2018 ANNUAL REPORT

STATEMENT OF COMPANY BUSINESS

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

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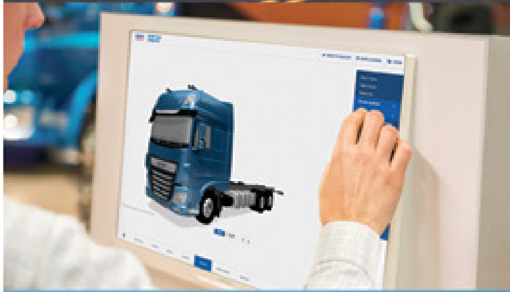
FINANCIAL HIGHLIGHTS

	2018	2017
	(millions, except per share data)	
Truck, Parts and Other Net Sales and Revenues	**$ 22,138.6**	$ 18,187.5
Financial Services Revenues	**1,357.1**	1,268.9
Total Revenues	**23,495.7**	19,456.4
Net Income	**2,195.1**	1,675.2
*Adjusted Net Income**		1,501.8
Total Assets:		
Truck, Parts and Other	**11,082.8**	10,237.9
Financial Services	**14,399.6**	13,202.3
Financial Services Debt	**9,950.5**	8,879.4
Stockholders' Equity	**8,592.9**	8,050.5
Per Common Share:		
Net Income:		
Basic	**$ 6.25**	$ 4.76
Diluted	**6.24**	4.75
Adjusted Diluted*		4.26
Cash Dividends Declared Per Share	**3.09**	2.19

* See Reconciliation of GAAP to Non-GAAP Financial Measures for 2017 on pages 46-47 and see Note L on page 73.



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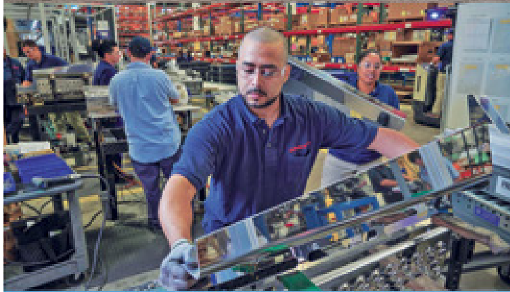


DAF

DAF

PACCAR is celebrating 113 years of success and delivered record revenues and record profits to its shareholders in 2018 — the best year in company history. This is also the 80th consecutive year of earning a net profit — a remarkable achievement. This major milestone was achieved by 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 for decades by focusing on the premium quality segment of its industry — an impressive record considering the cyclicality of the capital goods business. PACCAR is one of the leading technology companies worldwide, and innovation is a cornerstone of its success, as exemplified by the PACCAR Innovation Center in Silicon Valley and the array of alternative fuel and other vehicles launched last year, including hybrid, electric and autonomous. PACCAR continues to integrate new technology into its daily operations, including sophisticated engine machining centers, "big data" analysis for customer support, increased automated guided vehicles (AGVs) and robotics in truck manufacturing, enhanced algorithms in parts distribution and mobile apps for our financial services and leasing customers.

PACCAR's excellent year in 2018 is due to many positive factors including excellent Kenworth and Peterbilt market share in North America and DAF's record performance in the European truck market. Customers renewed their fleets to take advantage of the reliability and operating efficiency of new DAF, Kenworth, and Peterbilt trucks and to meet increasing freight demand. Record aftermarket parts results reflect new sales initiatives and a growing population of PACCAR vehicles and powertrain components. PACCAR Financial Services, including PacLease, had a very good year. PACCAR benefits from its global diversification, industry leading independent dealer organizations and increased investments in all segments of the business. The company has realized excellent synergies globally in product development, finance activities, purchasing and manufacturing.

The tax legislation in the United States generated positive results for PACCAR and many of its employees. Our shareholders have enjoyed good returns, with annual regular dividend growth of 11% in the last twenty years and the $2 per share extra dividend paid in early 2019.

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.

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 as a global technology company and deliver excellent results to our shareholders.

Mark Pigott

MARK C. PIGOTT
Executive Chairman
February 21, 2019

PACCAR had an outstanding year in 2018, generating record revenues and profits as well as industry-leading operating margins. Revenues climbed to $23.5 billion and net income was $2.2 billion; delivering an after-tax return on revenue of 9.3%. The company has earned annual net income for 80 consecutive years.

PACCAR's financial results reflect the company's premium-quality products and services, strong global truck markets, record 16+ tonne truck market share of 16.6% in Europe and record global medium-duty truck deliveries, complemented by record aftermarket parts sales and good financial services results worldwide. The excellent results reflect the capabilities and efforts of PACCAR's 28,000 outstanding employees who delivered industry-leading product quality, innovative ideas and outstanding operating efficiency. PACCAR delivered a record 189,100 trucks to its customers, and sold a record $3.84 billion of aftermarket parts. PACCAR's excellent credit ratings of A+/A1 supported PACCAR Financial Services' record new loans and leases of $5.23 billion. Year-end stockholders' equity was a record $8.59 billion.

Class 8 truck industry retail sales in North America, including Mexico, were 311,000 vehicles in 2018 compared to 244,000 the prior year. The European 16+ tonne market in 2018 increased to 319,000 vehicles compared to 306,000 in 2017. PACCAR customers 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 strong financial performance in 2018 benefited from PACCAR Parts' record pre-tax profits of $768.6 million and PACCAR Financial Services' 17% improvement in pre-tax profits to $305.9 million. After-tax return on beginning stockholders' equity (ROE) was an industry-leading 27.3% in 2018. PACCAR's financial performance has enabled the company to declare $6 billion in dividends during the last ten years, which is over 50% of the net income generated during that same period. PACCAR's average annual total stockholder return over the last fifteen years was 9.1% versus 7.8% 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 $6.1 billion in the last decade in world-class facilities, innovative products and new technologies.

In 2018, capital investments were $437.1 million and research and development expenses were $306.1 million. PACCAR expanded its vehicle product range, invested in truck and powertrain technologies that increased vehicle fuel efficiency and reliability, and enhanced its manufacturing and parts distribution facilities. The DAF CF and XF, which earned the "*International Truck of the Year 2018*" award, the new Kenworth W990, the Peterbilt Model 579 Ultraloft, and the expansion of PACCAR Powertrain options provide customers transportation solutions that deliver the lowest total cost of operation. PACCAR's engine factories produced a record number of PACCAR MX-13 and MX-11 engines in 2018, and the company invested in additional engine manufacturing capacity. Kenworth and Peterbilt have installed over 190,000 PACCAR engines since the Mississippi engine factory began production in 2010. Kenworth and Peterbilt are partnering with the Department of Energy's Super Truck II program to achieve a 100% improvement in freight efficiency. PACCAR investments in truck manufacturing capacity include Kenworth and Peterbilt investments in additional robotic cab assembly capabilities to support the growing demand for their latest aerodynamic truck models and the construction of a new Dynacraft facility in McKinney, Texas to support Peterbilt Denton. PACCAR is also investing in the development of zero emission electric, hybrid and hydrogen fuel cell powertrains.

DAF introduced the CF and LF electric trucks and the XF and CF hybrid trucks in 2018; Peterbilt developed the Model 579, Model 520 and Model 220 electric trucks; and Kenworth unveiled a T680 hybrid truck and two T680 hydrogen fuel cell models. The alternative powertrain products are in field trials with customers in regional distribution,

refuse, urban delivery and port applications. While we are preparing for the long term by making investments in alternative powertrain technologies, diesel is expected to remain the most efficient and cost effective powertrain technology in heavy truck applications for the forseeable future.

The PACCAR Technical Center in Pune, India provides support to PACCAR's global product and technology initiatives. In China, PACCAR expanded its purchasing activities and continued to examine opportunities to increase participation in the world's largest truck market.

CONTINUOUS IMPROVEMENT — Six Sigma and lean process development are integrated into all business activities at PACCAR and have been adopted at hundreds 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. Six Sigma and other product and process enhancement capabilities are improved by using advanced data analytics and artificial intelligence tools. Thousands of PACCAR employees have been trained in Six Sigma and have implemented almost 50,000 projects. Since 1997, PACCAR has delivered billions of dollars in Six Sigma savings in all facets of the company.

INFORMATION TECHNOLOGY — PACCAR's Information Technology Division (ITD) and its 900 innovative employees are an important competitive asset for the company. ITD collaborates closely with all company businesses to develop and integrate software and hardware that enhances the quality and efficiency of all products and operations throughout the company. ITD's leadership role is integral to the ongoing development of DAF *Connect*, Peterbilt *SmartLINQ*, and Kenworth *TruckTech+* innovative truck connectivity solutions. The ITD team works closely with the truck divisions and suppliers to accelerate adoption of advanced driver assistance systems (ADAS) in PACCAR vehicles globally. DAF, Peterbilt and Kenworth are leaders in implementing autonomous driving technologies and demonstrating new technologies such as truck platooning. DAF's new 3D Truck Sales Configurator was awarded the *"Computable Award 2018"* by Computable Magazine in the Netherlands.

TRUCKS — U.S. and Canadian Class 8 truck industry retail sales in 2018 were 285,000 units and the Mexican market totaled 26,000 units. The European Union (EU) industry 16+ tonne truck registrations were 319,000 units. The North American and European 2018 truck markets were the best in the last decade.

PACCAR's Class 8 retail sales in the U.S. and Canada achieved the second highest market share in its history at 29.4% in 2018, compared to 30.7% in 2017. DAF achieved record market share of 16.6% in the 16+ tonne truck market in Europe in 2018 compared to 15.3% the prior year. Industry Class 6 and 7 truck registrations in the U.S. and Canada were 98,000 units, up 20% from the previous year. In the EU, the 6 to 16-tonne market was 52,000 units. PACCAR's market share in the U.S. and Canada medium-duty truck segment was a record 17.7%. DAF's share of the medium-duty truck market in Europe was 9%. PACCAR delivered a record 31,500 medium-duty trucks to its customers in 2018.

A tremendous team effort by the company's sales, engineering, purchasing, materials, production and customer service employees contributed to record truck production and industry-leading truck, parts and other gross margins above 14% for the fourth consecutive year. A combination of new technology, process improvements, applied data analytics and collaboration with suppliers enabled PACCAR facilities to establish records for factory and distribution center efficiency.

PACCAR's product innovation and manufacturing expertise continued to be recognized as the industry leader in 2018. The PACCAR engine factory in Columbus, Mississippi, the PACCAR truck factory in Ste-Thérèse, Canada and

Peterbilt's truck factory in Denton, Texas earned Frost and Sullivan's *"Manufacturing Leadership"* awards. The DAF LF was awarded *"Commercial Fleet Truck of the Year"* in the U.K. and Peterbilt and Kenworth were recognized as a *"Top Place for Women to Work"* by the Women in Trucking organization.

PACCAR Mexico continued its strong sales performance, achieving a 34.7% Class 8 market share. PACCAR Mexico also expanded truck manufacturing capacity for the T680 and T880 models equipped with PACCAR MX engines.

PACCAR Australia achieved record results in 2018 with combined Kenworth and DAF heavy-duty market share of 24%. PacLease Australia continued to expand its operations as the factory began local assembly of the DAF CF85. Kenworth launched new configurations of the T610 model which combines state-of-the-art aerodynamics, a 12-inch wider cab and a luxurious interior to solidify Kenworth's position as the market leader. PACCAR Australia was honored as the *"Large Employer of the Year"* by the Australian Federal Government.

DAF Brasil increased truck production and market share in 2018 and was honored by Fenabrave, the Brasil national truck dealer association, as the most desired truck brand in Brasil for the third consecutive year.

PACCAR PARTS — PACCAR Parts increased revenues by 15% to $3.84 billion and achieved record pre-tax profits as dealers and customers accelerated adoption of innovative e-commerce platforms and global fleet service programs offering national pricing and centralized billing. PACCAR Parts is the primary source for aftermarket parts and services for PACCAR vehicles, and supplies its "TRP" branded parts for all makes of trucks, trailers and buses. PACCAR dealers expanded TRP aftermarket parts retail stores to 170 locations in 36 countries. Over seven 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 opened a new 160,000 square-foot distribution center in Toronto, Canada in 2018 and will begin projects this year to expand warehouse capacity in Las Vegas, Nevada; Louisville, Kentucky and Ponta Grossa, Brasil.

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 increase pre-tax profits by 17% to $305.9 million in 2018. PACCAR issued $2.21 billion in medium-term notes at attractive rates during the year. PFS has operations covering 24 countries on four continents. The global breadth of PFS and its rigorous credit application process support a record portfolio of 198,000 trucks and trailers, with record total assets of $14.4 billion. PACCAR Financial and PACCAR Leasing are the preferred funding sources for DAF, Peterbilt and Kenworth trucks, financing 23.9% of dealer new truck sales in the markets where PFS operated in 2018. Strategically located used truck centers, interactive webcasts and targeted marketing enabled PFS to sell 14,800 used trucks worldwide.

