5**	**11.9**	**(2.4)**
Results on returned lease assets		**7.7**	**(7.7)**
Average operating lease assets	**17.3**	**13.6**	**3.7**
Revenue and cost per asset	**8.1**	**4.6**	**3.5**
Currency translation and other	**(48.0)**	**(42.6)**	**(5.4)**
Total decrease	**(13.1)**	**(4.8)**	**(8.3)**
2015	**$ 728.5**	**$ 583.7**	**$ 144.8**

- A higher volume of used truck sales increased operating lease, rental and other revenues by $9.5 million and increased depreciation and other expenses by $11.9 million.
- Results on returned lease assets increased depreciation and other expenses by $7.7 million, primarily due to lower gains on sales of returned lease units.
- Average operating lease assets increased $188.2 million in 2015 (excluding foreign exchange effects), which increased revenues by $17.3 million and related depreciation and other expenses by $13.6 million.
- Revenue per asset increased $8.1 million primarily due to higher fee income and higher rental rates, partially offset by lower fuel revenue. Cost per asset increased $4.6 million, primarily due to higher depreciation expense, partially offset by lower fuel expense.
- 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:

($ in millions)	2015		2014	
	PROVISION FOR LOSSES ON RECEIVABLES	**NET CHARGE-OFFS**	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS
U.S. and Canada	**$ 7.7**	**$ 4.6**	$ 6.1	$ 5.1
Europe	**1.9**	**3.9**	5.4	6.5
Mexico and Australia	**2.8**	**4.6**	3.9	4.4
	$ 12.4	**$ 13.1**	$ 15.4	$ 16.0

The provision for losses on receivables was $12.4 million in 2015, a decrease of $3.0 million compared to 2014, mainly due to improved portfolio performance in Europe and the effects of translating weaker foreign currencies to the U.S. dollar, partially offset by higher portfolio balances in Europe and 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 years ended December 31, 2015 and 2014 are summarized below:

($ in millions)	2015		2014	
	RECORDED INVESTMENT	**% OF TOTAL PORTFOLIO***	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*
Commercial	**$ 166.8**	**2.3%**	$ 181.6	2.5%
Insignificant delay	**70.0**	**1.0%**	64.1	.9%
Credit - no concession	**36.6**	**.5%**	31.5	.4%
Credit - TDR	**44.4**	**.5%**	26.4	.4%
	$ 317.8	**4.3%**	$ 303.6	4.2%

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

In 2015, total modification activity increased compared to 2014, primarily due to higher modifications for credit - TDRs, partially offset by the effects of translating weaker foreign currencies to the U.S. dollar and lower commercial modifications. TDR modifications increased primarily due to contract modifications in Mexico. The decrease in commercial modifications reflects lower volumes of refinancing.

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

At December 31,	**2015**	2014
Percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	**.3%**	.1%
Europe	**.7%**	1.1%
Mexico and Australia	**1.3%**	2.0%
Worldwide	**.5%**	.5%

Accounts 30+ days past due were .5% at December 31, 2015 and 2014, as higher past due accounts in the U.S. and Canada were offset by lower past dues in all other markets. The Company continues to focus on maintaining low past due balances.

When the Company modifies a 30+ days past due account, the customer is then generally considered current under the revised contractual terms. The Company modified $2.6 million of accounts worldwide during the fourth quarter of 2015 and $4.0 million during the fourth 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:

At December 31,	**2015**	2014
Pro forma percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	**.3%**	.1%
Europe	**.7%**	1.2%
Mexico and Australia	**1.6%**	2.3%
Worldwide	**.6%**	.6%

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

The Company's 2015 and 2014 pre-tax return on average earning assets for Financial Services was 3.2% and 3.3%, respectively.

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 represents less than 1% of consolidated net sales and revenues for 2015 and 2014. Other SG&A was $58.7 million in 2015 and $59.5 million in 2014. The decrease in SG&A was primarily due to lower salaries and related expenses. Other income (loss) before tax was a loss of $43.2 million in 2015 compared to a loss of $31.9 million in 2014. The higher loss in 2015 was primarily due to lower income before tax from the winch business which has been affected by lower oilfield related business.

Investment income was $21.8 million in 2015 compared to $22.3 million in 2014. The lower investment income in 2015 was primarily due to the effects of translating weaker foreign currencies to the U.S. dollar, partially offset by higher realized gains and average portfolio balances.

Income Taxes

The 2015 effective income tax rate of 31.4% decreased from 32.7% in 2014. The decrease in the effective tax rate was primarily due to an increase in research tax credits in 2015.

($ in millions) *Year Ended December 31,*	**2015**	2014
Domestic income before taxes	**$ 1,581.6**	$ 1,267.3
Foreign income before taxes	**755.5**	750.3
Total income before taxes	**$ 2,337.1**	$ 2,017.6
Domestic pre-tax return on revenues	**13.7%**	12.4%
Foreign pre-tax return on revenues	**9.9%**	8.6%
Total pre-tax return on revenues	**12.2%**	10.6%

The improvement in income before income taxes and return on revenues for domestic operations was primarily due to higher revenues from trucks and parts operations and higher truck and parts margins. The increase in foreign income before income taxes was primarily due to higher revenues from trucks and parts operations and higher truck and parts margins, partially offset by translating weaker foreign currencies to the U.S. dollar, primarily the euro. The improvement in return on revenues for foreign operations was primarily due to higher revenues and margins from European truck and parts operations.

2014 Compared to 2013:

Truck

The Company's Truck segment accounted for 77% and 76% of total revenues for 2014 and 2013, respectively.

($ in millions) *Year Ended December 31,*	2014	2013	% CHANGE
Truck net sales and revenues:			
U.S. and Canada	$ 8,974.5	$ 7,138.1	26
Europe	3,657.6	3,844.4	(5)
Mexico, South America, Australia and other	1,961.9	2,020.4	(3)
	$ 14,594.0	$ 13,002.9	12
Truck income before income taxes	$ 1,160.1	$ 936.7	24
Pre-tax return on revenues	7.9%	7.2%	

The Company's worldwide truck net sales and revenues increased to $14.59 billion from $13.0 billion in 2013, primarily due to higher truck deliveries in the U.S. and Canada, higher price realization in Europe related to higher content Euro 6 emission vehicles, partially offset by lower truck deliveries in Europe and Mexico.

Truck segment income before income taxes and pre-tax return on revenues reflect higher truck unit deliveries and improved price realization in the U.S. and Canada and lower R&D spending, partially offset by lower deliveries in Europe and Mexico.

The Company's new truck deliveries are summarized below:

Year Ended December 31,	2014	2013	% CHANGE
U.S. and Canada	84,800	68,700	23
Europe	39,500	48,400	(18)
Mexico, South America, Australia and other	18,600	20,000	(7)
Total units	142,900	137,100	4

In 2014, industry retail sales in the heavy-duty market in the U.S. and Canada increased to 249,400 units from 212,200 units in 2013. The Company's heavy-duty truck retail market share was 27.9% compared to 28.0% in 2013. The medium-duty market was 73,300 units in 2014 compared to 65,900 units in 2013. The Company's medium-duty market share was 16.7% in 2014 compared to 15.7% in 2013.

The over 16-tonne truck market in Western and Central Europe in 2014 was 226,300 units, a 6% decrease from 240,800 units in 2013. The largest decreases were in the U.K. and France, partially offset by increases in Germany and Spain. The Company's market share was 13.8% in 2014, a decrease from 16.2% in 2013. The decrease in market share was primarily due to the lower DAF registrations in the U.K. and the Netherlands which were impacted by the Euro 5/Euro 6 transition rules. The 6 to 16-tonne market in 2014 was 46,500 units compared to 57,200 units in 2013. The Company's market share was 8.9% in 2014, a decrease from 11.8% in 2013. The decline in market share is a result of reduced registrations in the U.K., which were also affected by the Euro 5/Euro 6 transition rules.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between 2014 and 2013 for the Truck segment are as follows:

($ in millions)	NET SALES	COST OF SALES	GROSS MARGIN
2013	$ 13,002.9	$ 11,691.9	$ 1,311.0
Increase (decrease)			
Truck delivery volume	1,265.8	1,086.9	178.9
Average truck sales prices	477.4		477.4
Average per truck material, labor and other direct costs		408.6	(408.6)
Factory overhead and other indirect costs		63.6	(63.6)
Operating leases	(7.2)	(12.5)	5.3
Currency translation	(144.9)	(133.0)	(11.9)
Total increase	1,591.1	1,413.6	177.5
2014	$ 14,594.0	$ 13,105.5	$ 1,488.5

- Truck delivery volume reflects higher truck deliveries in the U.S. and Canada which resulted in higher sales ($1,798.6 million) and cost of sales ($1,511.5 million), partially offset by lower truck deliveries in Europe and Mexico which resulted in lower sales ($564.3 million) and costs of sales ($457.8 million).
- Average truck sales prices increased sales by $477.4 million, primarily due to higher content Euro 6 emission vehicles in Europe ($274.9 million), improved price realization in the U.S. and Canada ($146.6 million) and in Mexico ($31.9 million).
- Average cost per truck increased cost of sales by $408.6 million, primarily due to higher content Euro 6 emission vehicles in Europe ($352.6 million).
- Factory overhead and other indirect costs increased $63.6 million, primarily due to higher salaries and related costs ($59.5 million) to support higher sales volume, higher depreciation expense ($13.0 million), partially offset by lower Euro 6 project expenses ($17.4 million).
- Operating lease revenues and cost of sales decreased due to lower average asset balances as lease maturities exceeded new lease volume.
- Truck gross margins in 2014 of 10.2% increased from 10.1% in 2013 due to factors noted above.

Truck SG&A expenses for 2014 decreased to $198.2 million from $214.1 million in 2013. The decrease was primarily due to lower promotion and marketing costs. As a percentage of sales, SG&A decreased to 1.4% in 2014 compared to 1.6% in 2013, reflecting higher sales volume and ongoing cost controls.

Parts

The Company's Parts segment accounted for 16% of total revenues for both 2014 and 2013.

($ in millions) *Year Ended December 31,*	2014	2013	% CHANGE
Parts net sales and revenues:			
U.S. and Canada	$ 1,842.9	$ 1,635.5	13
Europe	867.2	828.3	5
Mexico, South America, Australia and other	367.4	358.4	3
	$ 3,077.5	$ 2,822.2	9
Parts income before income taxes	$ 496.7	$ 416.0	19
Pre-tax return on revenues	16.1%	14.7%	

The Company's worldwide parts net sales and revenues increased due to higher aftermarket demand in all markets. The increase in Parts segment income before taxes and pre-tax return on revenues was primarily due to higher sales and gross margins.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between 2014 and 2013 for the Parts segment are as follows:

($ in millions)	NET SALES	COST OF SALES	GROSS MARGIN
2013	$ 2,822.2	$ 2,107.0	$ 715.2
Increase (decrease)			
Aftermarket parts volume	187.8	120.0	67.8
Average aftermarket parts sales prices	82.5		82.5
Average aftermarket parts direct costs		57.8	(57.8)
Warehouse and other indirect costs		8.0	(8.0)
Currency translation	(15.0)	(11.1)	(3.9)
Total increase	255.3	174.7	80.6
2014	$ 3,077.5	$ 2,281.7	$ 795.8

- Higher market demand in all markets resulted in increased aftermarket parts sales volume of $187.8 million and related cost of sales by $120.0 million.
- Average aftermarket parts sales prices increased sales by $82.5 million reflecting improved price realization in all markets.
- Average aftermarket parts direct costs increased $57.8 million due to higher material costs in all markets.
- Warehouse and other indirect costs increased $8.0 million primarily due to additional costs to support higher sales volume.
- Parts gross margins in 2014 of 25.9% increased from 25.3% in 2013 due to the factors noted above.

Parts SG&A expense for 2014 increased to $207.5 million from $204.1 million in 2013. The increase was primarily due to higher salaries and related expenses. As a percentage of sales, Parts SG&A decreased to 6.7% in 2014 from 7.2% in 2013, reflecting higher sales volume.

Financial Services

The Company's Financial Services segment accounted for 6% and 7% of total revenues for 2014 and 2013, respectively.

($ in millions) *Year Ended December 31,*	2014	2013	% CHANGE
New loan and lease volume:			
U.S. and Canada	$ 2,798.3	$ 2,617.4	7
Europe	988.1	838.3	18
Mexico and Australia	668.7	862.9	(23)
	$ 4,455.1	$ 4,318.6	3
New loan and lease volume by product:			
Loans and finance leases	$ 3,516.7	$ 3,368.1	4
Equipment on operating lease	938.4	950.5	(1)
	$ 4,455.1	$ 4,318.6	3
New loan and lease unit volume:			
Loans and finance leases	32,900	32,200	2
Equipment on operating lease	9,000	9,000	
	41,900	41,200	2
Average earning assets:			
U.S. and Canada	$ 6,779.0	$ 6,331.9	7
Europe	2,683.8	2,495.9	8
Mexico and Australia	1,721.4	1,770.1	(3)
	$ 11,184.2	$ 10,597.9	6
Average earning assets by product:			
Loans and finance leases	$ 7,269.3	$ 6,876.3	6
Dealer wholesale financing	1,462.0	1,490.9	(2)
Equipment on lease and other	2,452.9	2,230.7	10
	$ 11,184.2	$ 10,597.9	6
Revenues:			
U.S. and Canada	$ 641.2	$ 626.6	2
Europe	317.8	303.5	5
Mexico and Australia	245.2	244.8	
	$ 1,204.2	$ 1,174.9	2
Revenue by product:			
Loans and finance leases	$ 410.3	$ 407.7	1
Dealer wholesale financing	52.3	55.1	(5)
Equipment on lease and other	741.6	712.1	4
	$ 1,204.2	$ 1,174.9	2
Income before income taxes	$ 370.4	$ 340.2	9

In 2014, new loan and lease volume of $4.46 billion increased 3% compared to $4.32 billion in 2013. PFS finance market share on new PACCAR truck sales was 27.7% in 2014 compared to 29.2% in 2013 due to increased competition.

PFS revenue of $1.20 billion in 2014 was comparable to $1.17 billion in 2013. PFS income before income taxes increased to a record $370.4 million compared to $340.2 million in 2013, primarily due to higher finance and lease margins related to increased average earning asset balances.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between 2014 and 2013 are outlined below:

($ in millions)	INTEREST AND FEES	INTEREST AND OTHER BORROWING EXPENSES	FINANCE MARGIN
2013	$ 462.8	$ 155.9	$ 306.9
Increase (decrease)			
Average finance receivables	23.7		23.7
Average debt balances		5.3	(5.3)
Yields	(19.1)		(19.1)
Borrowing rates		(26.0)	26.0
Currency translation	(4.8)	(1.5)	(3.3)
Total (decrease) increase	(.2)	(22.2)	22.0
2014	$ 462.6	$ 133.7	$ 328.9

- Average finance receivables increased $462.3 million (net of foreign exchange effects) in 2014 as a result of retail portfolio new business volume exceeding collections.
- Average debt balances increased $329.4 million in 2014 (net of foreign exchange effects). 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 (5.3% in 2014 and 5.6% in 2013) and lower borrowing rates (1.6% in 2014 and 2.0% in 2013).