PACCAR Leasing (PacLease) is one of the largest full-service truck rental and leasing operations in North America, Germany and Australia. PacLease placed 6,800 new PACCAR vehicles in service, an 11% increase over 2017. The PacLease fleet totaled 39,000 vehicles at the end of 2018.

ENVIRONMENTAL LEADERSHIP — PACCAR is a global environmental leader. Many of PACCAR's manufacturing facilities have earned ISO 14001 environmental certification. The company's manufacturing facilities enhanced their "Zero Waste to Landfill" programs during the year. Kenworth Chillicothe was recognized by the Ohio Environmental Protection Agency with its *Gold Level* award for exceptional achievements in environmental stewardship. PACCAR is a member of the environmental reporting firm CDP, which evaluates and scores companies on how effectively they are

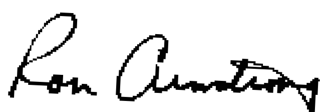
addressing climate change and the environment. PACCAR earned an excellent score of A, placing it in the top 2% of the over 6,000 reporting companies from around the world.

A LOOK AHEAD — PACCAR's 28,000 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 2019 is excellent in North America as the economy is expected to grow 2-3%. The European economy is expected to grow 1-2%.

The North American truck market in 2019 could grow as much as 10%, and the European truck market is forecast to be strong again in 2019 as anticipated economic growth supports heavy-duty truck demand. Current estimates for the 2019 Class 8 truck industry in the U.S. and Canada range from 285,000-315,000 units. Registrations for Class 6-7 trucks are expected to be between 90,000-110,000 vehicles. The European 16+ tonne truck market in 2019 is estimated to be in the range of 290,000-320,000 trucks, and demand for medium-duty trucks is expected to range from 50,000-55,000 units.

PACCAR Parts' industry-leading services and strong freight demand in North America and Europe should provide increased parts deliveries in the company's aftermarket parts business. The PACCAR Financial portfolio is expected to continue to perform well due to growing 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, as well as accelerated investments in advanced powertrains, advanced driver assistance systems, truck connectivity and powerful data analytics applications using artificial intelligence and machine learning provide an excellent foundation for future growth. PACCAR is well positioned and committed to generating outstanding results for its shareholders.



RONALD E. ARMSTRONG
Chief Executive Officer
February 21, 2019

PACCAR Executive Operating Committee
First Row Left to Right: Lily Ley, Darrin Siver, Jack LeVier, David Danforth, Marco Davila, Douglas Grandstaff;
Middle Row Left to Right: Mike Dozier, Harry Wolters, Michael Barkley, Harrie Schippers, Bob Bengston;
Back Row Left to Right: Gary Moore, Ron Armstrong, Preston Feight, Kyle Quinn, Jason Skoog

Peterbilt

Peterbilt launched its Model 579 UltraLoft 80-inch integral sleeper in 2018, and achieved a record nine percent medium duty market share. The Peterbilt Denton factory produced a record 40,600 trucks in 2018 including the milestone 1,000,000th Peterbilt.

Peterbilt launched the UltraLoft, an 80-inch integral sleeper version of its Model 579 with the PACCAR Powertrain, which includes the PACCAR MX-13 engine, PACCAR 12-speed Automated Transmission and PACCAR 40,000 pound tandem rear axles. The new truck offers enhanced features such as a double bunk configuration, increased headroom and storage space, exceptional driver comfort and low total cost of ownership. The Model 579 integral sleeper offers improved aerodynamic efficiency and 250 pound weight savings.

The Peterbilt Model 579 has integrated camera and radar-based driver assistance systems that feature automatic emergency braking, lane departure warning and adaptive cruise control. The Peterbilt *SmartNav* dash display added fleet management and electronic driver log functionality, which increases driver productivity.

Peterbilt achieved record medium-duty market share of nine percent and record market share of 19.3 percent in the Class 8 vocational segment. The Peterbilt Model 520 achieved record market share of 34.2 percent in the low-cab-forward segment complemented by the light-weight and fuel-efficient PACCAR MX-11 engine.

Peterbilt enhanced its *SmartLINQ* Remote Diagnostics system with machine learning technology that delivers advanced vehicle diagnostics. The Peterbilt dealer network implemented the PACCAR Solutions Service Management platform, enabling customers to receive real-time access to service data benefiting customer uptime and productivity.

The Peterbilt Denton factory achieved record production, including the 1,000,000th Peterbilt. The factory installed a new robotic cab and sleeper build cell and additional automated guided vehicles (AGVs). Peterbilt earned a "*Supply Chain Leadership*" award from Frost and Sullivan's Manufacturing Leadership Council.

Peterbilt was recognized as a "*Top Place for Women to Work*" by Women in Trucking, a testament to the company's commitment to a diverse workforce. The company's Peterbilt Technician Institute (PTI) celebrated the graduation of its 50th class, which has placed over 550 certified dealer technicians into the Peterbilt network.

The Peterbilt dealer network invested $63.5 million in new facilities and added 17 dealership locations, expanding its North American dealer network to a record 384 sales and service locations.

The Peterbilt Model 579 Ultraloft provides customers with low total cost of ownership which makes Peterbilt the "Class" of the industry. The advanced PACCAR Powertrain delivers industry leading performance and efficiency in on-highway applications.

Kenworth celebrated its 95th anniversary in 2018 and achieved heavy-duty market share of 15 percent, as well as vehicle production records. Kenworth introduced its zero emissions hydrogen fuel cell powered T680 targeting regional transport applications.

Kenworth "The World's Best" T680 was enhanced by the introduction of the PACCAR Powertrain, consisting of the PACCAR MX-13 engine, PACCAR 12-speed automated transmission and PACCAR 40,000 pound tandem rear axles. Kenworth's predictive cruise control technologies, in combination with the PACCAR Powertrain, enhance fuel economy by more than two percent through a combination of GPS mapping and algorithms that anticipate terrain changes.

The Kenworth on-highway T680 and vocational T880 electrical system architecture was enhanced tenfold in processing power to support advanced driver assistance systems (ADAS) such as automated emergency braking, adaptive cruise control and lane keeping.

Kenworth introduced the iconic W990 conventional, which offers classic styling and an optimized powertrain. The W990 offers the Limited Edition cab and sleeper with leather upholstery, unique embroidery and wood trim.

The Kenworth T880 product line added the T880S Twin Steer for ready-mix and other vocational applications. The front axles, rated at 40,000 pounds, provide up to a 30 percent increase in payload capacity over a single axle.

Kenworth advanced technology development continued in the areas of hydrogen fuel cell and hybrid powertrain research to deliver zero emissions transport performance. Kenworth's partnership with the Department of Energy's Super Truck II program is focused on delivering a 100 percent increase in tons transported per gallon of fuel by leveraging advancements in aerodynamic, powertrain and weight reduction technologies.

Kenworth Chillicothe delivered a record 39,800 heavy-duty trucks and was honored by the Ohio Environmental Protection Agency as a *Gold Level* organization for its commitment to environmental regulatory compliance. The Kenworth Renton plant celebrated 25 years of building "The World's Best" trucks, and has produced more than 145,000 Kenworth trucks since it opened in 1993. Kenworth's Renton plant earned the King County *Gold Award* for exemplary wastewater discharge practices for the fourth consecutive year. The PACCAR Ste-Thérèse plant delivered a record 17,500 medium duty trucks and earned a "*Manufacturing Leadership*" award in Engineering & Production Technology from Frost & Sullivan's Manufacturing Leadership Council. It also received the prestigious ISO 14001:2015 certification for its environmental management systems.

The Kenworth dealer network invested $140 million in world-class facilities, growing the network to a record 411 sales and service locations in the United States and Canada.

The new Kenworth W990 is designed to maximize performance in the most demanding over-the-road and vocational applications. The W990 combines classic styling with advanced vehicle and powertrain technologies to deliver outstanding performance, driver comfort and low cost of ownership. The W990 comes standard with the PACCAR Powertrain, including the PACCAR MX-13 engine, PACCAR 12-speed automated transmission and PACCAR 40,000 pound tandem drive axle.

CF
ELECTRIC
ELECTRIC
DAF
CF
VDL
e-power

DAF Trucks N.V. celebrated 90 years of heritage and achieved record European market share of 16.6 percent. DAF introduced alternative powertrain vehicles with its LF Electric, CF Electric and CF Hybrid Innovation vehicles.

DAF celebrated its 90th anniversary and enhanced its reputation as the industry leader in truck and powertrain design, manufacturing, sales and customer support. DAF's record European market share in the 16+ tonne segment increased to 16.6 percent with market leadership in the United Kingdom, the Netherlands, Belgium, Poland, the Czech Republic, Hungary and Bulgaria. DAF is the European leader in tractors and the leading truck import brand in Germany.

DAF introduced its state-of-the-art LF Electric, CF Electric and CF Hybrid Innovation trucks at the 2018 international truck show in Hannover, Germany. These trucks reinforced DAF's Environmental leadership and will improve local air quality in cities and reduce CO_2 emissions.

The DAF CF and XF were voted "*International Truck of the Year 2018*" by a jury of leading transportation journalists from 23 European countries, and were also honored as the "*Truck of the Year*" in Poland, Slovenia, Slovakia and Northern Ireland. The DAF LF was honored as the "*Truck of the Year*" at the 2018 Commercial Fleet awards in the United Kingdom. DAF's advanced 3D Truck Configurator, which allows customers to easily configure online the optimal truck for their application, won the prestigious "*Computable Award 2018*" and was named Digital Innovation of the Year.

DAF sold 8,400 trucks outside the EU in 2018. DAF successfully launched its new generation of Euro 6 trucks in Taiwan, continuing its market leadership with 35 percent market share among European manufacturers. DAF sold over 3,500 PACCAR engines to leading bus, coach and vocational vehicle manufacturers world-wide.

DAF made significant investments in its world-class production facilities, including the construction of a PACCAR MX-11 engine machining line, the installation of a 2,500 ton sheet metal press at the Eindhoven, the Netherlands factory and an integrated welding line for axle bodies in Westerlo, Belgium.

DAF's independent dealer network opened 49 new locations, expanding its worldwide network to over 1,100 locations. New dealerships opened in Europe, South America and Africa.

PACCAR Parts' TRP all-makes aftermarket parts program consists of 125,000 truck, bus and trailer parts and is supported by DAF's worldwide dealer network. DAF dealers opened 21 new TRP parts and service locations in Europe, Asia, South America and New Zealand, bringing the total to 80 TRP stores.

DAF's environmental leadership is demonstrated by the advanced CF Electric Innovation truck. Based on the *"International Truck of the Year 2018,"* the electric distribution vehicle has been developed to champion the needs for improving local air quality in cities, as well as reducing CO_2 emissions.

PACCAR Australia achieved record production of Kenworth and DAF trucks in 2018. PACCAR has delivered more than 65,000 Kenworth and DAF vehicles operating in one of the world's most demanding environments.

PACCAR Australia enhanced its market leadership in 2018 as Kenworth achieved 20.5 percent market share and DAF achieved 3.4 percent market share. Kenworth and DAF achieved record deliveries. Kenworth launched new configurations of the Kenworth T610 with state-of-the-art aerodynamics, a luxurious interior and industry-leading ergonomics. PACCAR Australia was honored as the *"Large Employer of the Year"* by the Australian Federal Government.

PACCAR Australia's Bayswater factory began local assembly of the DAF CF 85 and introduced Electronically Controlled Air Suspension (ECAS) with electronic load management in the XF and CF models.

PacLease Australia added five new franchise locations and offers Kenworth and DAF customers rental, full-service lease, and contract maintenance programs in all Australian capital cities. PACCAR Parts Australia achieved record sales in 2018. TRP all-makes truck and trailer parts and the PACCAR Parts Fleet Services program contributed to the excellent year. PACCAR Parts opened a distribution center in Brisbane in 2018. PACCAR Australia's 58 dealer locations support its customers with exceptional service.

The DAF CF is being assembled at PACCAR's Bayswater factory and provides customers with low operational costs and best-in-class performance.

PACCAR Mexico (KENMEX) achieved a 34.7 percent share of the Class 8 Market in Mexico, and increased production by 30 percent, to over 17,000 vehicles.

PACCAR Mexico produces a broad range of Kenworth and Peterbilt Class 5-8 vehicles for NAFTA and Central and South America in its state-of-the-art 590,000 square-foot production facilities in Mexicali, Mexico. KENMEX has manufactured over 290,000 vehicles since its founding in 1959.

KENMEX Class 8 market share reached 34.7 percent and KENMEX achieved record sales for T880 units and the Peterbilt Model 520. KENMEX has installed 4,800 PACCAR MX engines since the engine's launch in Mexico in 2017.

PACCAR Parts Mexico achieved excellent results and increased the number of TRP stores to 20 with the opening of four new locations. PACCAR Financial Mexico and PacLease Mexicana financed over 50 percent of Kenworth truck retail sales in Mexico.