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

($ in millions) *Year Ended December 31,*	2014	2013
Operating lease and rental revenues	$ 712.2	$ 663.0
Used truck sales and other	29.4	49.1
Operating lease, rental and other revenues	$ 741.6	$ 712.1
Depreciation of operating lease equipment	$ 472.3	$ 435.4
Vehicle operating expenses	100.6	98.1
Cost of used truck sales and other	15.6	38.2
Depreciation and other expenses	$ 588.5	$ 571.7

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between 2014 and 2013 are outlined below:

($ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSES	LEASE MARGIN
2013	$ 712.1	$ 571.7	$ 140.4
Increase (decrease)			
Used truck sales	(20.5)	(20.7)	.2
Results on returned lease assets		(6.5)	6.5
Average operating lease assets	39.7	30.6	9.1
Revenue and cost per asset	10.5	15.7	(5.2)
Currency translation and other	(.2)	(2.3)	2.1
Total increase	29.5	16.8	12.7
2014	$ 741.6	$ 588.5	$ 153.1

- A lower volume of used truck sales decreased operating lease, rental and other revenues by $20.5 million and decreased depreciation and other expenses by $20.7 million.
- Average operating lease assets increased $222.3 million in 2014, which increased revenues by $39.7 million and related depreciation and other expenses by $30.6 million.
- Revenue per asset increased $10.5 million due to higher rental rates, partially offset by lower fee income. Cost per asset increased $15.7 million due to higher depreciation and maintenance expenses.

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

($ in millions)	2014		2013	
	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS
U.S. and Canada	$ 6.1	$ 5.1	$ 1.9	$ .5
Europe	5.4	6.5	7.4	11.0
Mexico and Australia	3.9	4.4	3.6	2.1
	$ 15.4	$ 16.0	$ 12.9	$ 13.6

The provision for losses on receivables was $15.4 million in 2014, an increase of $2.5 million compared to 2013, mainly due to a higher portfolio balance in the U.S., higher past dues resulting from a weaker mining industry in Australia, partially offset by improved portfolio performance across other markets.

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 balances of accounts modified during the years ended December 31, 2014 and 2013 are summarized below:

($ in millions)	2014		2013	
	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*
Commercial	$ 181.6	2.5%	$ 233.0	3.2%
Insignificant delay	64.1	.9%	110.1	1.6%
Credit - no concession	31.5	.4%	24.2	.3%
Credit - TDR	26.4	.4%	13.6	.2%
	$ 303.6	4.2%	$ 380.9	5.3%

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

In 2014, total modification activity decreased compared to 2013 primarily due to lower modifications for commercial reasons and insignificant delays, partially offset by an increase in TDR modifications. The decrease in commercial modifications primarily reflects lower levels of additional equipment financed and end-of-contract modifications. The decline in modifications for insignificant delays reflects 2013 extensions granted to two customers in Australia primarily due to business disruptions arising from flooding. TDR modifications increased primarily due to a contract modification for a large customer in the U.S.

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

At December 31,	2014	2013
Percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	.1%	.3%
Europe	1.1%	.7%
Mexico and Australia	2.0%	1.4%
Worldwide	.5%	.5%

Accounts 30+ days past due were .5% at December 31, 2014 and 2013. The higher past dues in Europe, Mexico and Australia were offset by lower past dues in the U.S. and Canada. The Company continues to focus on maintaining low past due balances.

When the Company modifies a 30+ days past due account, the customer is then generally considered current under the revised contractual terms. The Company modified $4.0 million of accounts worldwide during the fourth quarter of 2014 and $4.9 million during the fourth quarter of 2013 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:

At December 31,	2014	2013
Pro forma percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	.1%	.3%
Europe	1.2%	.8%
Mexico and Australia	2.3%	1.7%
Worldwide	.6%	.6%

Modifications of accounts in prior quarters that were more than 30 days past due at the time of modification are included in past dues if they were not performing under the modified terms at December 31, 2014 and 2013. The effect on the allowance for credit losses from such modifications was not significant at December 31, 2014 and 2013.

The Company's 2014 and 2013 pre-tax return on average earning assets for Financial Services was 3.3% and 3.2%, respectively.

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 represent approximately 1% of consolidated net sales and revenues for 2014 and 2013. Other SG&A was $59.5 million in 2014 and $47.1 million in 2013. The increase in SG&A was primarily due to higher salaries and related expenses of $11.4 million. Other income (loss) before tax was a loss of $31.9 million in 2014 compared to a loss of $26.5 million in 2013. The higher loss in 2014 was primarily due to higher salaries and related expenses and lower income before tax from the winch business.

Investment income was $22.3 million in 2014 compared to $28.6 million in 2013. The lower investment income in 2014 primarily reflects lower yields on investments due to lower market interest rates, partially offset by higher average investment balances.

Income Taxes

The 2014 effective income tax rate of 32.7% increased from 30.9% in 2013. The increase in the effective tax rate was primarily due to a higher proportion of income generated in higher taxed jurisdictions.

($ in millions) *Year Ended December 31,*	2014	2013
Domestic income before taxes	$ 1,267.3	$ 827.0
Foreign income before taxes	750.3	868.0
Total income before taxes	$ 2,017.6	$ 1,695.0
Domestic pre-tax return on revenues	12.4%	10.2%
Foreign pre-tax return on revenues	8.6%	9.7%
Total pre-tax return on revenues	10.6%	9.9%

The higher income before income taxes and return on revenues for domestic operations were primarily due to higher revenues from trucks and parts operations and higher truck margins. The lower income before income taxes and pre-tax return on revenues for foreign operations were primarily due to lower revenues and truck margins in all foreign markets, except Canada.

LIQUIDITY AND CAPITAL RESOURCES:

($ in millions) *At December 31,*	**2015**	2014	2013
Cash and cash equivalents	**$ 2,016.4**	$ 1,737.6	$ 1,750.1
Marketable debt securities	**1,448.1**	1,272.0	1,267.5
	$ 3,464.5	$ 3,009.6	$ 3,017.6

The Company's total cash and marketable debt securities at December 31, 2015 increased $454.9 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) *Year Ended December 31,*	**2015**	2014	2013
Operating activities:			
Net income	**$ 1,604.0**	$ 1,358.8	$ 1,171.3
Net income items not affecting cash	**910.9**	875.5	957.5
Pension contributions	**(62.9)**	(81.1)	(26.2)
Changes in operating assets and liabilities, net	**104.0**	(29.6)	273.1
Net cash provided by operating activities	**2,556.0**	2,123.6	2,375.7
Net cash used in investing activities	**(1,974.9)**	(1,531.9)	(2,151.0)
Net cash (used in) provided by financing activities	**(196.5)**	(520.5)	273.8
Effect of exchange rate changes on cash	**(105.8)**	(83.7)	(20.8)
Net increase (decrease) in cash and cash equivalents	**278.8**	(12.5)	477.7
Cash and cash equivalents at beginning of the year	**1,737.6**	1,750.1	1,272.4
Cash and cash equivalents at end of the year	**$ 2,016.4**	$ 1,737.6	$ 1,750.1

2015 Compared to 2014:

Operating activities: Cash provided by operations increased $432.4 million to $2.56 billion in 2015 compared to $2.12 billion in 2014. Higher operating cash flow reflects $245.2 million of higher net income and $253.8 million from inventory as there was $64.3 million in net inventory reductions in 2015 vs. $189.5 million in net inventory purchases in 2014. In addition, higher cash inflows reflects $176.6 million from accounts receivables as collections exceeded sales in 2015 ($105.3 million) compared to sales exceeding collections in 2014 ($71.3 million). A lower increase in Financial Services sales-type finance leases and dealer direct loans on new trucks also contributed $126.5 million. These cash inflows were partially offset by cash outflows of $414.9 million from accounts payable and accrued expenses, where payments from goods and services exceeded purchases in 2015 ($162.6 million) compared to purchases exceeding payments in 2014 ($252.3 million).

Investing activities: Cash used in investing activities of $1.97 billion in 2015 increased $443.0 million from the $1.53 billion used in 2014, primarily due to higher cash used in the acquisitions of equipment for operating leases of $199.4 million, $169.7 million higher net purchases of marketable securities and $116.0 million in higher net originations of retail loans and direct financing leases in 2015. These outflows were partially offset by higher proceeds from asset disposals of $53.3 million.

Financing activities: Cash used in financing activities was $196.5 million in 2015 compared to $520.5 million in 2014. The Company paid $680.5 million of dividends in 2015 compared to $623.8 million paid in 2014, an increase of $56.7 million. In addition, the Company repurchased 3.8 million shares of common stock for $201.6 million in 2015 compared to .7 million shares for $42.7 million in 2014. In 2015, the Company issued $1.99 billion of term debt and $250.7 million of commercial paper and short-term bank loans and repaid maturing term debt of $1.58 billion. In 2014, the Company issued $1.65 billion of term debt and $349.1 million of commercial paper and short-term bank loans and repaid maturing term debt of $1.88 billion. This resulted in cash provided by borrowing activities of $663.8 million in 2015, $546.9 million higher than cash provided by borrowing activities of $116.9 million in 2014.

2014 Compared to 2013:

Operating activities: Cash provided by operations decreased $252.1 million to $2.12 billion in 2014 compared to $2.38 billion in 2013. Lower operating cash flow reflects a higher increase in Financial Services segment wholesale receivables of $150.3 million and a higher increase in net purchases of inventories of $149.9 million. In addition, lower cash inflows resulted from a reduction in liabilities for residual value guarantees (RVG) and deferred revenues of $138.7 million, primarily due to a lower volume of new RVG contracts compared to 2013, and $54.9 million in higher pension contributions. These outflows were partially offset by $187.5 million of higher net income and $74.5 million of higher depreciation on property, plant and equipment.

Investing activities: Cash used in investing activities of $1.53 billion in 2014 decreased $619.1 million from the $2.15 billion used in 2013, primarily due to lower net new loan and lease originations of $257.0 million, lower payments for property, plant and equipment of $212.4 million and lower cash used in the acquisitions of equipment for operating leases of $123.1 million.

Financing activities: Cash used in financing activities was $520.5 million for 2014 compared to cash provided by financing activities of $273.8 million in 2013. The Company paid $623.8 million of dividends in 2014 compared to $283.1 million paid in 2013, an increase of $340.7 million. The higher dividends in 2014 reflect a special dividend declared in 2013 and paid in early 2014. In 2013, there was no special dividend payment, as the 2012 special dividend was declared and paid in 2012. The Company also repurchased .7 million shares of common stock for $42.7 million in 2014. In 2014, the Company issued $1.65 billion in term debt and $349.1 million of commercial paper and short-term bank loans and repaid term debt of $1.88 billion. In 2013, the Company issued $2.13 billion in term debt and repaid term debt of $568.9 million and reduced its outstanding commercial paper and bank loans by $1.04 billion. This resulted in cash provided by borrowing activities of $116.9 million, $409.0 million lower than cash provided by borrowing activities of $525.9 million in 2013.

Credit Lines and Other:

The Company has line of credit arrangements of $3.43 billion, of which $3.26 billion were unused at December 31, 2015. Included in these arrangements are $3.0 billion of syndicated bank facilities, of which $1.0 billion expires in June 2016, $1.0 billion expires in June 2019 and $1.0 billion expires in June 2020. The Company intends to replace these credit facilities on or before expiration with facilities of similar amounts and duration. These credit facilities are maintained primarily to provide backup liquidity for commercial paper borrowings and maturing medium-term notes. There were no borrowings under the syndicated bank facilities for the year ended December 31, 2015.

On September 21, 2015, the Company completed the repurchase of $300.0 million of the Company's common stock under authorizations approved in December 2011. On September 23, 2015, PACCAR's Board of Directors approved the repurchase of an additional $300.0 million of the Company's common stock, and as of December 31, 2015, $136.3 million of shares have been repurchased pursuant to the 2015 authorization.

At December 31, 2015 and December 31, 2014, the Company had cash and cash equivalents and marketable debt securities of $1.82 billion and $1.60 billion, respectively, which are considered indefinitely reinvested in foreign subsidiaries. The Company periodically repatriates foreign earnings that are not indefinitely reinvested. Dividends paid by foreign subsidiaries to the U.S. parent were $.24 billion, $.24 billion and $.19 billion in 2015, 2014 and 2013, respectively. The Company believes that its U.S. cash and cash equivalents and marketable debt securities, future operating cash flow and access to the capital markets, along with periodic repatriation of foreign earnings, will be sufficient to meet U.S. liquidity requirements.

Truck, Parts and Other

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

Investments for property, plant and equipment in 2015 increased to $306.5 million from $220.8 million in 2014, primarily due to higher investments by DAF in Europe and the construction of a new parts distribution center in Renton, Washington. Over the past decade, the Company's combined investments in worldwide capital projects and R&D totaled $5.92 billion, which have significantly increased the operating capacity and efficiency of its facilities and the competitive advantage of the Company's premium products.

In 2016, capital investments are expected to be $325 to $375 million, and R&D is expected to be $240 to $270 million focused on enhanced aftermarket support, manufacturing facilities and new product development.

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 the corresponding potential default. The Company routinely monitors its financial exposure to global financial conditions, global counterparties and operating environments. As of December 31, 2015, the Company had finance and trade receivables in these countries of approximately 1% of consolidated total assets. In addition, the Company's exposures in these countries were insignificant for both derivative counterparty credit and marketable debt security investments in corporate or sovereign government securities as of December 31, 2015.

Financial Services

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

The Company issues commercial paper for a portion of its funding in its Financial Services segment. Some of this commercial paper is converted to fixed interest rate debt through the use of interest-rate swaps, which are used to manage interest-rate risk.

In November 2015, the Company's U.S. finance subsidiary, PACCAR Financial Corp. (PFC), filed a shelf registration under the Securities Act of 1933. The total amount of medium-term notes outstanding for PFC as of December 31, 2015 was $4.40 billion. The registration expires in November 2018 and does not limit the principal amount of debt securities that may be issued during that period.

As of December 31, 2015, the Company's European finance subsidiary, PACCAR Financial Europe, had €269.0 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 (PFM) registered a 10.00 billion peso medium-term note and commercial paper program with the Comision Nacional Bancaria y de Valores. The registration expires in April 2016 and limits the amount of commercial paper (up to one year) to 5.00 billion pesos. At December 31, 2015, 8.04 billion pesos remained available for issuance. PFM intends to file a new program in April 2016.

In the event of a future significant disruption in the financial markets, the Company may not be able to issue replacement commercial paper. As a result, the Company is exposed to liquidity risk from the shorter maturity of short-term borrowings paid to lenders compared to the longer timing of receivable collections from customers. The Company believes its cash balances and investments, collections on existing finance receivables, syndicated bank lines and current investment-grade credit ratings of A+/A1 will continue to provide it with sufficient resources and access to capital markets at competitive interest rates and therefore contribute to the Company maintaining its liquidity and financial stability. A decrease in these credit ratings could negatively impact the Company's ability to access capital markets at competitive interest rates and the Company's ability to maintain liquidity and financial stability. PACCAR believes its Financial Services companies will be able to continue funding receivables, servicing debt and paying dividends through internally generated funds, access to public and private debt markets and lines of credit.

Commitments

The following summarizes the Company's contractual cash commitments at December 31, 2015:

	MATURITY				
($ in millions)	WITHIN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS	TOTAL
Borrowings*	$ 4,236.6	$ 3,652.9	$ 703.1		$ 8,592.6
Purchase obligations	177.4	56.9			234.3
Interest on debt**	69.9	82.5	18.5		170.9
Operating leases	23.2	18.9	3.9	$ 1.4	47.4
Other obligations	44.5	10.6	1.7	7.3	64.1
	$ 4,551.6	$ 3,821.8	$ 727.2	$ 8.7	$ 9,109.3

* Commercial paper included in borrowings is at par value.