In the last four years, PACCAR dealers in Mexico, Central and South America have invested over $93 million in their 232 service locations. PACCAR Parts Distribution Centers (PDCs) are located in San Luis Potosi, Mexico, Panama City, Panama, and Ponta Grossa, Brasil to provide service to Mexican and South American customers.

In 2019, KENMEX is celebrating its 60th Anniversary manufacturing Kenworth trucks, such as the Kenworth T880. This picture shows the first Kenworth trucks produced in Mexico in 1959.

Leyland Trucks, the United Kingdom's leading truck manufacturer, celebrated 20 years as a PACCAR company and delivered 19,300 DAF vehicles to customers in Europe, Asia, Australia, the Middle East, Russia and the Americas.

Leyland Trucks celebrated its 20-year anniversary as a PACCAR company in 2018, and enhanced its reputation as one of the UK's leading automotive manufacturing companies. Leyland's highly efficient 710,000 square-foot manufacturing facility features a technologically advanced production system which incorporates a robotic chassis paint system and delivers engineering designs and assembly instructions electronically. Leyland builds the full DAF product range of LF, CF and XF models for right- and left-hand drive markets.

Leyland has produced over 175,000 DAF LF distribution vehicles since the launch of the popular model in 2001. In 2018, DAF unveiled the LF 19 tonne fully electric zero emissions city distribution truck. The DAF LF was named *"Truck of the Year"* at the Commercial Fleet UK Awards 2018.

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 2018, PACCAR expanded its business in ASEAN and the Andean region of South America.

DAF Brasil celebrated five years of operation and achieved a record 6.7 percent market share in the Brasilian heavy duty 40+ tonne segment. Fenabrave, the Brasilian truck industry dealer association, honored DAF Brasil with the "*Truck Brand of the Year*" award for the third consecutive year. DAF's 33 service locations in Brasil have invested over $55 million in their facilities. DAF and Kenworth sold over 1,200 vehicles to the Andean region.

DAF's market leadership continued in Taiwan with the launch of the new generation of DAF Euro 6 trucks. Market share grew in Israel, and DAF achieved record sales in Belarus and Indonesia. The DAF CF vehicle began local assembly at the PACCAR Australia factory.

DAF sold over 3,500 PACCAR engines to leading manufacturers of coaches, buses and special vehicles and expanded engine sales into Singapore and Myanmar. The PACCAR MX-13 engine powers the Irizar i8 – "*International Coach of the Year 2018.*" The PACCAR India Technical Center provides technical, engineering, and purchasing expertise to PACCAR operations worldwide.

The DAF assembly facility in Taiwan builds the full range of DAF XF, CF, and LF models. DAF Brasil was awarded *"Truck Brand of the Year"* by the Fenabrave dealer association. PACCAR engineering teams in India support the PACCAR truck divisions. PACCAR engines power buses throughout Europe and Asia.

PACCAR Parts celebrated 45 years, achieved record pre-tax profit of $769 million and worldwide revenue of $3.84 billion in 2018, and delivered a record 1.7 million parts shipments to over 2,200 DAF, Kenworth, Peterbilt and TRP locations.

PACCAR Parts expanded its global Fleet Services program by offering national pricing and centralized billing to over 1,250 commercial vehicle fleets who operate more than 800,000 vehicles. PACCAR Parts' sophisticated eCommerce program allows customers 24/7 online ordering access to more than 1.4 million aftermarket products and delivers Kenworth *Privileges*, Peterbilt *Preferred*, DAF *MAX* and TRP *Performance* loyalty benefits.

PACCAR Parts operates 18 Parts Distribution Centers (PDCs) worldwide with 2.8 million square-feet of warehouse space, including a new 160,000 square-foot PDC in Toronto, Ontario. The new PDC features state-of-the-art distribution technologies such as voice-activated picking, optimized route planning, custom inventory zones and a core return center to support customers in Canada.

PACCAR Parts' successful TRP aftermarket brand for trucks, trailers, buses and engines offers over 125,000 part numbers, and gives customers parts choices for vehicle and trailer repair and maintenance. In 2018, TRP aftermarket parts retail stores expanded to 170 locations in 36 countries.

PACCAR Parts' new Toronto distribution center will expand customer support in Canada. PACCAR Parts' 365 Center supports customers with roadside assistance, powertrain support and service management. The interactive PACCAR Parts experience showcases PACCAR's products and innovative technology. The PACCAR Parts Global eCommerce Program supports over 26,000 customers in over 40 countries.

PACCAR launched its proprietary automated transmission for synchronized use with the PACCAR MX-11 engine. PACCAR MX engines were installed in over 40 percent of Kenworth and Peterbilt heavy-duty vehicles in the United States and Canada and in all DAF vehicles.

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 operates two world-class engine research and development centers, with 47 sophisticated engine test cells and a climatic chassis dynamometer to enhance its engine and powertrain design and manufacturing capabilities. PACCAR has delivered 1.6 million engines, with the Columbus facility manufacturing over 190,000 engines since its opening in 2010.

In 2018, the PACCAR Transmission became standard in Peterbilt and Kenworth on-highway trucks and was installed in over 35 percent of Kenworth and Peterbilt on-highway trucks. The PACCAR MX-13 engine is now offered with a new power rating of 405 horsepower, providing increased fuel economy.

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

PACCAR Financial Services (PFS), which supports the sale of PACCAR trucks worldwide, achieved retail market share of 23.9 percent and earned pre-tax profits of over $305 million in 2018.

The PFS portfolio is comprised of 198,000 trucks and trailers, with total assets of $14.4 billion. PACCAR's excellent balance sheet, complemented by its A+/A1 credit rating, enabled PFS to issue $2.2 billion in two-, three-, four-, and five-year medium term notes in 2018. Ongoing access to the capital markets at low interest rates allows PFS to support the sale of Kenworth, Peterbilt and DAF trucks in 24 countries on four continents. PFS sold over 14,800 pre-owned PACCAR trucks worldwide in 2018 and utilized "big data" to maximize results from its used truck operations.

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 68 percent of dealer inventories and 18 percent of new Kenworth and Peterbilt Class 8 trucks sold or leased in the U. S. and Canada, many through its industry leading e-contract and e-signature platform.

PACCAR Financial Europe (PFE) has $3.6 billion in assets and provides financial services to DAF dealers and customers in 17 European countries. PFE achieved a 24 percent market share of DAF 6+ tonne vehicles in 2018.

PACCAR FINANCIAL

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

PACCAR Leasing achieved its 29th consecutive year of profitability with a worldwide fleet of over 39,000 Kenworth, Peterbilt, and DAF vehicles.

PacLease offers premium Kenworth, Peterbilt and DAF vehicles for full-service lease and rental customers. PacLease is an industry leader in introducing new technologies and providing fleet customers innovative and complete transportation solutions. PacLease increased truck deliveries by 11 percent, leasing over 6,800 Kenworth, Peterbilt and DAF vehicles to customers in North America, Europe and Australia through its network of 571 locations.

In 2018, PacLease expanded its brand by incorporating digital technology into the sales process with the use of online sales networking tools, digital marketing, advertising and social media. PacLease online information resources offer fleets logistic updates, fleet management insights and current industry events.

PacLease Mexico is the largest full-service lease provider in Mexico, with a fleet of over 7,500 trucks and trailers. PacLease Australia offers the widest network coverage of any leasing company in Australia with 16 locations, including five new locations added in 2018. PacLease Europe achieved a record total number of DAF vehicles and has over 3,000 DAF trucks and trailers in its fleet.

PacLease provides its customers with innovative transportation solutions and premium-quality PACCAR vehicles. PacLease offers new Peterbilt, Kenworth and DAF trucks with the PACCAR engine and powertrain.

PACCAR's Technical Centers' world-class design, 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, North America and India are equipped with state-of-the-art product development and validation capabilities and staffed with experts in powertrain and vehicle software. The advanced engineering tools in the Technical Centers are utilized to innovate and accelerate the launch of new products. The climatic chassis dynamometer allows simulation of a myriad of road, climate and terrain environments. Proprietary road simulators enhance product validation by replicating millions of road miles in weeks instead of years. Advances in additive manufacturing (3-D printing) enable rapid prototyping of components from materials including aluminum and steel. The combination of state-of-the-art testing and simulation tools keeps PACCAR at the forefront of truck and powertrain technology.

The PACCAR Innovation Center in Silicon Valley and advanced engineering work at the Technical Centers drives research in powertrain electrification, autonomy, and connectivity. The Technical Centers leverage this research to identify innovative designs to further improve the industry-leading performance of Kenworth, Peterbilt and DAF trucks.

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

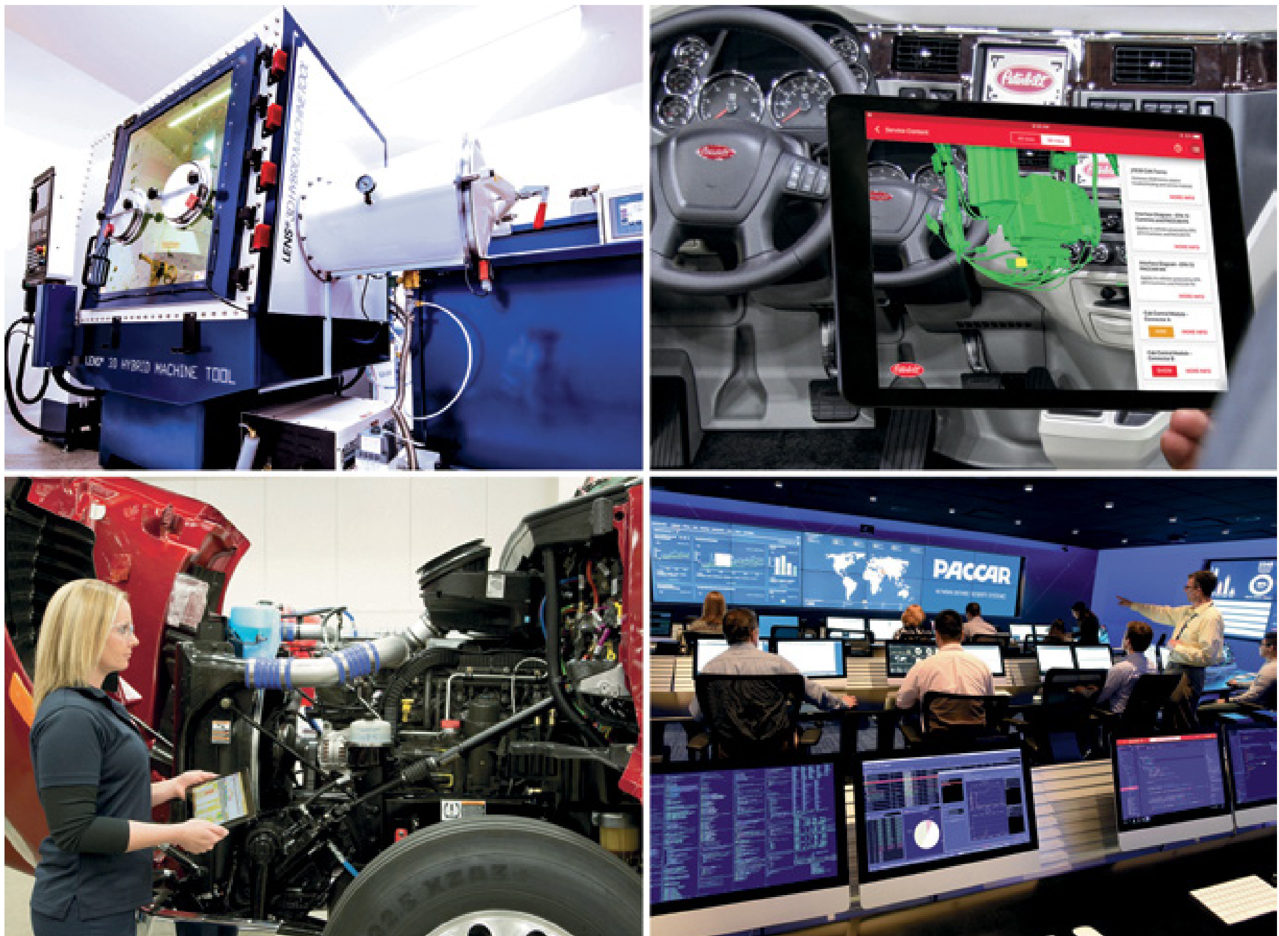
PACCAR's Information Technology Division (ITD) is an industry leader in innovative digital technologies, enhancing the quality of PACCAR business processes and products, systematically connecting customers, dealers and suppliers.

PACCAR ITD and Kenworth developed Microsoft Augmented Reality training guides to enhance new employee training using Microsoft HoloLens technology. These guides use holograms, short video clips and step-by-step instructions to improve the consistency and quality of training.