** Interest on floating-rate debt is based on the applicable market rates at December 31, 2015.

Total cash commitments for borrowings and interest on term debt are $8.76 billion and were related to the Financial Services segment. As described in Note I of the consolidated financial statements, borrowings consist primarily of term notes and commercial paper issued by the Financial Services segment. The Company expects to fund its maturing Financial Services debt obligations principally from funds provided by collections from customers on loans and lease contracts, as well as from the proceeds of commercial paper and medium-term note borrowings. Purchase obligations are the Company's contractual commitments to acquire future production inventory and capital equipment. Other obligations include deferred cash compensation.

The Company's other commitments include the following at December 31, 2015:

	COMMITMENT EXPIRATION				
($ in millions)	WITHIN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS	TOTAL
Loan and lease commitments	$ 634.7				$ 634.7
Residual value guarantees	284.0	$ 325.6	$ 75.8	$ 6.0	691.4
Letters of credit	15.2	1.4		.1	16.7
	$ 933.9	$ 327.0	$ 75.8	$ 6.1	$ 1,342.8

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

IMPACT OF ENVIRONMENTAL MATTERS:

The Company, its competitors and industry in general are subject to various domestic and foreign requirements relating to the environment. The Company believes its policies, practices and procedures are designed to prevent unreasonable risk of environmental damage and that its handling, use and disposal of hazardous or toxic substances have been in accordance with environmental laws and regulations in effect at the time such use and disposal occurred.

The Company is involved in various stages of investigations and cleanup actions in different countries related to environmental matters. In certain of these matters, the Company has been designated as a "potentially responsible party" by domestic and foreign environmental agencies. The Company has accrued the estimated costs to investigate and complete cleanup actions where it is probable that the Company will incur such costs in the future. Expenditures related to environmental activities in the years ended December 31, 2015, 2014 and 2013 were $2.0 million, $1.2 million and $2.3 million, respectively. Management expects that these matters will not have a significant effect on the Company's consolidated cash flow, liquidity or financial condition.

CRITICAL ACCOUNTING POLICIES:

The Company's significant accounting policies are disclosed in Note A of the consolidated financial statements. In the preparation of the Company's financial statements, in accordance with U.S. generally accepted accounting principles, management uses estimates and makes judgments and assumptions that affect asset and liability values and the amounts reported as income and expense during the periods presented. The following are accounting policies which, in the opinion of management, are particularly sensitive and which, if actual results are different from estimates used by management, may have a material impact on the financial statements.

Operating Leases

Trucks sold pursuant to agreements accounted for as operating leases are disclosed in Note E of the consolidated financial statements. In determining its estimate of the residual value of such vehicles, the Company considers the length of the lease term, the truck model, the expected usage of the truck and anticipated market demand. Operating lease terms generally range from three to five years. The resulting residual values on operating leases generally range between 30% and 50% of original equipment cost. If the sales price of the trucks at the end of the term of the agreement differs from the Company's estimated residual value, a gain or loss will result.

Future market conditions, changes in government regulations and other factors outside the Company's control could impact the ultimate sales price of trucks returned under these contracts. Residual values are reviewed regularly and adjusted if market conditions warrant. A decrease in the estimated equipment residual values would increase annual depreciation expense over the remaining lease term.

During 2015, 2014 and 2013, market values on equipment returning upon operating lease maturity were generally higher than the residual values on the equipment, resulting in a decrease in depreciation expense of $5.8 million, $10.6 million and $4.4 million, respectively.

At December 31, 2015, the aggregate residual value of equipment on operating leases in the Financial Services segment and residual value guarantee on trucks accounted for as operating leases in the Truck segment was $2.10 billion. A 10% decrease in used truck values worldwide, expected to persist over the remaining maturities of the Company's operating leases, would reduce residual value estimates and result in the Company recording an average of approximately $52.6 million of additional depreciation per year.

Allowance for Credit Losses

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

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

The adequacy of the allowance is evaluated quarterly based on the most recent past due account information and current market conditions. As accounts become past due, the likelihood that they will not be fully collected increases. The Company's experience indicates the probability of not fully collecting past due accounts ranges between 20% and 70%. Over the past three years, the Company's year-end 30+ days past due accounts were .5% of loan and lease receivables. Historically, a 100 basis point increase in the 30+ days past due percentage has resulted in an increase in credit losses of 5 to 30 basis points of receivables. At December 31, 2015, 30+ days past dues were .5%. If past dues were 100 basis points higher or 1.5% as of December 31, 2015, the Company's estimate of credit losses would likely have increased by a range of $5 to $25 million depending on the extent of the past dues, the estimated value of the collateral as compared to amounts owed and general economic factors.

Product Warranty

Product warranty is disclosed in Note H of the consolidated financial statements. The expenses related to product warranty are estimated and recorded at the time products are sold based on historical and current data and reasonable expectations for the future regarding the frequency and cost of warranty claims, net of recoveries. Management takes actions to minimize warranty costs through quality-improvement programs; however, actual claim costs incurred could materially differ from the estimated amounts and require adjustments to the reserve. Historically those adjustments have not been material. Over the past three years, warranty expense as a percentage of Truck, Parts and Other net sales and revenues has ranged between 1.4% and 1.8%. If the 2015 warranty expense had been .2% higher as a percentage of net sales and revenues in 2015, warranty expense would have increased by approximately $36 million.

Pension Benefits

Employee benefits are disclosed in Note L of the consolidated financial statements. The Company's accounting for employee pension benefit costs and obligations is based on management assumptions about the future used by actuaries to estimate net costs and liabilities. These assumptions include discount rates, long-term rates of return on plan assets, inflation rates, retirement rates, mortality rates and other factors. Management bases these assumptions on historical results, the current environment and reasonable estimates of future events.

The discount rate for pension benefits is based on market interest rates of high-quality corporate bonds with a maturity profile that matches the timing of the projected benefit payments of the plans. Changes in the discount rate affect the valuation of the plan benefits obligation and funded status of the plans. The long-term rate of return on plan assets is based on projected returns for each asset class and relative weighting of those asset classes in the plans.

Because differences between actual results and the assumptions for returns on plan assets, retirement rates and mortality rates are accumulated and amortized into expense over future periods, management does not believe these differences or a typical percentage change in these assumptions worldwide would have a material effect on its financial results in the next year. The most significant assumption which could negatively affect pension expense is a decrease in the discount rate. If the discount rate were to decrease .5%, 2015 net pension expense would increase to $107.6 million from $85.0 million and the projected benefit obligation would increase $207.2 million to $2.5 billion from $2.3 billion.

Income Taxes

Income taxes are disclosed in Note M of the consolidated financial statements. The Company calculates income tax expense on pre-tax income based on current tax law. Deferred tax assets and liabilities are recorded for future tax consequences on temporary differences between recorded amounts in the financial statements and their respective tax basis. The determination of income tax expense requires management estimates and involves judgment regarding indefinitely reinvested foreign earnings, jurisdictional mix of earnings and future outcomes regarding tax law issues included in tax returns. The Company updates its assumptions on all of these factors each quarter as well as new information on tax laws and differences between estimated taxes and actual returns when filed. If the Company's assessment of these matters changes, the effect is accounted for in earnings in the period the change is made.

FORWARD-LOOKING STATEMENTS:

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements relating to future results of operations or financial position and any other statement that does not relate to any historical or current fact. Such statements are based on currently available operating, financial and other information and are subject to risks and uncertainties that may affect actual results. Risks and uncertainties include, but are not limited to: a significant decline in industry sales; competitive pressures; reduced market share; reduced availability of or higher prices for fuel; increased safety, emissions, or other regulations resulting in higher costs and/or sales restrictions; currency or commodity price fluctuations; lower used truck prices; insufficient or under-utilization of manufacturing capacity; supplier interruptions; insufficient liquidity in the capital markets; fluctuations in interest rates; changes in the levels of the Financial Services segment new business volume due to unit fluctuations in new PACCAR truck sales or reduced market shares; changes affecting the profitability of truck owners and operators; price changes impacting truck sales prices and residual values; insufficient supplier capacity or access to raw materials; labor disruptions; shortages of commercial truck drivers; increased warranty costs or litigation; 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, 2015.

Year Ended December 31,	**2015**	2014	2013
		(millions, except per share data)	
TRUCK, PARTS AND OTHER:			
Net sales and revenues	**$ 17,942.8**	$ 17,792.8	$ 15,948.9
Cost of sales and revenues	**15,292.1**	15,481.6	13,900.7
Research and development	**239.8**	215.6	251.4
Selling, general and administrative	**445.9**	465.2	465.3
Interest and other expense, net	**12.3**	5.5	5.3
	15,990.1	16,167.9	14,622.7
Truck, Parts and Other Income Before Income Taxes	**1,952.7**	1,624.9	1,326.2
FINANCIAL SERVICES:			
Interest and fees	**443.8**	462.6	462.8
Operating lease, rental and other revenues	**728.5**	741.6	712.1
Revenues	**1,172.3**	1,204.2	1,174.9
Interest and other borrowing expenses	**118.0**	133.7	155.9
Depreciation and other expenses	**583.7**	588.5	571.7
Selling, general and administrative	**95.6**	96.2	94.2
Provision for losses on receivables	**12.4**	15.4	12.9
	809.7	833.8	834.7
Financial Services Income Before Income Taxes	**362.6**	370.4	340.2
Investment income	**21.8**	22.3	28.6
Total Income Before Income Taxes	**2,337.1**	2,017.6	1,695.0
Income taxes	**733.1**	658.8	523.7
Net Income	**$ 1,604.0**	$ 1,358.8	$ 1,171.3
Net Income Per Share			
Basic	**$ 4.52**	$ 3.83	$ 3.31
Diluted	**$ 4.51**	$ 3.82	$ 3.30
Weighted Average Number of Common Shares Outstanding			
Basic	**354.6**	355.0	354.2
Diluted	**355.6**	356.1	355.2

See notes to consolidated financial statements.

Year Ended December 31,	**2015**	2014	2013
		(millions)	
Net income	**$ 1,604.0**	$ 1,358.8	$ 1,171.3
Other comprehensive (loss) income:			
Unrealized gains (losses) on derivative contracts			
Gains arising during the period	**38.7**	26.1	53.2
Tax effect	**(10.8)**	(6.1)	(16.3)
Reclassification adjustment	**(29.3)**	(23.5)	(35.6)
Tax effect	**8.5**	5.1	10.8
	7.1	1.6	12.1
Unrealized (losses) gains on marketable debt securities			
Net holding (loss) gain	**(2.3)**	5.5	(8.3)
Tax effect	**.6**	(1.3)	2.2
Reclassification adjustment	**(2.1)**	(.9)	1.7
Tax effect	**.6**	.3	(.5)
	(3.2)	3.6	(4.9)
Pension plans			
Gains (losses) arising during the period	**17.7**	(291.1)	324.9
Tax effect	**(2.6)**	105.3	(120.1)
Reclassification adjustment	**42.4**	22.0	45.3
Tax effect	**(14.8)**	(7.1)	(15.8)
	42.7	(170.9)	234.3
Foreign currency translation losses	**(483.8)**	(422.8)	(73.3)
Net other comprehensive (loss) income	**(437.2)**	(588.5)	168.2
Comprehensive Income	**$ 1,166.8**	$ 770.3	$ 1,339.5

See notes to consolidated financial statements.

ASSETS

December 31,	**2015**	2014
		(millions)
TRUCK, PARTS AND OTHER:		
Current Assets		
Cash and cash equivalents	**$ 1,929.9**	$ 1,665.1
Trade and other receivables, net	**879.0**	1,047.1
Marketable debt securities	**1,448.1**	1,272.0
Inventories, net	**796.5**	925.7
Other current assets	**245.7**	290.5
Total Truck, Parts and Other Current Assets	**5,299.2**	5,200.4
Equipment on operating leases, net	**992.2**	934.5
Property, plant and equipment, net	**2,176.4**	2,313.3
Other noncurrent assets, net	**387.4**	253.3
Total Truck, Parts and Other Assets	**8,855.2**	8,701.5
FINANCIAL SERVICES:		
Cash and cash equivalents	**86.5**	72.5
Finance and other receivables, net	**9,303.6**	9,042.6
Equipment on operating leases, net	**2,380.8**	2,306.0
Other assets	**483.7**	496.2
Total Financial Services Assets	**12,254.6**	11,917.3
	$ 21,109.8	$ 20,618.8

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31,	**2015**	2014
	(millions)	
TRUCK, PARTS AND OTHER:		
Current Liabilities		
Accounts payable, accrued expenses and other	**$ 2,071.7**	$ 2,297.2
Dividend payable	**492.6**	354.4
Total Truck, Parts and Other Current Liabilities	**2,564.3**	2,651.6
Residual value guarantees and deferred revenues	**1,047.4**	970.9
Other liabilities	**720.2**	718.8
Total Truck, Parts and Other Liabilities	**4,331.9**	4,341.3
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	**356.9**	384.5
Commercial paper and bank loans	**2,796.5**	2,641.9
Term notes	**5,795.0**	5,588.7
Deferred taxes and other liabilities	**889.1**	909.2
Total Financial Services Liabilities	**9,837.5**	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 351.3 million and 355.2 million shares	**351.3**	355.2
Additional paid-in capital	**69.3**	156.7
Treasury stock, at cost - nil and .7 million shares		(42.7)
Retained earnings	**7,536.8**	6,863.8
Accumulated other comprehensive loss	**(1,017.0)**	(579.8)
Total Stockholders' Equity	**6,940.4**	6,753.2
	$ 21,109.8	$ 20,618.8

See notes to consolidated financial statements.

Year Ended December 31,	**2015**	2014	2013
		(millions)	
OPERATING ACTIVITIES:			
Net Income	**$ 1,604.0**	$ 1,358.8	$ 1,171.3
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization:			
Property, plant and equipment	**292.2**	285.2	210.7
Equipment on operating leases and other	**614.9**	632.5	600.0
Provision for losses on financial services receivables	**12.4**	15.4	12.9
Deferred taxes	**(55.2)**	(98.0)	97.3
Other, net	**46.6**	40.4	36.6
Pension contributions	**(62.9)**	(81.1)	(26.2)
Change in operating assets and liabilities:			
Decrease (increase) in assets other than cash and cash equivalents:			
Receivables:			
Trade and other receivables	**105.3**	(71.3)	(115.0)
Wholesale receivables on new trucks	**(273.4)**	(232.8)	(82.5)
Sales-type finance leases and dealer direct loans on new trucks	**(6.6)**	(133.1)	(101.9)
Inventories	**64.3**	(189.5)	(39.6)
Other assets, net	**(125.1)**	(72.0)	(86.9)
(Decrease) increase in liabilities:			
Accounts payable and accrued expenses	**(162.6)**	252.3	240.8
Residual value guarantees and deferred revenues	**242.0**	123.1	261.8
Other liabilities, net	**260.1**	293.7	196.4
Net Cash Provided by Operating Activities	**2,556.0**	2,123.6	2,375.7
INVESTING ACTIVITIES:			
Originations of retail loans and direct financing leases	**(3,064.5)**	(3,114.2)	(2,992.8)
Collections on retail loans and direct financing leases	**2,681.9**	2,847.6	2,469.2
Net (increase) decrease in wholesale receivables on used equipment	**(24.7)**	1.1	6.5
Purchases of marketable debt securities	**(1,329.8)**	(1,122.5)	(990.1)
Proceeds from sales and maturities of marketable debt securities	**1,035.5**	997.9	888.9
Payments for property, plant and equipment	**(286.7)**	(298.2)	(510.6)
Acquisitions of equipment for operating leases	**(1,438.5)**	(1,239.1)	(1,362.2)
Proceeds from asset disposals	**448.8**	395.5	340.1
Other, net	**3.1**		
Net Cash Used in Investing Activities	**(1,974.9)**	(1,531.9)	(2,151.0)
FINANCING ACTIVITIES:			
Payments of cash dividends	**(680.5)**	(623.8)	(283.1)
Purchases of treasury stock	**(201.6)**	(42.7)	
Proceeds from stock compensation transactions	**21.8**	29.1	31.0
Net increase (decrease) in commercial paper and short-term bank loans	**250.7**	349.1	(1,039.3)
Proceeds from term debt	**1,993.2**	1,650.8	2,134.1
Payments on term debt	**(1,580.1)**	(1,883.0)	(568.9)
Net Cash (Used in) Provided by Financing Activities	**(196.5)**	(520.5)	273.8
Effect of exchange rate changes on cash	**(105.8)**	(83.7)	(20.8)
Net Increase (Decrease) in Cash and Cash Equivalents	**278.8**	(12.5)	477.7
Cash and cash equivalents at beginning of year	**1,737.6**	1,750.1	1,272.4
Cash and cash equivalents at end of year	**$ 2,016.4**	$ 1,737.6	$ 1,750.1

See notes to consolidated financial statements.