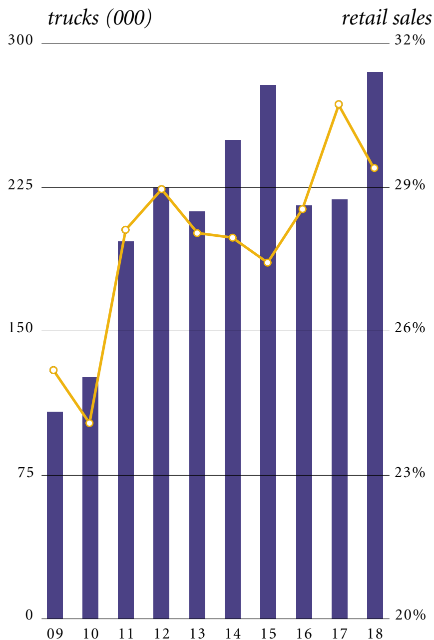
PACCAR ITD and Peterbilt developed the Manufacturing Process Automation, a set of industrial Internet of Things services to validate assembly processes, enhance quality control, collect and analyze data and deploy factory automation solutions.

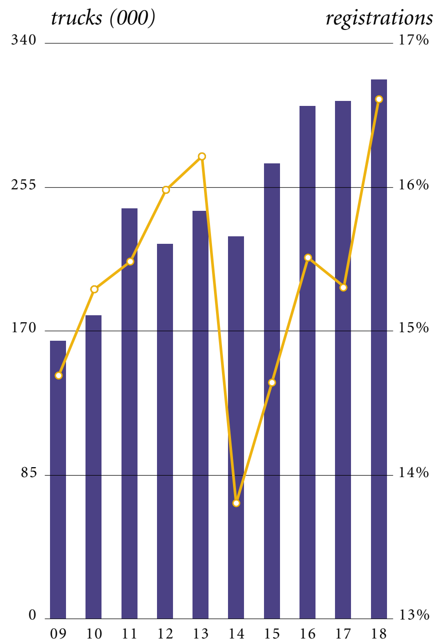
The DAF 3D Truck Sales Configurator was awarded the *"Computable Award 2018"* and named Digital Innovation of the Year by the renowned Computable Magazine in the Netherlands. This revolutionary solution provides the customer, dealer and bodybuilder a 3D digital representation of the configured truck.

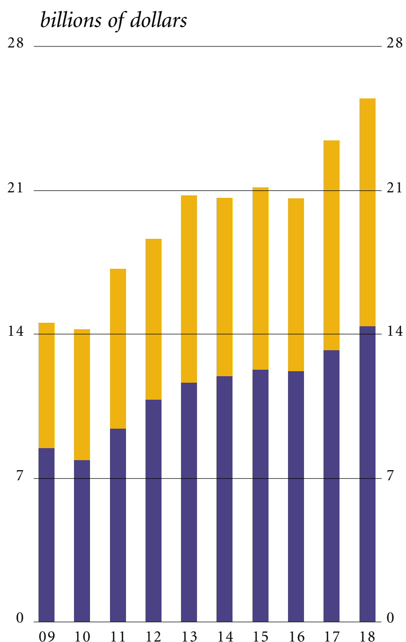
ITD and PACCAR Parts developed and deployed a tool for the Parts *e-Commerce* framework that recommends product options to customers. The tool uses big data analytics and machine learning to analyze millions of retail transactions for purchasing patterns, which it utilizes to make its recommendations.

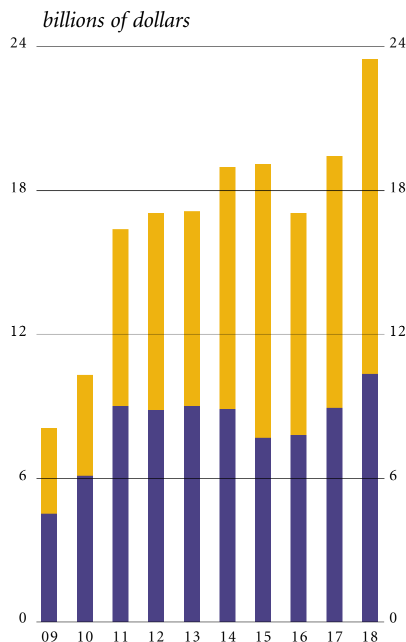


PACCAR is a leader in applied technology including: 3D printing; Augmented Reality service guides using a full scale hologram; global monitoring of business systems; and Internet of Things services to deploy factory automation solutions.

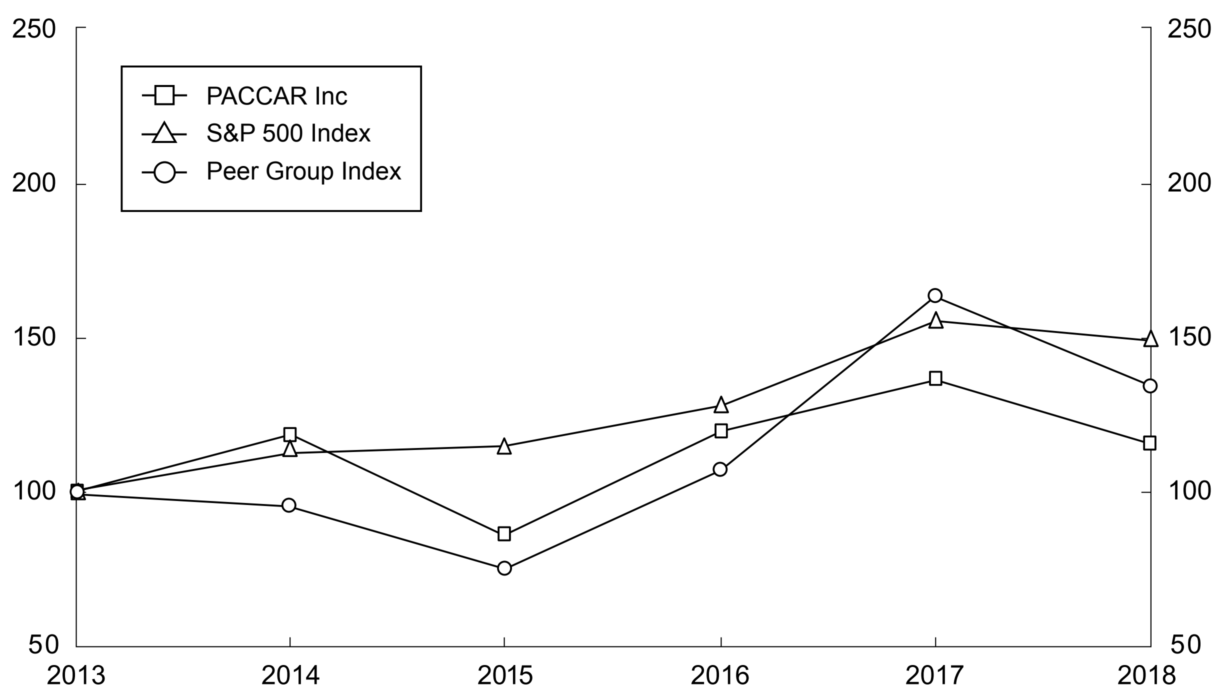

U.S. AND CANADA
CLASS 8 MARKET SHARE
trucks (000)
retail sales
300
225
150
75
0
32%
29%
26%
23%
20%
09
10
11
12
13
14
15
16
17
18
Total U.S. and Canada Class 8 Units
PACCAR Market Share (percent)


WESTERN AND CENTRAL EUROPE
16+ TONNE MARKET SHARE
trucks (000)
registrations
340
255
170
85
0
17%
16%
15%
14%
13%
09
10
11
12
13
14
15
16
17
18
Total Western and Central Europe
16+ Tonne Units
PACCAR Market Share (percent)


TOTAL ASSETS
billions of dollars
28
21
14
7
0
09
10
11
12
13
14
15
16
17
18
Truck, Parts and Other
Financial Services


GEOGRAPHIC REVENUE
billions of dollars
24
18
12
6
0
09
10
11
12
13
14
15
16
17
18
United States
Rest of World

The following line graph compares the yearly percentage change in the cumulative total stockholder return on the Company's common stock, to the cumulative total return of the Standard & Poor's Composite 500 Stock Index and the return of the industry peer groups of companies identified in the graph (the "Peer Group Index") for the last five fiscal years ended December 31, 2018. Standard & Poor's has calculated a return for each company in the Peer Group Index weighted according to its respective capitalization at the beginning of each period with dividends reinvested on a monthly basis. Management believes that the identified companies and methodology used in the graph for the Peer Group Index provide a better comparison than other indices available. The Peer Group Index consists of AGCO Corporation, Caterpillar Inc., Cummins Inc., Dana Incorporated, Deere & Company, Eaton Corporation, Meritor Inc., Navistar International Corporation, Oshkosh Corporation, AB Volvo and CNH Industrial N.V. The comparison assumes that $100 was invested December 31, 2013, in the Company's common stock and in the stated indices and assumes reinvestment of dividends.



	2013	2014	2015	2016	2017	2018
PACCAR Inc	100	118.19	86.13	119.19	136.84	115.76
S&P 500 Index	100	113.69	115.26	129.05	157.22	150.33
Peer Group Index	100	95.92	75.27	107.38	163.73	134.55

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.

2018 Financial Highlights

- Worldwide net sales and revenues were a record $23.50 billion in 2018 compared to $19.46 billion in 2017 due to record revenues in the Truck, Parts and Financial Services segments.
- Truck sales were $18.19 billion in 2018 compared to $14.77 billion in 2017 primarily due to higher truck deliveries in all of the Company's primary markets.
- Parts sales were a record $3.84 billion in 2018 compared to $3.33 billion in 2017 reflecting higher demand in all markets.
- Financial Services revenues were $1.36 billion in 2018 compared to $1.27 billion in 2017. The increase was primarily due to higher average earning asset balances and higher interest rates.
- In 2018, PACCAR earned net income for the 80th consecutive year. Net income was a record $2.20 billion ($6.24 per diluted share) compared to $1.68 billion ($4.75 per diluted share) in 2017, which included a one-time net tax benefit of $173.4 million from the Tax Cuts and Jobs Act ("the Tax Act"). Excluding this one-time net tax benefit, the Company earned adjusted net income (non-GAAP) of $1.50 billion ($4.26 per diluted share) in 2017. See Reconciliation of GAAP to Non-GAAP Financial Measures on pages 46-47.
- Capital investments were $437.1 million in 2018 compared to $433.1 million in 2017, reflecting additional investments in the Company's manufacturing facilities, new product development and enhanced aftermarket support.
- After-tax return on beginning equity (ROE) was 27.3% in 2018 compared to 24.7% in 2017. Excluding the one-time net tax benefit, adjusted ROE (non-GAAP) was 22.2% in 2017. See Reconciliation of GAAP to Non-GAAP Financial Measures on pages 46-47.
- Research and development (R&D) expenses were $306.1 million in 2018 compared to $264.7 million in 2017.

Peterbilt launched its new Model 579 UltraLoft in the first quarter of 2018, which offers customers a high-roof, integrated cab and sleeper that enhances driver comfort and operational efficiency. The UltraLoft dimensions represent an 18% increase in interior space giving drivers best-in-class living quarters. The Model 579 UltraLoft is an excellent tractor for long-haul routes, team driving and driver training.

Kenworth introduced the W990 in the third quarter of 2018. This new conventional truck is designed to maximize performance in many customer applications including over-the-road and vocational. The Kenworth model W990 features the PACCAR MX-13 engine rated up to 510-hp and 1,850 lb-ft of torque, the 12-speed PACCAR automated transmission, PACCAR tandem rear axles, and the Kenworth TruckTech+ connected truck system.

DAF highlighted its leadership in fuel efficiency and advanced powertrain technology by displaying a full range of innovative vehicles at the IAA truck show in Hannover, Germany. DAF showcased its CF Electric and LF Electric heavy- and medium-duty urban distribution vehicles. DAF also presented its CF Hybrid vehicle with the PACCAR MX-11 engine that delivers zero emissions in urban areas.

PACCAR Parts continues to add global parts distribution capacity to deliver industry-leading availability and to support the growth of PACCAR MX engine parts sales and the global fleet service program. A new 160,000 square-foot distribution center in Toronto, Ontario, Canada opened in October 2018.

PACCAR has been honored as a global leader in environmental practices by environmental reporting firm CDP, earning recognition on the 2018 *CDP Climate Change A List*. Every year, over 6,000 companies disclose data about their environmental impacts, risks and opportunities to CDP for independent assessment. Reporting companies receive scores of A to D- rating their effectiveness in tackling climate change and other environmental issues. PACCAR earned a CDP score of "A", which places PACCAR in the top 2% of reporting companies.