December 31,	**2015**	2014	2013
		(millions, except per share data)	
COMMON STOCK, $1 PAR VALUE:			
Balance at beginning of year	**$ 355.2**	$ 354.3	$ 353.4
Treasury stock retirement	**(4.6)**		
Stock compensation	**.7**	.9	.9
Balance at end of year	**351.3**	355.2	354.3
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	**156.7**	106.2	56.6
Treasury stock retirement	**(128.5)**		
Stock compensation and tax benefit	**41.1**	50.5	49.6
Balance at end of year	**69.3**	156.7	106.2
TREASURY STOCK, AT COST:			
Balance at beginning of year	**(42.7)**		
Purchases, shares: 2015 - 3.85; 2014 - .73; 2013 - nil	**(201.6)**	(42.7)	
Retirements	**244.3**		
Balance at end of year		(42.7)	
RETAINED EARNINGS:			
Balance at beginning of year	**6,863.8**	6,165.1	5,596.4
Net income	**1,604.0**	1,358.8	1,171.3
Cash dividends declared on common stock, per share: 2015 - $2.32; 2014 - $1.86; 2013 - $1.70	**(819.8)**	(660.1)	(602.6)
Treasury stock retirement	**(111.2)**		
Balance at end of year	**7,536.8**	6,863.8	6,165.1
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME:			
Balance at beginning of year	**(579.8)**	8.7	(159.5)
Other comprehensive (loss) income	**(437.2)**	(588.5)	168.2
Balance at end of year	**(1,017.0)**	(579.8)	8.7
Total Stockholders' Equity	**$ 6,940.4**	$ 6,753.2	$ 6,634.3

See notes to consolidated financial statements.

A. SIGNIFICANT ACCOUNTING POLICIES

Description of Operations: PACCAR Inc (the Company or PACCAR) is a multinational company operating in three principal segments: (1) the Truck segment includes the design and manufacture of high-quality, light-, medium- and heavy-duty commercial trucks; (2) the Parts segment includes the distribution of aftermarket parts for trucks and related commercial vehicles; and (3) the Financial Services segment (PFS) includes finance and leasing products and services provided to customers and dealers. PACCAR's finance and leasing activities are principally related to PACCAR products and associated equipment. PACCAR's sales and revenues are derived primarily from North America and Europe. The Company also operates in Australia and Brasil and sells trucks and parts to customers in Asia, Africa, Middle East and South America.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned domestic and foreign subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition:
Truck, Parts and Other: Substantially all sales and revenues of trucks and related aftermarket parts are recorded by the Company when products are shipped to dealers or customers, except for certain truck shipments that are subject to a residual value guarantee to the customer. Revenues related to these shipments are generally recognized on a straight-line basis over the guarantee period (see Note E). At the time certain truck and parts sales to a dealer are recognized, the Company records an estimate of any future sales incentive costs related to such sales. The estimate is based on historical data and announced incentive programs. In the Truck and Parts segments, the Company grants extended payment terms on selected receivables. Interest is charged for the period beyond standard payment terms. Interest income is recorded as earned.

Financial Services: Interest income from finance and other receivables is recognized using the interest method. Certain loan origination costs are deferred and amortized to interest income over the expected life of the contracts, generally 36 to 60 months, using the straight-line method which approximates the interest method. For operating leases, rental revenue is recognized on a straight-line basis over the lease term. Rental revenues for the years ended December 31, 2015, 2014 and 2013 were $668.6, $681.5 and $631.7, respectively. Depreciation and related leased unit operating expenses were $536.2, $544.0 and $503.5 for the years ended December 31, 2015, 2014 and 2013, respectively.

Recognition of interest income and rental revenue is suspended (put on non-accrual status) when the receivable becomes more than 90 days past the contractual due date or earlier if some other event causes the Company to determine that collection is not probable. Accordingly, no finance receivables more than 90 days past due were accruing interest at December 31, 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.

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

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

The Company utilizes third-party pricing services for all of its marketable debt security valuations. The Company reviews the pricing methodology used by the third party pricing services, including the manner employed to collect market information. On a quarterly basis, the Company also performs review and validation procedures on the

pricing information received from the third party providers. These procedures help ensure that the fair value information used by the Company is determined in accordance with applicable accounting guidance.

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

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

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

Receivables:
Trade and Other Receivables: The Company's trade and other receivables are recorded at cost, net of allowances. At December 31, 2015 and 2014, respectively, trade and other receivables include trade receivables from dealers and customers of $739.2 and $882.2 and other receivables of $139.8 and $165.0 relating primarily to value added tax receivables and supplier allowances and rebates.

Finance and Other Receivables:
Loans – Loans represent fixed or floating-rate loans to customers collateralized by the vehicles purchased and are recorded at amortized cost.

Finance leases – Finance leases are retail direct financing leases and sales-type finance leases, which lease equipment to retail customers and dealers. These leases are reported as the sum of minimum lease payments receivable and estimated residual value of the property subject to the contracts, reduced by unearned interest which is shown separately.

Dealer wholesale financing – Dealer wholesale financing is floating-rate wholesale loans to PACCAR dealers for new and used trucks and are recorded at amortized cost. The loans are collateralized by the trucks being financed.

Operating lease receivables and other – Operating lease receivables and other include monthly rentals due on operating leases, unamortized loan and lease origination costs, interest on loans and other amounts due within one year in the normal course of business.

Allowance for Credit Losses:
Truck, Parts and Other: The Company historically has not experienced significant losses or past due amounts on trade and other receivables in its Truck, Parts and Other businesses. Accounts are considered past due once the unpaid balance is over 30 days outstanding based on contractual payment terms. Accounts are charged-off against the allowance for credit losses when, in the judgment of management, they are considered uncollectible. The allowance for credit losses for Truck, Parts and Other was $1.3 and $1.9 for the years ended December 31, 2015 and 2014, respectively. Net charge-offs were $.3, $.2 and $.2 for the years ended December 31, 2015, 2014 and 2013, respectively.

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

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

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

On average, modifications extended contractual terms by approximately seven 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 December 31, 2015 and 2014.

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

The Company evaluates finance receivables that are not individually impaired on a collective basis and determines the general allowance for credit losses for both retail and wholesale receivables based on historical loss information, using past due account data and current market conditions. Information used includes assumptions regarding the likelihood of collecting current and past due accounts, repossession rates, the recovery rate on the underlying collateral based on used truck values and other pledged collateral or recourse. The Company has developed a range of loss estimates for each of its country portfolios based on historical experience, taking into account loss frequency and severity in both strong and weak truck market conditions. A projection is made of the range of estimated credit losses inherent in the portfolio from which an amount is determined as probable based on current market conditions

and other factors impacting the creditworthiness of the Company's borrowers and their ability to repay. After determining the appropriate level of the allowance for credit losses, a provision for losses on finance receivables is charged to income as necessary to reflect management's estimate of incurred credit losses, net of recoveries, inherent in the portfolio.

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

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

Inventories: Inventories are stated at the lower of cost or market. Cost of inventories in the U.S. is determined principally by the last-in, first-out (LIFO) method. Cost of all other inventories is determined principally by the first-in, first-out (FIFO) method. Cost of sales and revenues include shipping and handling costs incurred to deliver products to dealers and customers.

Equipment on Operating Leases: The Company's Financial Services segment leases equipment under operating leases to its customers. In addition, in the Truck segment, equipment sold to customers in Europe subject to a residual value guarantee (RVG) by the Company is generally accounted for as an operating lease. Equipment is recorded at cost and is depreciated on the straight-line basis to the lower of the estimated residual value or guarantee value. Lease and guarantee periods generally range from three to five years. Estimated useful lives of the equipment range from four to nine years. The Company reviews residual values of equipment on operating leases periodically to determine that recorded amounts are appropriate.

Property, Plant and Equipment: Property, plant and equipment are stated at cost. Depreciation is computed principally by the straight-line method based on the estimated useful lives of the various classes of assets. Certain production tooling is amortized on a unit of production basis.

Long-lived Assets and Goodwill: The Company evaluates the carrying value of property, plant and equipment when events and circumstances warrant a review. Goodwill is tested for impairment at least on an annual basis. There were no impairment charges for the three years ended December 31, 2015. Goodwill was $105.6 and $128.6 at December 31, 2015 and 2014, respectively. The decrease in value was mostly due to currency translation.

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.

Derivative Financial Instruments: As part of its risk management strategy, the Company enters into derivative contracts to hedge against interest rates and foreign currency risk. Certain derivative instruments designated as either cash flow hedges or fair value hedges are subject to hedge accounting. Derivative instruments that are not subject to hedge accounting are held as economic hedges. The Company's policies prohibit the use of derivatives for speculation or trading. At the inception of each hedge relationship, the Company documents its risk

management objectives, procedures and accounting treatment. All of the Company's interest-rate and certain foreign-exchange contracts are transacted under International Swaps and Derivatives Association (ISDA) master agreements. Each agreement permits the net settlement of amounts owed in the event of default and certain other termination events. For derivative financial instruments, the Company has elected not to offset derivative positions in the balance sheet with the same counterparty under the same agreements and is not required to post or receive collateral. Exposure limits and minimum credit ratings are used to minimize the risks of counterparty default. The Company's maximum exposure to potential default of its swap counterparties is limited to the asset position of its swap portfolio. The asset position of the Company's swap portfolio is $132.2 at December 31, 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.

Foreign Currency Translation: For most of the Company's foreign subsidiaries, the local currency is the functional currency. All assets and liabilities are translated at year-end exchange rates and all income statement amounts are translated at the weighted average rates for the period. Translation adjustments are recorded in AOCI. The Company uses the U.S. dollar as the functional currency for all but one of its Mexican subsidiaries, which uses the local currency. For the U.S. functional currency entities in Mexico, inventories, cost of sales, property, plant and equipment and depreciation are remeasured at historical rates and resulting adjustments are included in net income.

Earnings per Share: Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding, plus the effect of any participating securities. Diluted earnings per common share are computed assuming that all potentially dilutive securities are converted into common shares under the treasury stock method.

New Accounting Pronouncements: In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-1, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The amendment in this ASU addresses the recognition, measurement, presentation and disclosure of financial instruments. The ASU is effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. The Company is currently evaluating the impact on its consolidated financial statements.

In November 2015, FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.* This ASU simplifies the presentation of deferred income taxes by requiring all deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. The amendment may be applied either prospectively or retrospectively to all periods presented. This ASU is effective for annual periods beginning after December 15, 2016, and early adoption is permitted. The Company adopted ASU 2015-17 prospectively as of December 31, 2015, accordingly, prior period deferred income tax assets and liabilities were not adjusted.

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.

The FASB also issued the following standards, none of which are expected to have a material impact on the Company's consolidated financial statements.

STANDARD	DESCRIPTION	EFFECTIVE DATE*
2015-11	*Inventory (Topic 330): Simplifying the Measurement of Inventory.*	January 1, 2017
2015-07	*Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).*	January 1, 2016
2015-05	*Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.*	January 1, 2016
2015-03	*Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.*	January 1, 2016
2015-15	*Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measure of Debt Issuance Costs Associated with Line-of-Credit Arrangements.*	January 1, 2016
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.*	January 1, 2016

* The Company expects to adopt on the effective date.

B. INVESTMENTS IN MARKETABLE DEBT SECURITIES

Marketable debt securities consisted of the following at December 31:

2015	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
U.S. tax-exempt securities	**$ 505.0**	**$ .7**	**$ .3**	**$ 505.4**
U.S. corporate securities	**76.7**	**.1**	**.1**	**76.7**
U.S. government and agency securities	**15.7**	**.1**	**.1**	**15.7**
Non-U.S. corporate securities	**585.6**	**1.8**	**.4**	**587.0**
Non-U.S. government securities	**192.7**	**1.1**	**.1**	**193.7**
Other debt securities	**69.6**	**.1**	**.1**	**69.6**
	$ 1,445.3	**$ 3.9**	**$ 1.1**	**$ 1,448.1**

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 $2.6, $1.2 and $2.0, and gross realized losses were $.8, $.1 and $.7 for the years ended December 31, 2015, 2014 and 2013, respectively.

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

At December 31,	**2015**		2014	
	LESS THAN TWELVE MONTHS	**TWELVE MONTHS OR GREATER**	LESS THAN TWELVE MONTHS	TWELVE MONTHS OR GREATER
Fair value	**$ 579.0**		$ 249.6	
Unrealized losses	**1.1**		.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.

Contractual maturities at December 31, 2015 were as follows:

Maturities:	**AMORTIZED COST**	**FAIR VALUE**
Within one year	**$ 437.1**	**$ 437.4**
One to five years	**1,008.0**	**1,010.5**
Six to ten years	**.2**	**.2**
	$ 1,445.3	**$ 1,448.1**

C. INVENTORIES

Inventories include the following:

At December 31,	**2015**	2014
Finished products	**$ 443.6**	$ 512.3
Work in process and raw materials	**528.9**	587.7
	972.5	1,100.0
Less LIFO reserve	**(176.0)**	(174.3)
	$ 796.5	$ 925.7

Inventories valued using the LIFO method comprised 52% and 47% of consolidated inventories before deducting the LIFO reserve at both December 31, 2015 and 2014, respectively.

D. FINANCE AND OTHER RECEIVABLES

Finance and other receivables include the following:

At December 31,	**2015**	2014
Loans	**$ 4,011.7**	$ 3,968.5
Direct financing leases	**2,719.5**	2,752.8
Sales-type finance leases	**969.8**	972.8
Dealer wholesale financing	**1,950.1**	1,755.8
Operating lease receivables and other	**131.9**	99.5
Unearned interest: Finance leases	**(364.6)**	(384.8)
	$ 9,418.4	$ 9,164.6
Less allowance for losses:		
Loans and leases	**(99.2)**	(105.5)
Dealer wholesale financing	**(7.3)**	(9.0)
Operating lease receivables and other	**(8.3)**	(7.5)
	$ 9,303.6	$ 9,042.6

The net activity of sales-type finance leases, dealer direct loans and dealer wholesale financing on new trucks is shown in the operating section of the Consolidated Statements of Cash Flows since those receivables finance the sale of Company inventory.