In January 2019, PACCAR displayed innovative electric and hydrogen fuel cell trucks at the CES 2019 show in Las Vegas, Nevada. CES is one of the world's largest showcases for technological innovation. PACCAR exhibited three zero emission vehicles: a battery-electric Peterbilt Model 579EV; a battery-electric Peterbilt Model 220EV; and a hydrogen fuel cell electric Kenworth T680 developed in collaboration with Toyota. These trucks are designed for a range of customer applications, including over-the-road transportation, port operations and urban distribution. PACCAR was the only commercial vehicle manufacturer displaying trucks at CES.

Truck Outlook

Truck industry retail sales in the U.S. and Canada in 2019 are expected to increase to 285,000 to 315,000 units compared to 284,800 in 2018. In Europe, the 2019 truck industry registrations for over 16-tonne vehicles are expected to be 290,000 to 320,000 units compared to 318,800 in 2018. In South America, heavy-duty truck industry sales in 2019 are estimated to increase to 100,000 to 110,000 units compared to 88,500 units in 2018.

Parts Outlook

In 2019, PACCAR Parts sales are expected to grow 5-8% compared to 2018 sales.

Financial Services Outlook

Based on the truck market outlook, average earning assets in 2019 are expected to increase 3-5% compared to 2018. Current high levels of freight tonnage, freight rates and fleet utilization are contributing to customers' profitability and cash flow. If current freight transportation conditions decline due to weaker economic conditions, then past due accounts, truck repossessions and credit losses would likely increase from the current low levels and new business volume would likely decline.

Capital Spending and R&D Outlook

Capital investments in 2019 are expected to be $525 to $575 million, and R&D is expected to be $320 to $350 million. The Company is investing for long-term growth in new truck models, integrated powertrains including zero emission electrification and hydrogen fuel cell technologies, enhanced aerodynamic truck designs, advanced driver assistance systems and truck connectivity, and expanded manufacturing and parts distribution facilities.

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

RESULTS OF OPERATIONS:

The Company's results of operations for the years ended December 31, 2018, 2017 and 2016 are presented below. The balances for 2017 and 2016 have been restated to reflect the adoption of ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Refer to Note A in the Notes to Consolidated Financial Statements for additional details.

($ in millions, except per share amounts) *Year Ended December 31,*	**2018**	2017	2016
Net sales and revenues:			
Truck	**$ 18,187.0**	$ 14,774.8	$ 12,767.3
Parts	**3,838.9**	3,327.0	3,005.7
Other	**112.7**	85.7	73.6
Truck, Parts and Other	**22,138.6**	18,187.5	15,846.6
Financial Services	**1,357.1**	1,268.9	1,186.7
	$ 23,495.7	$ 19,456.4	$ 17,033.3
Income (loss) before income taxes:			
Truck	**$ 1,672.1**	$ 1,253.8	$ 1,107.4
Parts	**768.6**	610.0	542.1
Other*	**2.7**	12.5	(852.4)
Truck, Parts and Other	**2,443.4**	1,876.3	797.1
Financial Services	**305.9**	261.7	305.7
Investment income	**60.9**	35.3	27.6
Income taxes**	**(615.1)**	(498.1)	(608.7)
Net Income	**$ 2,195.1**	$ 1,675.2	$ 521.7
Diluted earnings per share	**$ 6.24**	$ 4.75	$ 1.48
After-tax return on revenues	**9.3%**	8.6%	3.1%
Adjusted after-tax return on revenues (non-GAAP)***		7.7%	8.0%

* In 2016, Other includes the EC charge of $833.0 million. See Note L in the Notes to Consolidated Financial Statements.
** In 2017, Income taxes include a one-time benefit of $173.4 million from the Tax Act.
*** See Reconciliation of GAAP to non-GAAP Financial Measures on pages 46-47.

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.

2018 Compared to 2017:

Truck

The Company's Truck segment accounted for 77% of revenues in 2018 compared to 76% in 2017.

The Company's new truck deliveries are summarized below:

Year Ended December 31,	**2018**	2017	% CHANGE
U.S. and Canada	**105,300**	84,200	25
Europe	**63,800**	57,100	12
Mexico, South America, Australia and other	**20,000**	17,600	14
Total units	**189,100**	158,900	19

In 2018, industry retail sales in the heavy-duty market in the U.S. and Canada increased to 284,800 units from 218,400 units in 2017. The Company's heavy-duty truck retail market share was 29.4% in 2018 compared to 30.7% in

2017. The medium-duty market was 98,000 units in 2018 compared to 81,900 units in 2017. The Company's medium-duty market share was 17.7% in 2018 compared to 17.1% in 2017.

The over 16-tonne truck market in Europe in 2018 increased to 318,800 units from 306,100 units in 2017, and DAF's market share was 16.6% in 2018 compared to 15.3% in 2017. The 6 to 16-tonne market in 2018 decreased to 51,900 units from 52,600 units in 2017. DAF's market share in the 6 to 16-tonne market in 2018 was 9.0% compared to 10.5% in 2017.

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

($ in millions) *Year Ended December 31,*	**2018**	2017	% CHANGE
Truck net sales and revenues:			
U.S. and Canada	**$ 11,357.0**	$ 8,775.2	29
Europe	**4,808.4**	4,254.9	13
Mexico, South America, Australia and other	**2,021.6**	1,744.7	16
	$ 18,187.0	$ 14,774.8	23
Truck income before income taxes	**$ 1,672.1**	$ 1,253.8	33
Pre-tax return on revenues	**9.2%**	8.5%	

The Company's worldwide truck net sales and revenues increased to $18.19 billion in 2018 from $14.77 billion in 2017, primarily reflecting higher truck deliveries in all of the Company's primary markets. Truck segment income before income taxes and pre-tax return on revenues increased in 2018, reflecting the higher truck unit deliveries and higher gross margins.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between 2018 and 2017 for the Truck segment are as follows:

($ in millions)	**NET SALES AND REVENUES**	**COST OF SALES AND REVENUES**	**GROSS MARGIN**
2017	**$ 14,774.8**	**$ 13,111.1**	**$ 1,663.7**
Increase (decrease)			
Truck delivery volume	**2,955.7**	**2,458.9**	**496.8**
Average truck sales prices	**377.0**		**377.0**
Average per truck material, labor and other direct costs		**303.0**	**(303.0)**
Factory overhead and other indirect costs		**109.7**	**(109.7)**
Extended warranties, operating leases and other	**(72.9)**	**(76.5)**	**3.6**
Currency translation	**152.4**	**133.3**	**19.1**
Total increase	**3,412.2**	**2,928.4**	**483.8**
2018	**$ 18,187.0**	**$ 16,039.5**	**$ 2,147.5**

- Truck sales volume primarily reflects higher truck deliveries in the U.S. and Canada ($2,305.0 million sales and $1,890.7 million cost of sales) and Europe ($394.5 million sales and $333.0 million cost of sales).
- Average truck sales prices increased sales by $377.0 million, primarily due to higher price realization in North America and Europe.
- Average cost per truck increased cost of sales by $303.0 million, primarily reflecting higher material costs.
- Factory overhead and other indirect costs increased $109.7 million, primarily due to higher salaries and related expenses ($57.9 million) and higher supplies and maintenance costs ($47.5 million) to support increased truck production.
- Extended warranties, operating leases and other decreased revenues by $72.9 million and cost of sales by $76.5 million, primarily due to lower revenues and costs from operating leases. The decrease was partially offset by higher revenues and costs from service contracts.
- The currency translation effect on sales and cost of sales primarily reflects an increase in the value of the euro relative to the U.S. dollar.
- Truck gross margins increased to 11.8% in 2018 from 11.3% in 2017, primarily due to the factors noted above.

Truck selling, general and administrative expenses (SG&A) for 2018 increased to $248.3 million from $216.0 million in 2017. The increase was primarily due to higher professional fees ($20.1 million) and higher salaries and related expenses ($10.6 million). As a percentage of sales, Truck SG&A decreased to 1.4% in 2018 from 1.5% in 2017 due to higher net sales.

Parts

The Company's Parts segment accounted for 16% of revenues in 2018 compared to 17% in 2017.

($ in millions) *Year Ended December 31,*	**2018**	2017	% CHANGE
Parts net sales and revenues:			
U.S. and Canada	**$ 2,545.1**	$ 2,175.0	17
Europe	**921.4**	801.0	15
Mexico, South America, Australia and other	**372.4**	351.0	6
	$ 3,838.9	$ 3,327.0	15
Parts income before income taxes	**$ 768.6**	$ 610.0	26
Pre-tax return on revenues	**20.0%**	18.3%	

The Company's worldwide parts net sales and revenues increased to a record $3.84 billion in 2018 from $3.33 billion in 2017, due to higher aftermarket demand and successful marketing programs in all markets. The increase in Parts segment income before income taxes and pre-tax return on revenues in 2018 was primarily due to higher sales volume.

The major factors for the changes in net sales, cost of sales and gross margin between 2018 and 2017 for the Parts segment are as follows:

($ in millions)	**NET SALES**	**COST OF SALES**	**GROSS MARGIN**
2017	**$ 3,327.0**	**$ 2,445.8**	**$ 881.2**
Increase (decrease)			
Aftermarket parts volume	**369.8**	**224.7**	**145.1**
Average aftermarket parts sales prices	**107.5**		**107.5**
Average aftermarket parts direct costs		**83.2**	**(83.2)**
Warehouse and other indirect costs		**18.4**	**(18.4)**
Currency translation	**34.6**	**21.4**	**13.2**
Total increase	**511.9**	**347.7**	**164.2**
2018	**$ 3,838.9**	**$ 2,793.5**	**$ 1,045.4**

- Aftermarket parts sales volume increased by $369.8 million and related cost of sales increased by $224.7 million due to higher demand in all markets.
- Average aftermarket parts sales prices increased sales by $107.5 million, primarily due to higher price realization in the U.S. and Canada and Europe.
- Average aftermarket parts direct costs increased $83.2 million due to higher material costs.
- Warehouse and other indirect costs increased $18.4 million, primarily due to higher salaries and related expenses and higher maintenance costs.
- The currency translation effect on sales and cost of sales primarily reflects an increase in the value of the euro relative to the U.S. dollar.
- Parts gross margins in 2018 increased to 27.2% from 26.5% in 2017 due to the factors noted above.

Parts SG&A expense for 2018 was $206.2 million compared to $197.6 million in 2017 primarily due to higher salaries and related expenses and the effects of currency translation, partially offset by lower sales and marketing costs. As a percentage of sales, Parts SG&A was 5.4% in 2018, down from 5.9% in 2017, due to higher net sales.

Financial Services

The Company's Financial Services segment accounted for 6% of revenues in 2018 compared to 7% in 2017.

($ in millions) *Year Ended December 31,*	**2018**	2017	% CHANGE
New loan and lease volume:			
U.S. and Canada	**$ 3,076.7**	$ 2,450.7	26
Europe	**1,364.5**	1,107.7	23
Mexico, Australia and other	**792.1**	769.7	3
	$ 5,233.3	$ 4,328.1	21
New loan and lease volume by product:			
Loans and finance leases	**$ 4,177.3**	$ 3,330.2	25
Equipment on operating lease	**1,056.0**	997.9	6
	$ 5,233.3	$ 4,328.1	21
New loan and lease unit volume:			
Loans and finance leases	**40,500**	33,500	21
Equipment on operating lease	**10,300**	9,700	6
	50,800	43,200	18
Average earning assets:			
U.S. and Canada	**$ 7,815.4**	$ 7,351.9	6
Europe	**3,364.9**	2,937.7	15
Mexico, Australia and other	**1,749.9**	1,613.0	8
	$ 12,930.2	$ 11,902.6	9
Average earning assets by product:			
Loans and finance leases	**$ 8,094.4**	$ 7,407.5	9
Dealer wholesale financing	**1,847.1**	1,601.2	15
Equipment on lease and other	**2,988.7**	2,893.9	3
	$ 12,930.2	$ 11,902.6	9
Revenues:			
U.S. and Canada	**$ 763.8**	$ 734.0	4
Europe	**352.6**	306.8	15
Mexico, Australia and other	**240.7**	228.1	6
	$ 1,357.1	$ 1,268.9	7
Revenues by product:			
Loans and finance leases	**$ 425.2**	$ 375.2	13
Dealer wholesale financing	**72.5**	55.9	30
Equipment on lease and other	**859.4**	837.8	3
	$ 1,357.1	$ 1,268.9	7
Income before income taxes	**$ 305.9**	$ 261.7	17

New loan and lease volume was a record $5.23 billion in 2018 compared to $4.33 billion in 2017, primarily due to higher truck deliveries in 2018. PFS finance market share of new PACCAR truck sales was 23.9% in 2018 compared to 24.9% in 2017.

PFS revenues increased to $1.36 billion in 2018 from $1.27 billion in 2017. The increase was primarily due to revenue on higher average earning assets and higher portfolio yields reflecting higher market interest rates in North America. The effects of currency translation increased PFS revenues by $10.9 million in 2018.

PFS income before income taxes increased to $305.9 million in 2018 from $261.7 million in 2017, primarily due to higher average earning asset balances and higher results on returned lease assets.

Included in Financial Services "Other Assets" on the Company's Consolidated Balance Sheets are used trucks held for sale, net of impairments, of $226.4 million at December 31, 2018 and $221.7 million at December 31, 2017. These trucks are primarily units returned from matured operating leases in the ordinary course of business, and also include trucks acquired from repossessions or through acquisitions of used trucks in trades related to new truck sales.

The Company recognized losses on used trucks, excluding repossessions, of $35.4 million in 2018 compared to $45.1 million in 2017, including losses on multiple unit transactions of $20.2 million in 2018 compared to $29.2 million in 2017. Used truck losses related to repossessions, which are recognized as credit losses, were $.9 million and $5.1 million in 2018 and 2017, respectively.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between 2018 and 2017 are outlined below:

($ in millions)	INTEREST AND FEES	INTEREST AND OTHER BORROWING EXPENSES	FINANCE MARGIN
2017	**$ 431.1**	**$ 149.6**	**$ 281.5**
Increase (decrease)			
Average finance receivables	**45.1**		**45.1**
Average debt balances		**13.5**	**(13.5)**
Yields	**21.0**		**21.0**
Borrowing rates		**23.9**	**(23.9)**
Currency translation and other	**.5**	**(.1)**	**.6**
Total increase	**66.6**	**37.3**	**29.3**
2018	**$ 497.7**	**$ 186.9**	**$ 310.8**

- Average finance receivables increased $845.3 million (excluding foreign exchange effects) in 2018 as a result of retail portfolio new business volume exceeding collections and higher dealer wholesale balances.
- Average debt balances increased $666.7 million (excluding foreign exchange effects) in 2018. The higher average debt balances reflect funding for a higher average earning assets portfolio, which includes loans, finance leases, wholesale and equipment on operating lease.
- Higher portfolio yields (5.0% in 2018 compared to 4.8% in 2017) increased interest and fees by $21.0 million. The higher portfolio yields were primarily due to higher market rates in North America.
- Higher borrowing rates (2.0% in 2018 compared to 1.7% in 2017) were primarily due to higher debt market rates in North America.

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

($ in millions) *Year Ended December 31,*	**2018**	2017
Operating lease and rental revenues	**$ 826.0**	$ 784.6
Used truck sales and other	**33.4**	53.2
Operating lease, rental and other revenues	**$ 859.4**	$ 837.8
Depreciation of operating lease equipment	**$ 588.2**	$ 587.4
Vehicle operating expenses	**121.5**	99.6
Cost of used truck sales and other	**18.3**	40.5
Depreciation and other expenses	**$ 728.0**	$ 727.5

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between 2018 and 2017 are outlined below:

($ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSES	LEASE MARGIN
2017	**$ 837.8**	**$ 727.5**	**$ 110.3**
(Decrease) increase			
Used truck sales	**(20.5)**	**(21.9)**	**1.4**
Results on returned lease assets		**(11.5)**	**11.5**
Average operating lease assets	**15.7**	**12.6**	**3.1**
Revenue and cost per asset	**16.0**	**12.0**	**4.0**
Currency translation and other	**10.4**	**9.3**	**1.1**
Total increase	**21.6**	**.5**	**21.1**
2018	**$ 859.4**	**$ 728.0**	**$ 131.4**

- A lower sales volume of used trucks received on trade decreased operating lease, rental and other revenues by $20.5 million and decreased depreciation and other expenses by $21.9 million.
- Results on returned lease assets decreased depreciation and other expenses by $11.5 million, primarily due to lower losses on sales of returned lease units.
- Average operating lease assets increased $49.4 million (excluding foreign exchange effects), which increased revenues by $15.7 million and related depreciation and other expenses by $12.6 million.
- Revenue per asset increased $16.0 million primarily due to higher rental utilization. Cost per asset increased $12.0 million due to higher depreciation expense and vehicle operating expenses.
- The currency translation effects reflect an increase in the value of foreign currencies relative to the U.S. dollar, primarily the euro, partially offset by the Mexican peso.

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

($ in millions)	**2018**		2017	
	PROVISION FOR LOSSES ON RECEIVABLES	**NET CHARGE-OFFS**	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS
U.S. and Canada	**$ 10.4**	**$ 6.9**	$ 13.7	$ 14.5
Europe	**(.8)**	**5.9**	1.4	1.4
Mexico, Australia and other	**6.9**	**4.4**	7.2	5.5
	$ 16.5	**$ 17.2**	$ 22.3	$ 21.4

The provision for losses on receivables was $16.5 million in 2018 compared to $22.3 million in 2017, reflecting continued good portfolio performance. The lower provision for losses on receivables in Europe primarily reflects higher recoveries on charged-off accounts.

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

The post-modification balance of accounts modified during the years ended December 31, 2018 and 2017 are summarized below:

($ in millions)	2018		2017	
	RECORDED INVESTMENT	**% OF TOTAL PORTFOLIO***	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*
Commercial	**$ 213.6**	**2.5%**	$ 189.7	2.4%
Insignificant delay	**50.3**	**.6%**	78.9	1.0%
Credit - no concession	**52.2**	**.6%**	58.2	.8%
Credit - TDR	**13.1**	**.2%**	20.5	.3%
	$ 329.2	**3.9%**	$ 347.3	4.5%

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

In 2018, total modification activity decreased compared to 2017, reflecting lower modifications for insignificant delays, credit - no concession and credit - TDRs, partially offset by higher commercial modifications. The increase in modifications for commercial reasons primarily reflects higher volumes of refinancing. The decrease in modifications for insignificant delay reflects fewer fleet customers requesting payment relief for up to three months. The decrease in modifications for credit - no concession is primarily due to lower volumes of refinancing for customers in financial difficulty. Credit - TDR modifications decreased to $13.1 million in 2018 from $20.5 million in 2017 mainly due to the contract modifications for two fleet customers in 2017.

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

At December 31,	**2018**	2017
Percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	**.1%**	.4%
Europe	**.5%**	.3%
Mexico, Australia and other	**1.6%**	1.5%
Worldwide	**.4%**	.5%

Accounts 30+ days past due were .4% at December 31, 2018 and .5% at December 31, 2017. Lower past dues in the U.S. and Canada were partially offset by higher past dues in Europe and Mexico. 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 $7.2 million and $.6 million of accounts worldwide during the fourth quarter of 2018 and the fourth quarter of 2017, respectively, which were 30+ days past due and became current at the time of modification. Had these accounts not been modified and continued to not make payments, the pro forma percentage of retail loan and lease accounts 30+ days past due would have been as follows:

At December 31,	**2018**	2017
Pro forma percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	**.2%**	.4%
Europe	**.5%**	.3%
Mexico, Australia and other	**1.8%**	1.5%
Worldwide	**.5%**	.5%

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, 2018 and 2017. The effect on the allowance for credit losses from such modifications was not significant at December 31, 2018 and 2017.

The Company's 2018 and 2017 annualized pre-tax return on average assets for Financial Services was 2.2% and 2.1%, respectively.

Other

Other includes the winch business as well as sales, income and expenses not attributable to a reportable segment. Other also includes non-service cost components of pension (income) expense and a portion of corporate expense. Other sales represent less than 1% of consolidated net sales and revenues for 2018 and 2017. Other SG&A was $70.4 million in 2018 and $50.4 million in 2017. The increase in Other SG&A was primarily due to higher compensation costs.

Other income before tax decreased to $2.7 million in 2018 from $12.5 million in 2017 primarily due to higher salaries and related expenses, partially offset by improved results in the winch business.

Investment income increased to $60.9 million in 2018 from $35.3 million in 2017, primarily due to higher average portfolio balances and higher yields on U.S. investments due to higher market interest rates.

Income Taxes

In 2018, the effective tax rate was 21.9% compared to 22.9% in 2017, reflecting the reduced federal tax rate of 21% enacted on December 22, 2017. The Company's effective tax rate for 2018 was impacted by a one-time reduction in tax liability related to extended warranty contracts and higher realized R&D tax credits.

($ in millions) *Year Ended December 31,*	**2018**	2017
Domestic income before taxes	**$ 1,775.2**	$ 1,347.8
Foreign income before taxes	**1,035.0**	825.5
Total income before taxes	**$ 2,810.2**	$ 2,173.3
Domestic pre-tax return on revenues	**13.4%**	12.8%
Foreign pre-tax return on revenues	**10.1%**	9.2%
Total pre-tax return on revenues	**12.0%**	11.2%

In 2018, the improvement in domestic and foreign income before taxes was primarily due to higher revenues and margins from truck and parts operations. Domestic and foreign pre-tax return on revenues increased primarily due to the improved truck and parts results.

2017 Compared to 2016:

Truck

The Company's Truck segment accounted for 76% of revenues in 2017 compared to 75% in 2016.

The Company's new truck deliveries are summarized below:

Year Ended December 31,	2017	2016	% CHANGE
U.S. and Canada	84,200	71,500	18
Europe	57,100	53,000	8
Mexico, South America, Australia and other	17,600	16,400	7
Total units	158,900	140,900	13

In 2017, industry retail sales in the heavy-duty market in the U.S. and Canada increased to 218,400 units from 215,700 units in 2016. The Company's heavy-duty truck retail market share increased to 30.7% in 2017 from 28.5% in 2016. The medium-duty market was 81,900 units in 2017 compared to 85,500 units in 2016. The Company's medium-duty market share was 17.1% in 2017 compared to 16.2% in 2016.

The over 16-tonne truck market in Europe in 2017 increased to 306,100 units from 302,500 units in 2016, and DAF's market share decreased to 15.3% in 2017 from 15.5% in 2016. The 6 to 16-tonne market in 2017 decreased to 52,600 units from 52,900 units in 2016. DAF market share in the 6 to 16-tonne market in 2017 increased to 10.5% from 10.1% in 2016.

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

($ in millions) *Year Ended December 31,*	2017	2016	% CHANGE
Truck net sales and revenues:			
U.S. and Canada	$ 8,775.2	$ 7,363.5	19
Europe	4,254.9	3,863.0	10
Mexico, South America, Australia and other	1,744.7	1,540.8	13
	$ 14,774.8	$ 12,767.3	16
Truck income before income taxes	$ 1,253.8	$ 1,107.4	13
Pre-tax return on revenues	8.5%	8.7%	

The Company's worldwide truck net sales and revenues increased to $14.77 billion in 2017 from $12.77 billion in 2016, primarily reflecting higher truck deliveries in the U.S. and Canada, Europe and Australia. Truck segment income before income taxes in 2017 reflects higher truck deliveries, while pre-tax return on revenues decreased at the higher volumes due to a lower gross margin percentage.

The major factors for the changes in net sales and revenues, cost of sales and revenues and gross margin between 2017 and 2016 for the Truck segment are as follows:

($ in millions)	NET SALES AND REVENUES	COST OF SALES AND REVENUES	GROSS MARGIN
2016	$ 12,767.3	$ 11,272.0	$ 1,495.3
Increase (decrease)			
Truck delivery volume	1,841.9	1,559.7	282.2
Average truck sales prices	121.6		121.6
Average per truck material, labor and other direct costs		102.7	(102.7)
Factory overhead and other indirect costs		97.8	(97.8)
Operating leases	(28.1)	(25.2)	(2.9)
Currency translation	72.1	104.1	(32.0)
Total increase	2,007.5	1,839.1	168.4
2017	$ 14,774.8	$ 13,111.1	$ 1,663.7

- Truck delivery volume, which resulted in higher sales and cost of sales, primarily reflects higher truck deliveries in the U.S. and Canada ($1,309.0 million sales and $1,104.3 million cost of sales) and Europe ($370.4 million sales and $312.2 million cost of sales).
- Average truck sales prices increased sales by $121.6 million, primarily due to higher price realization in Europe ($66.7 million) and the U.S. and Canada ($66.2 million), partially offset by lower price realization in Mexico ($12.5 million).
- Average cost per truck increased cost of sales by $102.7 million, reflecting higher material costs.
- Factory overhead and other indirect costs increased $97.8 million, primarily due to higher salaries and related expenses ($55.1 million), higher maintenance costs ($27.8 million) as well as higher depreciation expense ($12.7 million).
- Operating lease revenues decreased by $28.1 million and cost of sales decreased by $25.2 million, reflecting higher revenues deferred and lower revenues recognized.
- The currency translation effect on sales primarily reflects an increase in the value of the euro relative to the U.S. dollar, partially offset by a weaker British pound. The currency effect on cost of sales primarily reflects the stronger euro relative to the U.S. dollar.
- Truck gross margins decreased to 11.3% in 2017 from 11.7% in 2016 primarily due to the factors noted above.

Truck selling, general and administrative expenses (SG&A) for 2017 increased to $216.0 million from $205.7 million in 2016. The increase was primarily due to higher professional fees and salaries and related expenses, partially offset by lower sales and marketing expenses. As a percentage of sales, Truck SG&A decreased to 1.5% in 2017 from 1.6% in 2016 due to higher net sales.