Annual minimum payments due on finance receivables are as follows:

Beginning January 1, 2016	LOANS	FINANCE LEASES
2016	$ 1,238.4	$ 1,083.3
2017	1,049.7	883.7
2018	806.5	672.3
2019	544.3	465.4
2020	331.7	261.9
Thereafter	41.1	112.9
	$ 4,011.7	$ 3,479.5

Estimated residual values included with finance leases amounted to $209.8 in 2015 and $204.0 in 2014. Experience indicates substantially all of dealer wholesale financing will be repaid within one year. In addition, repayment experience indicates that some loans, leases and other finance receivables will be paid prior to contract maturity, while others may be extended or modified.

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

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

	2015				
	DEALER		**CUSTOMER**		
	WHOLESALE	**RETAIL**	**RETAIL**	**OTHER***	**TOTAL**
Balance at January 1	**$ 9.0**	**$ 11.9**	**$ 93.6**	**$ 7.5**	**$ 122.0**
Provision for losses	**(.8)**	**(1.4)**	**11.6**	**3.0**	**12.4**
Charge-offs	**(.3)**		**(13.6)**	**(3.2)**	**(17.1)**
Recoveries			**3.5**	**.5**	**4.0**
Currency translation and other	**(.6)**	**(.2)**	**(6.2)**	**.5**	**(6.5)**
Balance at December 31	**$ 7.3**	**$ 10.3**	**$ 88.9**	**$ 8.3**	**$ 114.8**

	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	.3	(1.4)	14.8	1.7	15.4
Charge-offs	(.9)		(18.2)	(2.2)	(21.3)
Recoveries			4.6	.7	5.3
Currency translation and other	(.8)	(.1)	(5.1)	(.7)	(6.7)
Balance at December 31	$ 9.0	$ 11.9	$ 93.6	$ 7.5	$ 122.0

* Operating lease and other trade receivables.

	2013				
	DEALER		CUSTOMER		
	WHOLESALE	RETAIL	RETAIL	OTHER*	TOTAL
Balance at January 1	$ 11.8	$ 13.4	$ 99.2	$ 5.6	$ 130.0
Provision for losses	(.9)	.2	9.8	3.8	12.9
Charge-offs	(.5)		(21.2)	(2.8)	(24.5)
Recoveries			9.9	1.0	10.9
Currency translation and other		(.2)	(.2)	.4	
Balance at December 31	$ 10.4	$ 13.4	$ 97.5	$ 8.0	$ 129.3

* Operating lease and other trade receivables.

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

	DEALER		**CUSTOMER**	
At December 31, 2015	**WHOLESALE**	**RETAIL**	**RETAIL**	**TOTAL**
Recorded investment for impaired finance receivables evaluated individually	**$ 5.0**		**$ 64.0**	**$ 69.0**
Allowance for impaired finance receivables determined individually	**.3**		**6.5**	**6.8**
Recorded investment for finance receivables evaluated collectively	**1,945.1**	**$ 1,561.3**	**5,711.1**	**9,217.5**
Allowance for finance receivables determined collectively	**7.0**	**10.3**	**82.4**	**99.7**

	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

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

At December 31,	**2015**	2014
Dealer:		
Wholesale	**$ 5.0**	$ 4.9
Customer retail:		
Fleet	**50.7**	34.4
Owner/operator	**10.0**	8.9
	$ 65.7	$ 48.2

Impaired Loans: Impaired loans are summarized below. The impaired loans with specific reserve represent the unpaid principal balance. The recorded investment of impaired loans as of December 31, 2015 and 2014 was not significantly different than the unpaid principal balance.

	DEALER		CUSTOMER RETAIL		
At December 31, 2015	**WHOLESALE**	**RETAIL**	**FLEET**	**OWNER/ OPERATOR**	**TOTAL**
Impaired loans with a specific reserve	**$ 5.0**		**$ 21.7**	**$ 2.4**	**$ 29.1**
Associated allowance	**(.3)**		**(3.5)**	**(.5)**	**(4.3)**
	$ 4.7		**$ 18.2**	**$ 1.9**	**$ 24.8**
Impaired loans with no specific reserve			**6.5**	**.3**	**6.8**
Net carrying amount of impaired loans	**$ 4.7**		**$ 24.7**	**$ 2.2**	**$ 31.6**
Average recorded investment	**$ 4.4**		**$ 26.6**	**$ 2.5**	**$ 33.5**

	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)
			$ 11.2	$ 2.1	$ 13.3
Impaired loans with no specific reserve	4.4		12.3		16.7
Net carrying amount of impaired loans	$ 4.4		$ 23.5	$ 2.1	$ 30.0
Average recorded investment	$ 8.8		$ 22.5	$ 2.8	$ 34.1

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

	2015	2014	2013
Interest income recognized:			
Dealer wholesale		$ .1	$ .1
Customer retail - fleet	**$ 1.4**	1.2	2.9
Customer retail - owner/operator	**.4**	.4	.9
	$ 1.8	$ 1.7	$ 3.9

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.

At December 31, 2015	DEALER		CUSTOMER RETAIL		
	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	TOTAL
Performing	**$ 1,922.4**	**$ 1,561.3**	**$ 4,680.6**	**$ 996.6**	**$ 9,160.9**
Watch	**22.7**		**27.0**	**6.9**	**56.6**
At-risk	**5.0**		**53.8**	**10.2**	**69.0**
	$ 1,950.1	**$ 1,561.3**	**$ 4,761.4**	**$ 1,013.7**	**$ 9,286.5**

At December 31, 2014	DEALER		CUSTOMER RETAIL		
	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.

At December 31, 2015	DEALER		CUSTOMER RETAIL		
	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	TOTAL
Current and up to 30 days past due	**$ 1,949.8**	**$ 1,561.3**	**$ 4,733.6**	**$ 1,002.7**	**$ 9,247.4**
31 - 60 days past due			**8.3**	**5.4**	**13.7**
Greater than 60 days past due	**.3**		**19.5**	**5.6**	**25.4**
	$ 1,950.1	**$ 1,561.3**	**$ 4,761.4**	**$ 1,013.7**	**$ 9,286.5**

At December 31, 2014	DEALER		CUSTOMER RETAIL		
	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

Troubled Debt Restructurings: The balance of TDRs was $52.3 and $36.0 at December 31, 2015 and 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:

	2015		2014	
	RECORDED INVESTMENT		RECORDED INVESTMENT	
	PRE-MODIFICATION	**POST-MODIFICATION**	PRE-MODIFICATION	POST-MODIFICATION
Fleet	**$ 38.3**	**$ 37.9**	$ 24.4	$ 24.1
Owner/operator	**6.5**	**6.5**	2.3	2.3
	$ 44.8	**$ 44.4**	$ 26.7	$ 26.4

The effect on the allowance for credit losses from such modifications was not significant at December 31, 2015 and 2014.

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

	2015	2014
Fleet	**$ 6.7**	$ .7
Owner/operator	**.4**	.2
	$ 7.1	$ .9

The TDRs that subsequently defaulted did not significantly impact the Company's allowance for credit losses at December 31, 2015 and 2014.

Repossessions: When the Company determines a customer is not likely to meet its contractual commitments, the Company repossesses the vehicles which serve as collateral for the loans, finance leases and equipment under operating leases. The Company records the vehicles as used truck inventory included in Financial Services other assets on the Consolidated Balance Sheets. The balance of repossessed inventory at December 31, 2015 and 2014 was $14.6 and $19.0, respectively. Proceeds from the sales of repossessed assets were $48.0, $58.5 and $63.2 for the years ended December 31, 2015, 2014 and 2013, respectively. These amounts are included in proceeds from asset disposals in the Consolidated Statements of Cash Flows. Write-downs of repossessed equipment on operating leases are recorded as impairments and included in Financial Services depreciation and other expenses on the Consolidated Statements of Income.

E. EQUIPMENT ON OPERATING LEASES

A summary of equipment on operating leases for Truck, Parts and Other and for the Financial Services segment is as follows:

	TRUCK, PARTS AND OTHER		FINANCIAL SERVICES	
At December 31,	**2015**	2014	**2015**	2014
Equipment on operating leases	**$ 1,282.6**	$ 1,222.9	**$ 3,335.5**	$ 3,269.0
Less allowance for depreciation	**(290.4)**	(288.4)	**(954.7)**	(963.0)
	$ 992.2	$ 934.5	**$ 2,380.8**	$ 2,306.0

Annual minimum lease payments due on Financial Services operating leases beginning January 1, 2016 are $542.1, $415.4, $250.4, $108.0, $32.4 and $6.0 thereafter.

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

	TRUCK, PARTS AND OTHER	
At December 31,	**2015**	2014
Residual value guarantees	**$ 691.4**	$ 629.1
Deferred lease revenues	**356.0**	341.8
	$ 1,047.4	$ 970.9

The deferred lease revenue is amortized on a straight-line basis over the RVG contract period. At December 31, 2015, the annual amortization of deferred revenues beginning January 1, 2016 is $134.9, $100.5, $64.3, $41.3, $14.7 and $.3 thereafter. Annual maturities of the RVGs beginning January 1, 2016 are $284.0, $228.0, $97.6, $49.7, $26.1 and $6.0 thereafter.

December 31, 2015, 2014 and 2013 (currencies in millions)

F. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include the following:

At December 31,	USEFUL LIVES	**2015**	2014
Land		**$ 222.1**	$ 239.0
Buildings and improvements	10 - 40 years	**1,061.7**	1,082.8
Machinery, equipment and production tooling	3 - 12 years	**3,237.1**	3,316.7
Construction in progress		**248.4**	175.8
		4,769.3	4,814.3
Less allowance for depreciation		**(2,592.9)**	(2,501.0)
		$ 2,176.4	$ 2,313.3

G. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER

Accounts payable, accrued expenses and other include the following:

At December 31,	**2015**	2014
Truck, Parts and Other:		
Accounts payable	**$ 929.7**	$ 1,167.6
Product support liabilities	**384.1**	355.3
Accrued expenses	**231.4**	213.5
Accrued capital expenditures	**85.7**	63.9
Salaries and wages	**197.2**	224.9
Other	**243.6**	272.0
	$ 2,071.7	$ 2,297.2

H. PRODUCT SUPPORT LIABILITIES

Changes in product support liabilities are summarized as follows:

WARRANTY RESERVES	**2015**	2014	2013
Balance at January 1	**$ 310.8**	$ 218.7	$ 208.8
Cost accruals	**294.8**	302.6	220.4
Payments	**(228.8)**	(210.5)	(211.5)
Change in estimates for pre-existing warranties	**(21.3)**	16.1	(1.2)
Currency translation	**(9.3)**	(16.1)	2.2
Balance at December 31	**$ 346.2**	$ 310.8	$ 218.7

DEFERRED REVENUES ON EXTENDED WARRANTIES AND R&M CONTRACTS	**2015**	2014	2013
Balance at January 1	**$ 462.0**	$ 411.8	$ 331.9
Deferred revenues	**333.0**	323.7	260.4
Revenues recognized	**(248.4)**	(246.1)	(188.3)
Currency translation	**(21.8)**	(27.4)	7.8
Balance at December 31	**$ 524.8**	$ 462.0	$ 411.8

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

	WARRANTY RESERVES		DEFERRED REVENUES	
At December 31,	**2015**	2014	**2015**	2014
Truck, Parts and Other:				
Accounts payable, accrued expenses and other	**$ 241.6**	$ 229.1	**$ 142.5**	$ 126.2
Other liabilities	**104.6**	81.7	**368.2**	324.5
Financial Services:				
Deferred taxes and other liabilities			**14.1**	11.3
	$ 346.2	$ 310.8	**$ 524.8**	$ 462.0

I. BORROWINGS AND CREDIT ARRANGEMENTS

Financial Services borrowings include the following:

	2015		2014	
At December 31,	**EFFECTIVE RATE**	**BORROWINGS**	EFFECTIVE RATE	BORROWINGS
Commercial paper	**.6%**	**$ 2,620.4**	.8%	$ 2,506.0
Bank loans	**4.8%**	**176.1**	5.0%	135.9
		2,796.5		2,641.9
Term notes	**1.4%**	**5,795.0**	1.5%	5,588.7
	1.2%	**$ 8,591.5**	1.3%	$ 8,230.6

The commercial paper and term notes of $8,415.4 and $8,094.7 at December 31, 2015 and 2014 include a net effect of fair value hedges and unamortized discounts of $(1.1) and $(1.0), respectively. The effective rate is the weighted average rate as of December 31, 2015 and 2014 and includes the effects of interest-rate contracts.

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

Beginning January 1, 2016	COMMERICAL PAPER	BANK LOANS	TERM NOTES	TOTAL
2016	$ 2,621.2	$ 39.5	$ 1,575.9	$ 4,236.6
2017		20.3	2,229.9	2,250.2
2018		46.5	1,356.2	1,402.7
2019		32.0	579.0	611.0
2020		37.8	54.3	92.1
	$ 2,621.2	$ 176.1	$ 5,795.3	$ 8,592.6

Interest paid on borrowings was $101.3, $136.3 and $149.3 in 2015, 2014 and 2013, respectively. For the years ended December 31, 2015, 2014 and 2013, the Company capitalized interest on borrowings of nil, $1.3 and $10.3, respectively, in Truck, Parts and Other.

The primary sources of borrowings in the capital markets are commercial paper and medium-term notes issued in the public markets, and to a lesser extent, bank loans. The medium-term notes are issued by PACCAR Financial Corp. (PFC), PACCAR Financial Europe and PACCAR Financial Mexico.

In November 2015, the Company's U.S. finance subsidiary, PFC, filed a shelf registration under the Securities Act of 1933. The total amount of medium-term notes outstanding for PFC as of December 31, 2015 was $4,400.0. The registration expires in November 2018 and does not limit the principal amount of debt securities that may be issued during that period.

As of December 31, 2015, the Company's European finance subsidiary, PACCAR Financial Europe, had €269.0 available for issuance under a €1,500.0 medium-term note program listed on the Professional Securities Market of the London Stock Exchange. This program replaced an expiring program in the second quarter of 2015 and is renewable annually through the filing of new listing particulars.

In April 2011, PACCAR Financial Mexico (PFM) registered a 10,000.0 peso medium-term note and commercial paper program with the Comision Nacional Bancaria y de Valores. The registration expires in April 2016 and limits the amount of commercial paper (up to one year) to 5,000.0 pesos. At December 31, 2015, 8,035.0 pesos remained available for issuance. PFM intends to file a new program in April 2016.

The Company has line of credit arrangements of $3,435.0, of which $3,256.4 were unused at December 31, 2015. Included in these arrangements are $3,000.0 of syndicated bank facilities, of which $1,000.0 expires in June 2016, $1,000.0 expires in June 2019 and $1,000.0 expires in June 2020. The Company intends to replace these credit facilities on or before expiration with facilities of similar amounts and duration. These credit facilities are maintained primarily to provide backup liquidity for commercial paper borrowings and maturing medium-term notes. There were no borrowings under the syndicated bank facilities for the year ended December 31, 2015.

J. LEASES

The Company leases certain facilities and computer equipment under operating leases. Leases expire at various dates through the year 2023. At January 1, 2016, annual minimum rent payments under non-cancelable operating leases having initial or remaining terms in excess of one year are $23.2, $11.3, $7.6, $2.6, $1.3 and $1.4 thereafter. For the years ended December 31, 2015, 2014 and 2013, total rental expenses under all leases amounted to $30.5, $34.5 and $34.1, respectively.