Parts

The Company's Parts segment accounted for 17% of revenues in 2017 compared to 18% in 2016.

($ in millions) *Year Ended December 31,*	2017	2016	% CHANGE
Parts net sales and revenues:			
U.S. and Canada	$ 2,175.0	$ 1,932.7	13
Europe	801.0	761.8	5
Mexico, South America, Australia and other	351.0	311.2	13
	$ 3,327.0	$ 3,005.7	11
Parts income before income taxes	$ 610.0	$ 542.1	13
Pre-tax return on revenues	18.3%	18.0%	

The Company's worldwide parts net sales and revenues increased to a record $3.33 billion in 2017 from $3.01 billion in 2016, due to higher aftermarket demand and successful marketing programs in all markets. The increase in Parts segment income before income taxes and pre-tax return on revenues in 2017 was primarily due to higher sales volume.

The major factors for the changes in net sales, cost of sales and gross margin between 2017 and 2016 for the Parts segment are as follows:

($ in millions)	NET SALES	COST OF SALES	GROSS MARGIN
2016	$ 3,005.7	$ 2,196.4	$ 809.3
Increase (decrease)			
Aftermarket parts volume	270.0	183.6	86.4
Average aftermarket parts sales prices	45.9		45.9
Average aftermarket parts direct costs		37.5	(37.5)
Warehouse and other indirect costs		18.0	(18.0)
Currency translation	5.4	10.3	(4.9)
Total increase	321.3	249.4	71.9
2017	$ 3,327.0	$ 2,445.8	$ 881.2

- Aftermarket parts sales volume increased by $270.0 million and related cost of sales increased by $183.6 million due to higher demand in all markets.
- Average aftermarket parts sales prices increased sales by $45.9 million, reflecting higher price realization in the U.S. and Canada and Europe.
- Average aftermarket parts direct costs increased $37.5 million due to higher material costs.
- Warehouse and other indirect costs increased $18.0 million, primarily due to higher salaries and related expenses to support the higher sales volume.
- The currency translation effect on sales primarily reflects an increase in the value of the euro relative to the U.S. dollar, partially offset by a weaker British pound. The currency effect on cost of sales primarily reflects the stronger euro relative to the U.S. dollar.
- Parts gross margins in 2017 decreased to 26.5% from 26.9% in 2016 due to the factors noted above.

Parts SG&A expense for 2017 was $197.6 million compared to $192.7 million in 2016 primarily due to higher salaries and related expenses. As a percentage of sales, Parts SG&A was 5.9% in 2017, down from 6.4% in 2016, due to higher net sales.

Financial Services

The Company's Financial Services segment accounted for 7% of revenues in 2017 and 2016.

($ in millions) *Year Ended December 31,*	2017	2016	% CHANGE
New loan and lease volume:			
U.S. and Canada	$ 2,450.7	$ 2,474.9	(1)
Europe	1,107.7	1,104.8	
Mexico, Australia and other	769.7	643.7	20
	$ 4,328.1	$ 4,223.4	2
New loan and lease volume by product:			
Loans and finance leases	$ 3,330.2	$ 3,016.4	10
Equipment on operating lease	997.9	1,207.0	(17)
	$ 4,328.1	$ 4,223.4	2
New loan and lease unit volume:			
Loans and finance leases	33,500	31,000	8
Equipment on operating lease	9,700	12,000	(19)
	43,200	43,000	
Average earning assets:			
U.S. and Canada	$ 7,351.9	$ 7,454.0	(1)
Europe	2,937.7	2,673.2	10
Mexico, Australia and other	1,613.0	1,465.5	10
	$ 11,902.6	$ 11,592.7	3
Average earning assets by product:			
Loans and finance leases	$ 7,407.5	$ 7,287.2	2
Dealer wholesale financing	1,601.2	1,643.4	(3)
Equipment on lease and other	2,893.9	2,662.1	9
	$ 11,902.6	$ 11,592.7	3
Revenues:			
U.S. and Canada	$ 734.0	$ 690.3	6
Europe	306.8	287.1	7
Mexico, Australia and other	228.1	209.3	9
	$ 1,268.9	$ 1,186.7	7
Revenues by product:			
Loans and finance leases	$ 375.2	$ 369.9	1
Dealer wholesale financing	55.9	56.3	(1)
Equipment on lease and other	837.8	760.5	10
	$ 1,268.9	$ 1,186.7	7
Income before income taxes	$ 261.7	$ 305.7	(14)

New loan and lease volume was $4.33 billion in 2017 compared to $4.22 billion in 2016, primarily due to higher truck deliveries in 2017. PFS finance market share on new PACCAR truck sales was 24.9% in 2017 compared to 26.7% in 2016.

PFS revenues increased to $1.27 billion in 2017 from $1.19 billion in 2016. The increase was primarily due to higher average operating lease earning assets, and higher used truck sales, partially offset by unfavorable effects of currency translation, which decreased PFS revenues by $.6 million in 2017.

PFS income before income taxes decreased to $261.7 million in 2017 from $305.7 million in 2016, primarily due to lower results on returned lease assets, higher borrowing rates, a higher provision for losses on receivables, and the effects of translating weaker foreign currencies to the U.S. dollar, partially offset by higher average earning asset balances. The currency exchange impact decreased PFS income before income taxes by $1.2 million in 2017.

Included in Financial Services "Other Assets" on the Company's Consolidated Balance Sheets are used trucks held for sale, net of impairments, of $221.7 million at December 31, 2017 and $267.2 million at December 31, 2016. These trucks are primarily units returned from matured operating leases in the ordinary course of business, and also includes trucks acquired from repossessions or through acquisitions of used trucks in trades related to new truck sales.

The Company recognized losses on used trucks, excluding repossessions, of $45.1 million in 2017 compared to $16.4 million in 2016, including losses on multiple unit transactions of $29.2 million in 2017 compared to $6.8 million in 2016. Used truck losses related to repossessions, which are recognized as credit losses, were $5.1 million and $3.4 million in 2017 and 2016, respectively.

The major factors for the changes in interest and fees, interest and other borrowing expenses and finance margin between 2017 and 2016 are outlined below:

($ in millions)	INTEREST AND FEES	INTEREST AND OTHER BORROWING EXPENSES	FINANCE MARGIN
2016	$ 426.2	$ 127.2	$ 299.0
Increase (decrease)			
Average finance receivables	2.3		2.3
Average debt balances		2.4	(2.4)
Yields	5.3		5.3
Borrowing rates		21.0	(21.0)
Currency translation	(2.7)	(1.0)	(1.7)
Total increase (decrease)	4.9	22.4	(17.5)
2017	$ 431.1	$ 149.6	$ 281.5

- Average finance receivables increased $89.1 million (excluding foreign exchange effects) in 2017 as a result of retail portfolio new business volume exceeding collections.
- Average debt balances increased $130.6 million (excluding foreign exchange effects) in 2017. The higher average debt balances reflect funding for a higher average earning assets portfolio, which includes loans, finance leases, wholesale and equipment on operating lease.
- Higher portfolio yields (4.81% in 2017 compared to 4.77% in 2016) increased interest and fees by $5.3 million. The higher portfolio yields reflect higher lending volumes in North America which have higher market rates than Europe.
- Higher borrowing rates (1.7% in 2017 compared to 1.5% in 2016) were primarily due to higher debt market rates in North America, partially offset by lower debt market rates in Europe.
- The currency translation effects reflect a decline in the value of foreign currencies relative to the U.S. dollar, primarily the Mexican peso and the British pound, partially offset by a strengthening euro.

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

($ in millions) *Year Ended December 31,*	2017	2016
Operating lease and rental revenues	$ 784.6	$ 720.5
Used truck sales and other	53.2	40.0
Operating lease, rental and other revenues	$ 837.8	$ 760.5
Depreciation of operating lease equipment	$ 587.4	$ 509.1
Vehicle operating expenses	99.6	92.1
Cost of used truck sales and other	40.5	34.0
Depreciation and other expenses	$ 727.5	$ 635.2

The major factors for the changes in operating lease, rental and other revenues, depreciation and other expenses and lease margin between 2017 and 2016 are outlined below:

($ in millions)	OPERATING LEASE, RENTAL AND OTHER REVENUES	DEPRECIATION AND OTHER EXPENSES	LEASE MARGIN
2016	$ 760.5	$ 635.2	$ 125.3
Increase (decrease)			
Used truck sales	9.7	8.5	1.2
Results on returned lease assets		31.0	(31.0)
Average operating lease assets	56.5	47.9	8.6
Revenue and cost per asset	5.5	5.1	.4
Currency translation and other	5.6	(.2)	5.8
Total increase (decrease)	77.3	92.3	(15.0)
2017	$ 837.8	$ 727.5	$ 110.3

- A higher volume of used truck sales increased operating lease, rental and other revenues by $9.7 million and increased depreciation and other expenses by $8.5 million.
- Results on returned lease assets increased depreciation and other expenses by $31.0 million, primarily due to higher losses on sales of returned lease units.
- Average operating lease assets increased $223.8 million (excluding foreign exchange effects), which increased revenues by $56.5 million and related depreciation and other expenses by $47.9 million.
- Revenue per asset increased $5.5 million primarily due to higher rental income. Cost per asset increased $5.1 million due to higher depreciation expense, partially offset by lower vehicle operating expenses.
- The currency translation effects reflect an increase in the value of foreign currencies relative to the U.S. dollar, primarily the euro, partially offset by a weakening of the British pound.

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

($ in millions)	2017		2016	
	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS	PROVISION FOR LOSSES ON RECEIVABLES	NET CHARGE-OFFS
U.S. and Canada	$ 13.7	$ 14.5	$ 14.0	$ 14.7
Europe	1.4	1.4	.4	1.2
Mexico, Australia and other	7.2	5.5	4.0	3.3
	$ 22.3	$ 21.4	$ 18.4	$ 19.2

The provision for losses on receivables was $22.3 million in 2017, an increase of $3.9 million compared to 2016, reflecting higher portfolio balances in Mexico, Australia and other and Europe.

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

The post-modification balance of accounts modified during the years ended December 31, 2017 and 2016 are summarized below:

($ in millions)	2017		2016	
	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*	RECORDED INVESTMENT	% OF TOTAL PORTFOLIO*
Commercial	$ 189.7	2.4%	$ 236.2	3.2%
Insignificant delay	78.9	1.0%	90.3	1.3%
Credit - no concession	58.2	.8%	51.9	.7%
Credit - TDR	20.5	.3%	31.6	.4%
	$ 347.3	4.5%	$ 410.0	5.6%

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

In 2017, total modification activity decreased compared to 2016, reflecting lower volumes of refinancing for commercial reasons, primarily in the U.S. The decrease in modifications for insignificant delay reflects fewer fleet customers requesting payment relief for up to three months. Credit - TDR modifications decreased to $20.5 million in 2017 from $31.6 million in 2016 mainly due to the contract modifications for two fleet customers in 2016.

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

At December 31,	2017	2016
Percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	.4%	.3%
Europe	.3%	.5%
Mexico, Australia and other	1.5%	1.8%
Worldwide	.5%	.5%

Accounts 30+ days past due were .5% at December 31, 2017 and December 31, 2016, reflecting lower past dues in Europe as well as Mexico, Australia and other, offset by an increase 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 $.6 million and $2.6 million of accounts worldwide during the fourth quarter of 2017 and the fourth quarter of 2016, respectively, which were 30+ days past due and became current at the time of modification. Had these accounts not been modified and continued to not make payments, the pro forma percentage of retail loan and lease accounts 30+ days past due would have been as follows:

At December 31,	2017	2016
Pro forma percentage of retail loan and lease accounts 30+ days past due:		
U.S. and Canada	.4%	.3%
Europe	.3%	.5%
Mexico, Australia and other	1.5%	2.0%
Worldwide	.5%	.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, 2017 and 2016. The effect on the allowance for credit losses from such modifications was not significant at December 31, 2017 and 2016.

The Company's 2017 and 2016 annualized pre-tax return on average assets for Financial Services was 2.1% and 2.5%, respectively. The decrease was due primarily to higher losses on used trucks in 2017.

Other

Other includes the winch business as well as sales, income and expenses not attributable to a reportable segment. Other also includes the EC charge, non-service cost components of pension (income) expense and a portion of corporate expense. Other sales represent less than 1% of consolidated net sales and revenues for 2017 and 2016. Other SG&A was $50.4 million in 2017 and $44.2 million in 2016. The increase in Other SG&A was primarily due to higher labor related costs.

Other income (loss) before tax was an income of $12.5 million in 2017 compared to a loss of $852.4 million in 2016, which included the impact of the $833.0 million EC charge.

Investment income increased to $35.3 million in 2017 from $27.6 million in 2016, primarily due to higher average U.S. portfolio balances and higher yields on U.S. investments due to higher market interest rates.