K. COMMITMENTS AND CONTINGENCIES

The Company is involved in various stages of investigations and cleanup actions in different countries related to environmental matters. In certain of these matters, the Company has been designated as a “potentially responsible party” by domestic and foreign environmental agencies. The Company has an undiscounted accrual to provide for the estimated costs to investigate and complete cleanup actions where it is probable that the Company will incur such costs in the future. Expenditures related to environmental activities for the years ended December 31, 2015, 2014 and 2013 were $2.0, $1.2 and $2.3, respectively.

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

At December 31, 2015, PACCAR had standby letters of credit of $16.7, which guarantee various insurance and financing activities. At December 31, 2015, PACCAR’s financial services companies, in the normal course of business, had outstanding commitments to fund new loan and lease transactions amounting to $634.7. The commitments generally expire in 90 days. The Company had other commitments, primarily to purchase production inventory, equipment and energy amounting to $219.9, $61.1 and $4.0 for 2016, 2017 and 2018, respectively, and nil for 2019 and 2020.

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 December 31, 2015.

PACCAR is a defendant in various legal proceedings and, in addition, there are various other contingent liabilities arising in the normal course of business. After consultation with legal counsel, management does not anticipate that disposition of these proceedings (except for the EC matter noted above) and contingent liabilities will have a material effect on the consolidated financial statements.

L. EMPLOYEE BENEFITS

Severance Costs: The Company incurred severance expense in 2015, 2014 and 2013 of $3.3, $1.8 and $3.5, respectively.

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

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

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

The Company funds its pensions in accordance with applicable employee benefit and tax laws. The Company contributed $62.9 to its pension plans in 2015 and $81.1 in 2014. The Company expects to contribute in the range of $50.0 to $100.0 to its pension plans in 2016, of which $18.4 is estimated to satisfy minimum funding requirements. Annual benefits expected to be paid beginning January 1, 2016 are $78.9, $81.3, $86.7, $90.6, $97.3 and for the five years thereafter, a total of $571.5.

Plan assets are invested in global equity and debt securities through professional investment managers with the objective to achieve targeted risk adjusted returns and maintain liquidity sufficient to fund current benefit payments. Typically, each defined benefit plan has an investment policy that includes a target for asset mix, including maximum and minimum ranges for allocation percentages by investment category. The actual allocation of assets may vary at times based upon rebalancing policies and other factors. The Company periodically assesses the target asset mix by evaluating external sources of information regarding the long-term historical return, volatilities and expected future returns for each investment category. In addition, the long-term rates of return assumptions for pension accounting are reviewed annually to ensure they are appropriate. Target asset mix and forecast long-term returns by asset category are considered in determining the assumed long-term rates of return, although historical returns realized are given some consideration.

The fair value of mutual funds, common stocks and U.S. treasuries is determined using the market approach and is based on the quoted prices in active markets. These securities are categorized as Level 1. The fair value of commingled trust funds is determined using the market approach and is based on the unadjusted net asset value per unit as determined by the sponsor of the fund based on the fair values of underlying investments. These securities are categorized as Level 2. The fair value of debt securities is determined using the market approach and is based on the quoted market prices of the securities or other observable inputs. These securities are categorized as Level 2.

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

At December 31, 2015	TARGET	LEVEL 1	LEVEL 2	TOTAL
Equities:				
U.S. equities			**$ 593.8**	**$ 593.8**
Global equities			**674.2**	**674.2**
Total equities	**50 - 70%**		**1,268.0**	**1,268.0**
Fixed income:				
U.S. fixed income		**$ 283.4**	**348.2**	**631.6**
Non-U.S. fixed income			**253.7**	**253.7**
Total fixed income	**30 - 50%**	**283.4**	**601.9**	**885.3**
Cash and other		**8.2**	**57.5**	**65.7**
Total plan assets		**$ 291.6**	**$ 1,927.4**	**$ 2,219.0**

At December 31, 2014	TARGET	LEVEL 1	LEVEL 2	TOTAL
Equities:				
U.S. equities			$ 666.4	$ 666.4
Global equities			691.3	691.3
Total equities	50 - 70%		1,357.7	1,357.7
Fixed income:				
U.S. fixed income		$ 269.4	339.2	608.6
Non-U.S. fixed income			286.5	286.5
Total fixed income	30 - 50%	269.4	625.7	895.1
Cash and other		7.7	48.9	56.6
Total plan assets		$ 277.1	$ 2,032.3	$ 2,309.4

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

At December 31,	2015	2014
Weighted average assumptions:		
Discount rate	**4.2%**	3.8%
Rate of increase in future compensation levels	**3.9%**	3.8%
Assumed long-term rate of return on plan assets	**6.5%**	6.5%

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

	2015	2014
Change in projected benefit obligation:		
Benefit obligation at January 1	**$ 2,417.4**	$ 1,961.6
Service cost	**91.3**	67.3
Interest cost	**92.2**	91.8
Benefits paid	**(121.3)**	(72.5)
Actuarial (gain) loss	**(141.6)**	412.8
Currency translation and other	**(35.6)**	(47.6)
Participant contributions	**3.6**	4.0
Projected benefit obligation at December 31	**$ 2,306.0**	$ 2,417.4
Change in plan assets:		
Fair value of plan assets at January 1	**$ 2,309.4**	$ 2,108.4
Employer contributions	**62.9**	81.1
Actual return on plan assets	**.3**	235.8
Benefits paid	**(121.3)**	(72.5)
Currency translation and other	**(35.9)**	(47.4)
Participant contributions	**3.6**	4.0
Fair value of plan assets at December 31	**$ 2,219.0**	$ 2,309.4
Funded status at December 31	**$ (87.0)**	$ (108.0)

	2015	2014
Amounts recorded on balance sheet:		
Other noncurrent assets	**$ 27.2**	$ 15.0
Other liabilities	**114.2**	123.0
Accumulated other comprehensive loss:		
Actuarial loss	**386.3**	428.9
Prior service cost	**3.9**	3.9
Net initial transition amount	**.2**	.3

In 2015, the Company provided a one-time lump-sum offer to certain retired employees in the U.S. retirement plan, which resulted in a lump-sum distribution totaling $48.5.

Of the December 31, 2015 amounts in accumulated other comprehensive loss, $26.3 of unrecognized actuarial loss and $1.2 of unrecognized prior service cost are expected to be amortized into net pension expense in 2016.

The accumulated benefit obligation for all pension plans of the Company was $2,028.2 and $2,113.7 at December 31, 2015 and 2014, respectively.

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

At December 31,	**2015**	2014
Projected benefit obligation	**$ 217.9**	$ 224.2
Accumulated benefit obligation	**207.7**	212.1
Fair value of plan assets	**128.8**	139.1

The components of pension expense are as follows:

Year Ended December 31,	**2015**	2014	2013
Service cost	**$ 91.3**	$ 67.3	$ 73.5
Interest on projected benefit obligation	**92.2**	91.8	81.0
Expected return on assets	**(140.8)**	(128.0)	(119.4)
Amortization of prior service costs	**1.3**	1.2	1.3
Recognized actuarial loss	**41.1**	20.8	44.0
Curtailment gain	**(.1)**		(.3)
Net pension expense	**$ 85.0**	$ 53.1	$ 80.1

Multi-employer Plans: The Company participates in multi-employer plans in the U.S. and Europe. These are typically under collective bargaining agreements and cover its union-represented employees. The Company's participation in the following multi-employer plans for the years ended December 31 are as follows:

PENSION PLAN	EIN	PENSION PLAN NUMBER	COMPANY CONTRIBUTIONS **2015**	2014	2013
Metal and Electrical Engineering Industry Pension Fund		135668	**$ 23.0**	$ 27.1	$ 24.5
Western Metal Industry Pension Plan	91-6033499	001	**2.1**	2.0	1.5
Other plans			**.9**	1.0	.9
			$ 26.0	$ 30.1	$ 26.9

The Company contributions shown in the table above approximates the multi-employer pension expense for each of the years ended December 31, 2015, 2014 and 2013, respectively.

Metal and Electrical Engineering Industry Pension Fund is a multi-employer union plan incorporating all DAF employees in the Netherlands and is covered by a collective bargaining agreement which expired on April 30, 2015; a new agreement is currently under negotiation. The Company's contributions were less than 5% of the total contributions to the plan for the last two reporting periods ending December 2015. The plan is required by law (the Netherlands Pension Act) to have a coverage ratio in excess of 104.3%. Because the coverage ratio of the plan was 97.7% at December 31, 2015, a funding improvement plan effective through 2026 is in place. The funding improvement plan includes a reduction in pension benefits and delays in future benefit increases.

The Western Metal Industry Pension Plan is located in the U.S. and is covered by a collective bargaining agreement that will expire on November 1, 2020. In accordance with the U.S. Pension Protection Act of 2006, the plan was certified as critical (red) status and a funding improvement plan was implemented requiring additional contributions through 2022 as long as the plan remains in critical status. For the last two reporting periods ending December 2015, contributions by the Company were 12% of the total contributions to the plan.

Other plans are principally located in the U.S. For the last two reporting periods, none were under funding improvement plans and Company contributions to these plans are less than 5% of each plan's total contributions.

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

Defined Contribution Plans: The Company maintains several defined contribution benefit plans whereby it contributes designated amounts on behalf of participant employees. The largest plan is for U.S. salaried employees where the Company matches a percentage of employee contributions up to an annual limit. The match was 5% of eligible pay in 2015, 2014 and 2013. Other plans are located in Australia, Brasil, Canada, the Netherlands, Belgium and Germany. Expenses for these plans were $36.1, $36.3 and $34.0 in 2015, 2014 and 2013, respectively.

M. INCOME TAXES

The Company's tax rate is based on income and statutory tax rates in the various jurisdictions in which the Company operates. Tax law requires certain items to be included in the Company's tax returns at different times than the items reflected in the Company's financial statements. As a result, the Company's annual tax rate reflected in its financial statements is different than that reported in its tax returns. Some of these differences are permanent, such as expenses that are not deductible in the Company's tax return, and some differences reverse over time, such as depreciation expense. These temporary differences create deferred tax assets and liabilities. The Company establishes valuation allowances for its deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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

Year Ended December 31,	**2015**	2014	2013
Domestic	**$ 1,581.6**	$ 1,267.3	$ 827.0
Foreign	**755.5**	750.3	868.0
	$ 2,337.1	$ 2,017.6	$ 1,695.0

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

Year Ended December 31,	**2015**	2014	2013
Current provision:			
Federal	**$ 521.8**	$ 482.4	$ 191.4
State	**61.1**	59.0	20.9
Foreign	**205.4**	215.4	214.1
	788.3	756.8	426.4
Deferred (benefit) provision:			
Federal	**(57.8)**	(88.3)	68.8
State	**5.3**	.3	18.4
Foreign	**(2.7)**	(10.0)	10.1
	(55.2)	(98.0)	97.3
	$ 733.1	$ 658.8	$ 523.7

Tax benefits recognized for net operating loss carryforwards were $.6, $16.0 and $4.5 for the years ended 2015, 2014 and 2013, respectively.

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

	2015	2014	2013
Statutory rate	**35.0%**	35.0%	35.0%
Effect of:			
State	**2.1**	2.0	1.3
Federal domestic production deduction	**(1.8)**	(1.8)	(.9)
Tax on foreign earnings	**(2.7)**	(1.6)	(3.8)
Other, net	**(1.2)**	(.9)	(.7)
	31.4%	32.7%	30.9%

The Company has not provided a deferred tax liability for the temporary differences of approximately $4,100.0 related to the investments in foreign subsidiaries that are considered to be indefinitely reinvested. The amount of the deferred tax liability would be approximately $300.0 as of December 31, 2015.

Included in domestic taxable income for 2015, 2014 and 2013 are $249.7, $249.0 and $241.7 of foreign earnings, respectively, which are not indefinitely reinvested, for which domestic taxes of $12.2, $18.6 and $19.5, respectively, were provided to account for the difference between the domestic and foreign tax rate on those earnings.

At December 31, 2015, the Company had net operating loss carryforwards of $397.0, of which $186.3 related to foreign subsidiaries and $210.7 related to states in the U.S. The related deferred tax asset was $62.7, for which a $30.7 valuation allowance has been provided. The carryforward periods range from five years to indefinite, subject to certain limitations under applicable laws. The future tax benefits of net operating loss carryforwards are evaluated on a regular basis, including a review of historical and projected operating results.

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

At December 31,	**2015**	2014
Assets:		
Accrued expenses	**$ 240.7**	$ 215.9
Net operating loss and tax credit carryforwards	**63.6**	67.2
Postretirement benefit plans	**44.9**	43.3
Allowance for losses on receivables	**41.9**	43.0
Other	**112.5**	112.1
	503.6	481.5
Valuation allowance	**(32.9)**	(30.3)
	470.7	451.2
Liabilities:		
Financial Services leasing depreciation	**(810.4)**	(817.2)
Depreciation and amortization	**(277.9)**	(289.2)
Other	**(29.2)**	(33.5)
	(1,117.5)	(1,139.9)
Net deferred tax liability	**$ (646.8)**	$ (688.7)

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

At December 31,	**2015**	2014
Truck, Parts and Other:		
Other current assets		$ 134.8
Other noncurrent assets, net	**$ 135.7**	16.0
Accounts payable, accrued expenses and other		(.9)
Other liabilities	**(25.0)**	(87.2)
Financial Services:		
Other assets	**44.9**	75.0
Deferred taxes and other liabilities	**(802.4)**	(826.4)
Net deferred tax liability	**$ (646.8)**	$ (688.7)

The Company adopted ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes,* on a prospective basis, effective December 31, 2015. As a result, all deferred income tax assets and liabilities are classified as noncurrent on the Consolidated Balance Sheet as of December 31, 2015.

Cash paid for income taxes was $879.7, $689.9 and $434.0 in 2015, 2014 and 2013, respectively.

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

	2015	2014	2013
Balance at January 1	**$ 12.0**	$ 13.1	$ 23.4
Additions for tax positions related to the current year	**10.3**	.9	1.0
Additions for tax positions related to prior years		.1	.3
Reductions for tax positions related to prior years	**(2.0)**	(.9)	(.7)
Reductions related to settlements			(9.7)
Lapse of statute of limitations	**(1.2)**	(1.2)	(1.2)
Balance at December 31	**$ 19.1**	$ 12.0	$ 13.1

The Company had $19.1, $12.0 and $13.1 of unrecognized tax benefits, of which $9.9, $1.1 and $1.5 would impact the effective tax rate, if recognized, as of December 31, 2015, 2014 and 2013, respectively.

The Company recognized $1.9, $.8 and $1.1 of income related to interest in 2015, 2014 and 2013, respectively. Accrued interest expense and penalties were $2.8, $4.7 and $5.5 as of December 31, 2015, 2014 and 2013, respectively. Interest and penalties are classified as income taxes in the Consolidated Statements of Income.

The Company believes it is reasonably possible that approximately $7 of unrecognized tax benefits, resulting primarily from intercompany transactions, will be resolved within the next twelve months from Competent Authority negotiations between tax authorities of two jurisdictions; the Company does not expect the net impact of these negotiations will be material to its effective tax rate. As of December 31, 2015, the United States Internal Revenue Service has completed examinations of the Company's tax returns for all years through 2010. The Company's tax returns for other major jurisdictions remain subject to examination for the years ranging from 2005 through 2015.

N. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Income (Loss): The components of AOCI and the changes in AOCI, net of tax, included in the Consolidated Balance Sheets and the Consolidated Statements of Stockholders' Equity, consisted of the following:

	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
Balance at January 1, 2015	**$ (13.5)**	**$ 5.3**	**$ (433.1)**	**$ (138.5)**	**$ (579.8)**
Recorded into AOCI	**27.9**	**(1.7)**	**15.1**	**(483.8)**	**(442.5)**
Reclassified out of AOCI	**(20.8)**	**(1.5)**	**27.6**		**5.3**
Net other comprehensive income (loss)	**7.1**	**(3.2)**	**42.7**	**(483.8)**	**(437.2)**
Balance at December 31, 2015	**$ (6.4)**	**$ 2.1**	**$ (390.4)**	**$ (622.3)**	**$ (1,017.0)**

	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
Balance at January 1, 2014	$ (15.1)	$ 1.7	$ (262.2)	$ 284.3	$ 8.7
Recorded into AOCI	20.0	4.2	(185.8)	(422.8)	(584.4)
Reclassified out of AOCI	(18.4)	(.6)	14.9		(4.1)
Net other comprehensive income (loss)	1.6	3.6	(170.9)	(422.8)	(588.5)
Balance at December 31, 2014	$ (13.5)	$ 5.3	$ (433.1)	$ (138.5)	$ (579.8)

	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
Balance at January 1, 2013	$ (27.2)	$ 6.6	$ (496.5)	$ 357.6	$ (159.5)
Recorded into AOCI	36.9	(6.1)	204.8	(71.3)	164.3
Reclassified out of AOCI	(24.8)	1.2	29.5	(2.0)	3.9
Net other comprehensive income (loss)	12.1	(4.9)	234.3	(73.3)	168.2
Balance at December 31, 2013	$ (15.1)	$ 1.7	$ (262.2)	$ 284.3	$ 8.7

Reclassifications out of AOCI during the years ended December 31, 2015, 2014 and 2013 are as follows:

AOCI COMPONENTS	LINE ITEM IN THE CONSOLIDATED STATEMENTS OF INCOME	AMOUNT RECLASSIFIED OUT OF AOCI 2015	2014	2013
Unrealized (gains) and losses on derivative contracts:				
Truck, Parts and Other				
Foreign-exchange contracts	Net sales and revenues	$ (.1)		
	Cost of sales and revenues	3.4	$ .3	$ 1.0
	Interest and other expense, net	(4.1)	(2.1)	(.6)
Financial Services				
Interest-rate contracts	Interest and other borrowing expenses	(28.5)	(21.7)	(36.0)
	Pre-tax expense reduction	(29.3)	(23.5)	(35.6)
	Tax expense	8.5	5.1	10.8
	After-tax expense reduction	(20.8)	(18.4)	(24.8)
Unrealized (gains) and losses on marketable debt securities:				
Marketable debt securities	Investment income	(2.1)	(.9)	1.7
	Tax expense (benefit)	.6	.3	(.5)
	After-tax income (increase) decrease	(1.5)	(.6)	1.2
Pension plans:				
Truck, Parts and Other				
Actuarial loss	Cost of sales and revenues	22.4	11.1	21.4
	Selling, general and administrative	17.1	9.0	20.3
		39.5	20.1	41.7
Prior service costs	Cost of sales and revenues	1.0	1.0	.4
	Selling, general and administrative	.2	.2	.6
	Research and development			.3
		1.2	1.2	1.3
Financial Services				
Actuarial loss	Selling, general and administrative	1.7	.7	2.3
	Pre-tax expense increase	42.4	22.0	45.3
	Tax benefit	(14.8)	(7.1)	(15.8)
	After-tax expense increase	27.6	14.9	29.5
Foreign currency translation:				
Truck, Parts and Other	Interest and other expense, net			(1.1)
Financial Services	Interest and other borrowing expenses			(.9)
	Expense reduction			(2.0)
Total reclassifications out of AOCI		$ 5.3	$ (4.1)	$ 3.9

Other Capital Stock Changes: The Company purchased treasury shares of 3.8 million, .7 million and nil in 2015, 2014 and 2013, respectively. The Company retired treasury shares of 4.5 million in 2015; there were no treasury stock retirements in 2014 or 2013.

O. DERIVATIVE FINANCIAL INSTRUMENTS

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

Interest-Rate Contracts: The Company enters into various interest-rate contracts, including interest-rate swaps and cross currency interest-rate swaps. Interest-rate swaps involve the exchange of fixed for floating rate or floating for fixed rate interest payments based on the contractual notional amounts in a single currency. Cross currency interest-rate swaps involve the exchange of notional amounts and interest payments in different currencies. The Company is exposed to interest-rate and exchange-rate risk caused by market volatility as a result of its borrowing

activities. The objective of these contracts is to mitigate the fluctuations on earnings, cash flows and fair value of borrowings. Net amounts paid or received are reflected as adjustments to interest expense.

At December 31, 2015, the notional amount of the Company's interest-rate contracts was $3,303.5. Notional maturities for all interest-rate contracts are $1,276.4 for 2016, $728.0 for 2017, $1,040.5 for 2018, $95.0 for 2019, $141.3 for 2020 and $22.3 thereafter. Substantially all 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 December 31, 2015, the notional amount of the outstanding foreign-exchange contracts was $286.1. Foreign-exchange contracts mature within one year.

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

At December 31,	**2015**		2014	
	ASSETS	**LIABILITIES**	ASSETS	LIABILITIES
Derivatives designated under hedge accounting:				
Interest-rate contracts:				
Financial Services:				
Other assets	**$ 132.2**		$ 82.7	
Deferred taxes and other liabilities		**$ 46.7**		$ 45.7
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**3.9**		1.2	
Accounts payable, accrued expenses and other		**.2**		1.9
Total	**$ 136.1**	**$ 46.9**	$ 83.9	$ 47.6
Economic hedges:				
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**$ .9**		$ 1.9	
Accounts payable, accrued expenses and other		**$ .3**		$ .9
Financial Services:				
Other assets	**.3**		3.4	
Deferred taxes and other liabilities		**1.0**		
Total	**$ 1.2**	**$ 1.3**	$ 5.3	$ .9
Gross amounts recognized in Balance Sheet	**$ 137.3**	**$ 48.2**	$ 89.2	$ 48.5
Less amounts not offset in financial instruments:				
Truck, Parts and Other:				
Foreign-exchange contracts	**(.4)**	**(.4)**	(.9)	(.9)
Financial Services:				
Interest-rate contracts	**(3.3)**	**(3.3)**	(3.9)	(3.9)
Foreign-exchange contracts	**(.2)**	**(.2)**		
Pro-forma net amount	**$ 133.4**	**$ 44.3**	$ 84.4	$ 43.7

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

Year Ended December 31,	**2015**	2014	2013
Interest-rate swaps	**$ (.9)**	$ .1	$ .7
Term notes	**.2**	(2.6)	(5.1)

Cash Flow Hedges: Substantially all of the Company's interest-rate contracts and some foreign-exchange contracts have been designated as cash flow hedges. Changes in the fair value of derivatives designated as cash flow hedges are recorded in AOCI to the extent such hedges are considered effective. Amounts in AOCI are reclassified into net income in the same period in which the hedged transaction affects earnings. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is 5.4 years. For the periods ended December 31, 2015, 2014 and 2013, the Company recognized gains on the ineffective portion of nil, nil and $.1, respectively.

The following table presents the pre-tax effects of derivative instruments recognized in other comprehensive (loss) income (OCI):

Year Ended December 31,	**2015**		2014		2013	
	INTEREST-RATE CONTRACTS	**FOREIGN-EXCHANGE CONTRACTS**	INTEREST-RATE CONTRACTS	FOREIGN-EXCHANGE CONTRACTS	INTEREST-RATE CONTRACTS	FOREIGN-EXCHANGE CONTRACTS
Gain (loss) recognized in OCI:						
Truck, Parts and Other		**$ 4.9**		$ 1.7		$ (1.2)
Financial Services	**$ 33.8**		$ 24.4		$ 54.4	
Total	**$ 33.8**	**$ 4.9**	$ 24.4	$ 1.7	$ 54.4	$ (1.2)

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

Year Ended December 31,	**2015**		2014		2013	
	INTEREST-RATE CONTRACTS	**FOREIGN-EXCHANGE CONTRACTS**	INTEREST-RATE CONTRACTS	FOREIGN-EXCHANGE CONTRACTS	INTEREST-RATE CONTRACTS	FOREIGN-EXCHANGE CONTRACTS
Truck, Parts and Other:						
Net sales and revenues		**$ (.1)**				
Cost of sales and revenues		**3.4**		$ .3		$ 1.0
Interest and other expense, net		**(4.1)**		(2.1)		(.6)
Financial Services:						
Interest and other borrowing expenses	**$ (28.5)**		$ (21.7)		$ (36.0)	
Total	**$ (28.5)**	**$ (.8)**	$ (21.7)	$ (1.8)	$ (36.0)	$ .4

The amount of loss recorded in AOCI at December 31, 2015 that is estimated to be reclassified into earnings in the following 12 months if interest rates and exchange rates remain unchanged is approximately $6.0, net of taxes. The fixed interest earned on finance receivables will offset the amount recognized in interest expense, resulting in a stable interest margin consistent with the Company's risk management strategy.

The amount of gains or losses reclassified out of AOCI into net income based on the probability that the original forecasted transactions would not occur was nil for the years ended December 31, 2015, 2014 and 2013.

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

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

Year Ended December 31,	**2015**		2014		2013	
	INTEREST-RATE CONTRACTS	**FOREIGN-EXCHANGE CONTRACTS**	INTEREST-RATE CONTRACTS	FOREIGN-EXCHANGE CONTRACTS	INTEREST-RATE CONTRACTS	FOREIGN-EXCHANGE CONTRACTS
Truck, Parts and Other:						
Cost of sales and revenues		**$ (.7)**		$ (5.3)		$ (1.3)
Interest and other expense, net		**3.0**		3.8		.3
Financial Services:						
Interest and other borrowing expenses		**(7.6)**		4.2	$ (1.5)	(9.6)
Selling, general and administrative		**(2.3)**		5.2		
Total		**$ (7.6)**		$ 7.9	$ (1.5)	$ (10.6)

P. FAIR VALUE MEASUREMENTS

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

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

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

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

There were no transfers of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy during the year ended December 31, 2015. The Company's policy is to recognize transfers between levels at the end of the reporting period.

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

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

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

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

Assets and Liabilities Subject to Recurring Fair Value Measurement

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

At December 31, 2015	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		**$ 505.4**	**$ 505.4**
U.S. corporate securities		**76.7**	**76.7**
U.S. government and agency securities	**$ 15.1**	**.6**	**15.7**
Non-U.S. corporate securities		**587.0**	**587.0**
Non-U.S. government securities		**193.7**	**193.7**
Other debt securities		**69.6**	**69.6**
Total marketable debt securities	**$ 15.1**	**$ 1,433.0**	**$ 1,448.1**
Derivatives			
Cross currency swaps		**$ 130.5**	**$ 130.5**
Interest-rate swaps		**1.7**	**1.7**
Foreign-exchange contracts		**5.1**	**5.1**
Total derivative assets		**$ 137.3**	**$ 137.3**
Liabilities:			
Derivatives			
Cross currency swaps		**$ 37.2**	**$ 37.2**
Interest-rate swaps		**9.5**	**9.5**
Foreign-exchange contracts		**1.5**	**1.5**
Total derivative liabilities		**$ 48.2**	**$ 48.2**

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

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

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

At December 31,	**2015**		2014	
	CARRYING AMOUNT	**FAIR VALUE**	CARRYING AMOUNT	FAIR VALUE
Assets:				
Financial Services fixed rate loans	**$ 3,660.6**	**$ 3,729.0**	$ 3,627.5	$ 3,683.3
Liabilities:				
Financial Services fixed rate debt	**4,167.9**	**4,192.2**	3,713.4	3,737.7

Q. STOCK COMPENSATION PLANS

PACCAR has certain plans under which officers and key employees may be granted options to purchase shares of the Company's authorized but unissued common stock under plans approved by stockholders. Non-employee directors and certain officers may be granted restricted shares of the Company's common stock under plans approved by stockholders. Options outstanding under these plans were granted with exercise prices equal to the fair market value of the Company's common stock at the date of grant. Options expire no later than ten years from the grant date and generally vest after three years. Restricted stock awards generally vest over three years or earlier upon meeting certain age and service requirements.

The Company recognizes compensation cost on these options and restricted stock awards on a straight-line basis over the requisite period the employee is required to render service. The maximum number of shares of the Company's common stock authorized for issuance under these plans is 46.7 million shares, and as of December 31, 2015, the maximum number of shares available for future grants was 15.5 million.

The estimated fair value of each option award is determined on the date of grant using the Black-Scholes-Merton option pricing model that uses assumptions noted in the following table. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on historical volatility. The dividend yield is based on an estimated future dividend yield using projected net income for the next five years, implied dividends and Company stock price. The expected term is based on the period of time that options granted are expected to be outstanding based on historical experience.

	2015	2014	2013
Risk-free interest rate	**1.35%**	1.51%	.88%
Expected volatility	**28%**	34%	44%
Expected dividend yield	**3.4%**	3.4%	3.3%
Expected term	**5 years**	5 years	5 years
Weighted average grant date fair value of options per share	**$ 10.98**	$ 13.17	$ 13.78

The fair value of options granted was $6.3, $8.6 and $11.2 for the years ended December 31, 2015, 2014 and 2013, respectively. The fair value of options vested during the years ended December 31, 2015, 2014 and 2013 was $9.5, $10.5 and $8.8, respectively.

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

	2015	2014	2013
Intrinsic value of options exercised	**$ 14.1**	$ 20.9	$ 19.6
Cash received from stock option exercises	**21.8**	29.1	31.0
Tax benefit related to stock award exercises	**3.5**	4.4	3.9
Stock based compensation	**14.6**	16.2	14.0
Tax benefit related to stock based compensation	**5.1**	5.6	4.9

The summary of options as of December 31, 2015 and changes during the year then ended are presented below:

	NUMBER OF SHARES	PER SHARE EXERCISE PRICE*	REMAINING CONTRACTUAL LIFE IN YEARS*	AGGREGATE INTRINSIC VALUE
Options outstanding at January 1	**4,536,700**	**$ 44.25**		
Granted	**569,500**	**62.46**		
Exercised	**(582,300)**	**37.50**		
Cancelled	**(102,300)**	**55.17**		
Options outstanding at December 31	**4,421,600**	**$ 47.23**	**5.69**	**$ 17.5**
Vested and expected to vest	**4,325,600**	**$ 46.93**	**5.63**	**$ 17.5**
Exercisable	**2,590,700**	**$ 41.14**	**4.04**	**$ 17.5**

* **Weighted Average**

The fair value of restricted shares is determined based upon the stock price on the date of grant. The summary of nonvested restricted shares as of December 31, 2015 and changes during the year then ended is presented below:

NONVESTED SHARES	NUMBER OF SHARES	GRANT DATE FAIR VALUE*
Nonvested awards outstanding at January 1	**185,700**	**$ 51.60**
Granted	**112,000**	**63.39**
Vested	**(115,800)**	**51.70**
Nonvested awards outstanding at December 31	**181,900**	**$ 58.79**

* **Weighted Average**

As of December 31, 2015, there was $5.9 of total unrecognized compensation cost related to nonvested stock options, which is recognized over a remaining weighted average vesting period of 1.47 years. Unrecognized compensation cost related to nonvested restricted stock awards of $1.4 is expected to be recognized over a remaining weighted average vesting period of 1.51 years.

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

Year Ended December 31,	**2015**	2014	2013
Additional shares	**906,100**	1,120,500	932,000
Antidilutive options	**1,180,400**	673,700	873,800

December 31, 2015, 2014 and 2013 (currencies in millions)

R. SEGMENT AND RELATED INFORMATION

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

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

Financial Services: The Financial Services segment derives its earnings primarily from financing or leasing of PACCAR products and services provided to truck customers and dealers. Revenues are primarily generated from operations in North America and Europe.

Other: Included in Other is the Company's industrial winch manufacturing business. Also within this category are other sales, income and expense not attributable to a reportable segment, including a portion of corporate expenses. Intercompany interest income on cash advances to the financial services companies is included in Other and was $.5, $.9 and $.7 for 2015, 2014 and 2013, respectively.

Geographic Area Data	**2015**	2014	2013
Net sales and revenues:			
United States	**$ 11,408.3**	$ 10,106.3	$ 8,147.6
Europe	**4,515.9**	4,835.7	4,967.2
Other	**3,190.9**	4,055.0	4,009.0
	$ 19,115.1	$ 18,997.0	$ 17,123.8
Property, plant and equipment, net:			
United States	**$ 1,140.5**	$ 1,132.0	$ 1,183.1
The Netherlands	**438.7**	517.4	620.0
Other	**597.2**	663.9	710.2
	$ 2,176.4	$ 2,313.3	$ 2,513.3
Equipment on operating leases, net:			
United States	**$ 1,287.9**	$ 1,226.6	$ 1,153.8
Mexico	**330.0**	346.9	361.6
Germany	**321.9**	347.0	404.1
United Kingdom	**321.3**	342.2	414.9
Other	**1,111.9**	977.8	994.0
	$ 3,373.0	$ 3,240.5	$ 3,328.4

December 31, 2015, 2014 and 2013 (currencies in millions)

Business Segment Data	**2015**	2014	2013
Net sales and revenues:			
Truck	**$ 15,568.6**	$ 15,330.4	$ 13,627.7
Less intersegment	**(786.1)**	(736.4)	(624.8)
External customers	**14,782.5**	14,594.0	13,002.9
Parts	**3,104.7**	3,125.9	2,868.3
Less intersegment	**(44.6)**	(48.4)	(46.1)
External customers	**3,060.1**	3,077.5	2,822.2
Other	**100.2**	121.3	123.8
	17,942.8	17,792.8	15,948.9
Financial Services	**1,172.3**	1,204.2	1,174.9
	$ 19,115.1	$ 18,997.0	$ 17,123.8
Income before income taxes:			
Truck	**$ 1,440.3**	$ 1,160.1	$ 936.7
Parts	**555.6**	496.7	416.0
Other	**(43.2)**	(31.9)	(26.5)
	1,952.7	1,624.9	1,326.2
Financial Services	**362.6**	370.4	340.2
Investment income	**21.8**	22.3	28.6
	$ 2,337.1	$ 2,017.6	$ 1,695.0
Depreciation and amortization:			
Truck	**$ 399.8**	$ 415.0	$ 352.9
Parts	**6.2**	5.9	5.3
Other	**14.9**	11.8	10.2
	420.9	432.7	368.4
Financial Services	**486.2**	485.0	442.3
	$ 907.1	$ 917.7	$ 810.7
Expenditures for long-lived assets:			
Truck	**$ 660.0**	$ 504.9	$ 812.9
Parts	**24.9**	9.9	6.8
Other	**17.7**	12.1	20.8
	702.6	526.9	840.5
Financial Services	**1,044.4**	935.3	931.2
	$ 1,747.0	$ 1,462.2	$ 1,771.7
Segment assets:			
Truck	**$ 4,472.3**	$ 4,871.1	$ 5,123.3
Parts	**793.3**	787.2	748.4
Other	**211.6**	106.1	298.5
Cash and marketable securities	**3,378.0**	2,937.1	2,925.2
	8,855.2	8,701.5	9,095.4
Financial Services	**12,254.6**	11,917.3	11,630.1
	$ 21,109.8	$ 20,618.8	$ 20,725.5

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of PACCAR Inc (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the Company's internal control over financial reporting as of December 31, 2015, based on criteria for effective internal control over financial reporting described in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2015.

Ernst & Young LLP, the Independent Registered Public Accounting Firm that audited the financial statements included in this Annual Report, has issued an attestation report on the Company's internal control over financial reporting. The attestation report is included on page 89.

Ronald E. Armstrong
Chief Executive Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS

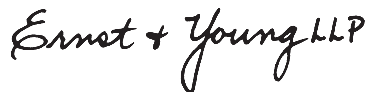
The Board of Directors and Stockholders of PACCAR Inc

We have audited the accompanying consolidated balance sheets of PACCAR Inc as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PACCAR Inc at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PACCAR Inc's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 16, 2016 expressed an unqualified opinion thereon.



Seattle, Washington
February 16, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE COMPANY'S INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders of PACCAR Inc

We have audited PACCAR Inc's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). PACCAR Inc's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PACCAR Inc maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PACCAR Inc as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015 and our report dated February 16, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP

Seattle, Washington
February 16, 2016

SELECTED FINANCIAL DATA

	2015	2014	2013	2012	2011
		(millions except per share data)			
Truck, Parts and Other Net Sales	**$ 17,942.8**	$ 17,792.8	$ 15,948.9	$ 15,951.7	$ 15,325.9
Financial Services Revenues	**1,172.3**	1,204.2	1,174.9	1,098.8	1,029.3
Total Revenues	**$ 19,115.1**	$ 18,997.0	$ 17,123.8	$ 17,050.5	$ 16,355.2
Net Income	**$ 1,604.0**	$ 1,358.8	$ 1,171.3	$ 1,111.6	$ 1,042.3
Net Income Per Share:					
Basic	**4.52**	3.83	3.31	3.13	2.87
Diluted	**4.51**	3.82	3.30	3.12	2.86
Cash Dividends Declared Per Share	**2.32**	1.86	1.70	1.58	1.30
Total Assets:					
Truck, Parts and Other	**8,855.2**	8,701.5	9,095.4	7,832.3	7,771.3
Financial Services	**12,254.6**	11,917.3	11,630.1	10,795.5	9,401.4
Truck, Parts and Other Long-Term Debt			150.0	150.0	150.0
Financial Services Debt	**8,591.5**	8,230.6	8,274.2	7,730.1	6,505.4
Stockholders' Equity	**6,940.4**	6,753.2	6,634.3	5,846.9	5,364.4
Ratio of Earnings to Fixed Charges	**21.65x**	16.14x	11.17x	10.69x	8.93x

COMMON STOCK MARKET PRICES AND DIVIDENDS

Common stock of the Company is traded on the NASDAQ Global Select Market under the symbol PCAR. The table below reflects the range of trading prices as reported by The NASDAQ Stock Market LLC and cash dividends declared. There were 1,713 record holders of the common stock at December 31, 2015.

	2015			2014		
	DIVIDENDS DECLARED	**STOCK PRICE HIGH**	**STOCK PRICE LOW**	DIVIDENDS DECLARED	STOCK PRICE HIGH	STOCK PRICE LOW
QUARTER						
First	**$ .22**	**$68.87**	**$59.33**	$ .20	$68.81	$53.59
Second	**.22**	**68.44**	**60.50**	.22	68.38	60.21
Third	**.24**	**66.43**	**51.51**	.22	67.64	56.61
Fourth	**.24**	**56.05**	**45.04**	.22	71.15	55.34
Year-End Extra	**1.40**			1.00		

The Company expects to continue paying regular cash dividends, although there is no assurance as to future dividends because they are dependent upon future earnings, capital requirements and financial conditions.

QUARTERLY RESULTS (UNAUDITED)

	QUARTER			
	FIRST	SECOND	THIRD	FOURTH
	(millions except per share data)			
2015				
Truck, Parts and Other:				
Net sales and revenues	**$ 4,548.0**	**$ 4,786.1**	**$ 4,546.2**	**$ 4,062.5**
Cost of sales and revenues	**3,910.2**	**4,061.2**	**3,851.3**	**3,469.4**
Research and development	**56.2**	**59.3**	**57.6**	**66.7**
Financial Services:				
Revenues	**284.7**	**293.8**	**301.0**	**292.8**
Interest and other borrowing expenses	**29.1**	**29.6**	**29.2**	**30.1**
Depreciation and other expenses	**140.4**	**145.9**	**152.5**	**144.9**
Net Income	**378.4**	**447.2**	**431.2**	**347.2**
Net Income Per Share:				
Basic	**$ 1.07**	**$ 1.26**	**$ 1.21**	**$ .98**
Diluted	**1.06**	**1.26**	**1.21**	**.98**
2014				
Truck, Parts and Other:				
Net sales and revenues	$ 4,086.2	$ 4,267.0	$ 4,622.5	$ 4,817.1
Cost of sales and revenues	3,595.5	3,719.4	4,006.3	4,160.4
Research and development	52.7	49.9	50.5	62.5
Financial Services:				
Revenues	293.7	302.6	305.9	302.0
Interest and other borrowing expenses	36.6	33.7	32.6	30.8
Depreciation and other expenses	144.3	148.4	147.3	148.5
Net Income	273.9	319.2	371.4	394.3
Net Income Per Share:				
Basic	$ .77	$ .90	$ 1.05	$ 1.11
Diluted	.77	.90	1.04	1.11

(currencies in millions)

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

Fair Value Gains (Losses)	**2015**	2014
CONSOLIDATED:		
Assets		
Cash equivalents and marketable debt securities	**$ (21.7)**	$ (18.0)
FINANCIAL SERVICES:		
Assets		
Fixed rate loans	**(71.3)**	(69.7)
Liabilities		
Fixed rate term debt	**79.0**	66.0
Interest-rate swaps	**19.3**	36.8
Total	**$ 5.3**	$ 15.1

Currency Risks - The Company enters into foreign currency exchange contracts to hedge its exposure to exchange rate fluctuations of foreign currencies, particularly the Canadian dollar, the euro, the British pound, the Australian dollar, the Brazilian real and the Mexican peso *(see Note O for additional information concerning these hedges)*. Based on the Company's sensitivity analysis, the potential loss in fair value for such financial instruments from a 10% unfavorable change in quoted foreign currency exchange rates would be a loss of $30.4 related to contracts outstanding at December 31, 2015, compared to a loss of $36.2 at December 31, 2014. These amounts would be largely offset by changes in the values of the underlying hedged exposures.

OFFICERS AND DIRECTORS

OFFICERS

Mark C. Pigott
Executive Chairman

Ronald E. Armstrong
Chief Executive Officer

Robert J. Christensen
President and
Chief Financial Officer

Gary L. Moore
Executive Vice President

Daniel D. Sobic (Retired 1/4/2016)
Executive Vice President

Michael T. Barkley
Senior Vice President and Controller

Robert A. Bengston
Senior Vice President

T. Kyle Quinn
Senior Vice President

David C. Anderson
Vice President and
General Counsel

Jack K. LeVier
Vice President

Marco A. Davila
Vice President

Harrie C.A.M. Schippers
Vice President

David J. Danforth
Vice President

R. Preston Feight
Vice President

Todd R. Hubbard
Vice President

William D. Jackson
Vice President

Elias B. Langholt
Vice President

Helene N. Mawyer
Vice President

Darrin C. Siver
Vice President

George E. West, Jr.
Vice President

Landon J. Sproull
Assistant Vice President

Ulrich Kammholz
Treasurer

Michael K. Walton
Secretary

DIRECTORS

Mark C. Pigott
Executive Chairman
PACCAR Inc (3)

Ronald E. Armstrong
Chief Executive Officer
PACCAR Inc

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

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

Kirk S. Hachigian
Chairman
JELD-WEN, inc. (2)

Luiz Kaufmann
Partner
L. Kaufmann Consultants (1)

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

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

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

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

Charles R. Williamson (Lead Director)
Former Chairman
Weyerhaeuser Company and
Former Chairman
Talisman Energy Inc. (3, 4)

COMMITTEES OF THE BOARD

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

TRUCKS

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

Factories:
Chillicothe, Ohio
Renton, Washington

Peterbilt Motors Company
Division Headquarters:
1700 Woodbrook Street
Denton, Texas 76205

Factory:
Denton, Texas

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

Factory:
Ste.-Thérèse, Quebec, Canada

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

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

DAF Caminhões Brasil Indústria Ltda.
Avenida Senador Flávio
Carvalho Guimarães, 6000
Bairro Boa Vista
CEP 84072-190
Ponta Grossa PR
Brasil

Factory:
Cidade de Ponta Grossa, Brasil

DAF Trucks N.V.
Hugo van der Goeslaan 1
P.O. Box 90065
5600 PT Eindhoven
The Netherlands

Factories:
Eindhoven, The Netherlands
Westerlo, Belgium

Leyland Trucks Ltd.
Croston Road
Leyland, Preston
Lancashire PR26 6LZ
United Kingdom

Factory:
Leyland, Lancashire, United Kingdom

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

Factory:
Mexicali, Baja California
Mexico

PACCAR Australia Pty. Ltd. Kenworth Trucks
Division Headquarters:
64 Canterbury Road
Bayswater, Victoria 3153
Australia

Factory:
Bayswater, Victoria, Australia

TRUCK PARTS AND SUPPLIES

PACCAR Engine Company
1000 PACCAR Drive
Columbus, Mississippi 39701

Factory:
Columbus, Mississippi

PACCAR Parts
Division Headquarters:
750 Houser Way N.
Renton, Washington 98057

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

Factories:
Algona, Washington
Louisville, Kentucky

WINCHES

PACCAR Winch Division
Division Headquarters:
800 E. Dallas Street
Broken Arrow, Oklahoma
74012

Factories:
Broken Arrow, Oklahoma
Okmulgee, Oklahoma

PRODUCT TESTING, RESEARCH AND DEVELOPMENT

PACCAR Technical Center
Division Headquarters:
12479 Farm to Market Road
Mount Vernon, Washington
98273

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

PACCAR FINANCIAL SERVICES GROUP

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

PACCAR Financial Europe B.V.
Hugo van der Goeslaan 1
P.O. Box 90065
5600 PT Eindhoven
The Netherlands

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

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

PACCAR Financial Services Ltd.
Markborough Place I
6711 Mississauga Road N.
Mississauga, Ontario
L5N 4J8 Canada

PACCAR Financial Pty. Ltd.
64 Canterbury Road
Bayswater, Victoria 3153
Australia

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

PACCAR GLOBAL SALES

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

Offices:
Beijing, People's Republic of China
Shanghai, People's Republic of China
Jakarta, Indonesia
Manama, Bahrain
Moscow, Russia
Pune, India

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

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

Telephone
425.468.7400

Facsimile
425.468.8216

Website
www.paccar.com

Stock Transfer and Dividend Dispersing Agent
Wells Fargo Bank
Minnesota, N.A.
Shareowner Services
P.O. Box 64854
St. Paul, Minnesota
55164-0854
800.468.9716
www.shareowneronline.com

PACCAR's transfer agent maintains the company's shareholder records, issues stock certificates and distributes dividends and IRS Forms 1099. Requests concerning these matters should be directed to Wells Fargo.

Online Delivery of Annual Report and Proxy Statement
PACCAR's 2015 Annual Report and the 2016 Proxy Statement are available on PACCAR's website at www.paccar.com/2016annualmeeting

Stockholders who hold PACCAR stock in street name may inquire of their bank or broker about the availability of electronic delivery of annual meeting documents.

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Independent Auditors
Ernst & Young LLP
Seattle, Washington

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

Annual Stockholders' Meeting
April 26, 2016, 10:30 a.m.
Meydenbauer Center
11100 N.E. 6th Street,
Bellevue, Washington
98004

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