Income Taxes

In 2017, the effective tax rate was 22.9% compared to 53.8% in 2016. The lower rate is due to the 2017 one-time impact from the change in U.S. tax law as explained below and the unfavorable 2016 impact of the one-time non-deductible expense of $833.0 million for the EC charge.

On December 22, 2017, the U.S. enacted new federal income tax legislation, the Tax Cuts and Jobs Act ("the Tax Act"). The Tax Act lowered the U.S. statutory income tax rate from 35% to 21%, imposed a one-time transition tax on the Company's foreign earnings, which previously had been deferred from U.S. income tax and created a modified territorial system. As a result, the Company recorded a provisional amount of $304.0 million of deferred tax benefits, due to the re-measurement of net deferred tax liabilities at the new lower statutory tax rate. In addition, the Company recorded a provisional amount of $130.6 million of tax expense on the Company's foreign earnings, which previously had been deferred from U.S. income tax.

($ in millions) *Year Ended December 31,*	2017	2016
Domestic income before taxes	$ 1,347.8	$ 1,190.7
Foreign income (loss) before taxes	825.5	(60.3)
Total income before taxes	$ 2,173.3	$ 1,130.4
Domestic pre-tax return on revenues	12.8%	12.8%
Foreign pre-tax return on revenues	9.2%	(.8)%
Total pre-tax return on revenues	11.2%	6.6%

In 2017, the improvement in domestic income before taxes was due to higher truck deliveries and improved aftermarket demand. Foreign income (loss) before taxes improved due to stronger truck and aftermarket demand as well as the 2016 impact of the $833.0 million EC charge.

LIQUIDITY AND CAPITAL RESOURCES:

($ in millions) *At December 31,*	**2018**	2017	2016
Cash and cash equivalents	**$ 3,435.9**	$ 2,364.7	$ 1,915.7
Marketable debt securities	**1,020.4**	1,367.1	1,140.9
	$ 4,456.3	$ 3,731.8	$ 3,056.6

The Company's total cash and marketable debt securities at December 31, 2018 increased $724.5 million from the balances at December 31, 2017, mainly 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,*	**2018**	2017	2016
Operating activities:			
Net income	**$ 2,195.1**	$ 1,675.2	$ 521.7
Net income items not affecting cash	**1,123.2**	999.5	1,072.7
Pension contributions	**(88.9)**	(70.6)	(185.7)
Changes in operating assets and liabilities, net	**(237.1)**	111.7	892.1
Net cash provided by operating activities	**2,992.3**	2,715.8	2,300.8
Net cash used in investing activities	**(1,930.7)**	(1,964.6)	(1,564.3)
Net cash provided by (used in) financing activities	**71.1**	(393.8)	(823.5)
Effect of exchange rate changes on cash	**(61.5)**	91.6	(13.7)
Net increase (decrease) in cash and cash equivalents	**1,071.2**	449.0	(100.7)
Cash and cash equivalents at beginning of the year	**2,364.7**	1,915.7	2,016.4
Cash and cash equivalents at end of the year	**$ 3,435.9**	$ 2,364.7	$ 1,915.7

2018 Compared to 2017:

Operating activities: Cash provided by operations increased by $276.5 million to $2.99 billion in 2018 from $2.72 billion in 2017. Higher operating cash flows reflect higher net income of $2.20 billion in 2018 compared to $1.68 billion in 2017, which includes a net deferred tax benefit of $173.9 million primarily due to the 2017 Tax Act. Additionally, there were higher cash inflows of $195.3 million from accounts payable and accrued expenses as purchases of goods and services exceeded payments. The higher cash inflows were offset by a higher increase in Financial Services segment wholesale receivables of $240.3 million and a higher increase in net purchases of inventory of $182.8 million. In addition, the higher cash inflows were offset by an increase of $98.9 million in sales-type finance leases and dealer direct loans, whereby originations exceeded cash receipts in 2018 ($27.0 million) compared to cash receipts exceeding origination in 2017 ($71.9 million). The higher cash inflows were also offset by a net change in derivatives of $82.5 million which was mainly related to the settlement of matured interest rate contracts.

Investing activities: Cash used in investing activities decreased by $33.9 million to $1.93 billion in 2018 from $1.96 billion in 2017. Lower net cash used in investing activities reflects a $506.4 million increase from marketable debt securities, as there were $315.6 million in net proceeds from sales of marketable debt securities in 2018 compared to $190.8 million in net purchases of marketable debt securities in 2017. In addition, there were higher proceeds from asset disposals of $183.0 million. The inflows were partially offset by higher net originations from retail loans and direct financing leases of $541.8 million, higher cash used in the acquisition of equipment on operating leases of $71.5 million, and higher payments for property, plant and equipment of $34.2 million.

Financing activities: Cash provided by financing activities was $71.1 million in 2018 compared to cash used in financing activities of $393.8 million in 2017. In 2018, the Company issued $2.34 billion of term debt, repaid term debt of $1.76 billion and increased its outstanding commercial paper and short-term bank loans by $625.9 million. In 2017, the Company issued $1.67 billion of term debt, repaid term debt of $1.90 billion and increased its outstanding commercial paper and short-term bank loans by $352.1 million. This resulted in cash provided by borrowing activities of $1.21 billion in 2018, $1.09 billion higher than the cash provided by borrowing activities of $125.2 million in 2017. The company paid $804.3 million in dividends in 2018 compared to $558.3 million in 2017; the increase of $246.0 million was primarily due to a special dividend paid in January 2018 that was higher than the special dividend paid in January 2017. In 2018, the Company also repurchased 5.8 million shares of common stock for $354.4 million. There were no stock repurchases in 2017.

2017 Compared to 2016:

Operating activities: Cash provided by operations increased by $415.0 million to $2.72 billion in 2017. Higher operating cash flows reflect higher net income of $1.68 billion in 2017, compared to net income of $521.7 million in 2016, which includes payment of the $833.0 million EC charge. In addition, there were higher cash inflows of $342.2 million from accounts payable and accrued expenses as purchases of goods and services exceeded payments. The higher cash inflows were offset by wholesale receivables on new trucks of $673.6 million as originations exceeded cash receipts in 2017 ($272.0 million) compared to cash receipts exceeding originations in 2016 ($401.6 million). Additionally, there was a higher cash usage of $214.0 million from inventory due to $149.9 million in net inventory

purchases in 2017 versus $64.1 million in net inventory reductions in 2016. Finally, there was a higher cash outflow for payment of income taxes of $160.0 million.

Investing activities: Cash used in investing activities increased by $400.3 million to $1.96 billion in 2017 from $1.56 billion in 2016. Higher net cash used in investing activities reflects $463.7 million in marketable debt securities as there was $190.8 million in net purchases of marketable debt securities in 2017 compared to $272.9 million in net proceeds from sales of marketable debt securities in 2016. In addition, there were higher net originations of retail loans and direct financing leases of $87.0 million in 2017 compared to 2016. The outflows were partially offset by lower cash used in the acquisitions of equipment for operating leases of $166.5 million.

Financing activities: Cash used in financing activities was $393.8 million in 2017 compared to cash used in financing activities of $823.5 million in 2016. The Company paid $558.3 million in dividends in 2017 compared to $829.3 million in 2016; the decrease of $271.0 million was primarily due to a lower special dividend paid in January 2017 than the special dividend paid in January 2016. In 2016, the Company repurchased 1.4 million shares of common stock for $70.5 million, while there were no stock repurchases in 2017. In 2017, the Company issued $1.67 billion of term debt, increased its outstanding commercial paper and short-term bank loans by $352.1 million and repaid term debt of $1.90 billion. In 2016, the Company issued $1.99 billion of term debt, repaid term debt of $1.63 billion and reduced its outstanding commercial paper and short-term bank loans by $322.8 million. This resulted in cash provided by borrowing activities of $125.2 million in 2017, $78.3 million higher than the cash provided by borrowing activities of $46.9 million in 2016.

Credit Lines and Other:

The Company has line of credit arrangements of $3.50 billion, of which $3.27 billion were unused at December 31, 2018. Included in these arrangements are $3.00 billion of syndicated bank facilities, of which $1.00 billion expires in June 2019, $1.00 billion expires in June 2022 and $1.00 billion expires in June 2023. 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, 2018.

As of June 30, 2018, the Company completed the repurchase of $300.0 million of the Company's common stock under the authorization approved in September 2015. On July 9, 2018, PACCAR's Board of Directors approved another plan to repurchase up to $300.0 million of the Company's outstanding common stock. As of December 31, 2018, $260.1 million of shares have been repurchased under this plan. On December 4, 2018, the Company's Board of Directors approved a plan to repurchase an additional $500.0 million of PACCAR's outstanding common stock upon completion of the prior plan.

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.

Over the past decade, the Company's combined investments in worldwide capital projects and R&D totaled $6.04 billion, and have significantly increased the operating capacity and efficiency of its facilities and enhanced the quality and operating efficiency of the Company's premium products.

Capital investments in 2019 are expected to be $525 to $575 million, and R&D is expected to be $320 to $350 million. The Company is investing for long-term growth in new truck models, integrated powertrains including zero emission electrification and hydrogen fuel cell technologies, enhanced aerodynamic truck designs, advanced driver assistance systems and truck connectivity, and expanded manufacturing and parts distribution facilities.

The Company conducts business in certain countries which have been experiencing or may experience significant financial stress, fiscal or political strain and are subject to the corresponding potential for default. The Company routinely monitors its financial exposure to global financial conditions, global counterparties and operating environments. As of December 31, 2018, the Company's exposures in such countries were insignificant.

Financial Services

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

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

In November 2018, the Company's U.S. finance subsidiary, PACCAR Financial Corp. (PFC), filed a shelf registration under the Securities Act of 1933. The total amount of medium-term notes outstanding for PFC as of December 31, 2018 was $4.90 billion. The registration expires in November 2021 and does not limit the principal amount of debt securities that may be issued during that period.

As of December 31, 2018, the Company's European finance subsidiary, PACCAR Financial Europe, had €1.35 billion available for issuance under a €2.50 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 2018 and is renewable annually through the filing of new listing particulars.

In April 2016, PACCAR Financial Mexico registered a 10.00 billion peso medium-term note and commercial paper program with the Comision Nacional Bancaria y de Valores. The registration expires in April 2021 and limits the amount of commercial paper (up to one year) to 5.00 billion pesos. At December 31, 2018, 7.75 billion pesos were available for issuance.

In August 2018, the Company's Australian subsidiary, PACCAR Financial Pty. Ltd. (PFPL), registered a medium-term note program. The program does not limit the principal amount of debt securities that may be issued under the program. The total amount of medium-term notes outstanding for PFPL as of December 31, 2018 was 150.0 million Australian dollars.

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, 2018:

	MATURITY				
($ in millions)	WITHIN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS	TOTAL
Borrowings*	$ 5,076.8	$ 4,118.2	$ 774.8		$ 9,969.8
Purchase obligations	81.3	126.6	58.0		265.9
Interest on debt**	135.1	157.7	28.5		321.3
Operating leases	18.2	23.1	8.0	$ 1.2	50.5
Other obligations	51.7	9.8	1.4		62.9
	$ 5,363.1	$ 4,435.4	$ 870.7	$ 1.2	$ 10,670.4

* Commercial paper included in borrowings is at par value.

** Interest on floating-rate debt is based on the applicable market rates at December 31, 2018.

Total cash commitments for borrowings and interest on term debt are $10.29 billion and were related to the Financial Services segment. As described in Note J of the consolidated financial statements, borrowings consist primarily of term notes and commercial paper issued by the Financial Services segment. The Company expects to fund its maturing Financial Services debt obligations principally from funds provided by collections from customers on loans and lease contracts, as well as from the proceeds of commercial paper and medium-term note borrowings. Purchase obligations are the Company's contractual commitments to acquire future production inventory and capital equipment. Other obligations include deferred cash compensation.

The Company's other commitments include the following at December 31, 2018:

	COMMITMENT EXPIRATION				
($ in millions)	WITHIN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS	TOTAL
Loan and lease commitments	$ 1,122.3				$ 1,122.3
Residual value guarantees	356.9	$ 504.9	$ 356.4	$ 78.8	1,297.0
Letters of credit	10.9	.1	.1	2.9	14.0
	$ 1,490.1	$ 505.0	$ 356.5	$ 81.7	$ 2,433.3

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.

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES:

This annual report includes "adjusted net income (non-GAAP)" and "adjusted net income per diluted share (non-GAAP)", which are financial measures that are not in accordance with U.S. generally accepted accounting principles ("GAAP"), since they exclude the one-time tax benefit from the Tax Cuts and Jobs Act ("the Tax Act") in 2017 and the non-recurring European Commission charge in 2016. These measures differ from the most directly comparable measures calculated in accordance with GAAP and may not be comparable to similarly titled non-GAAP financial measures used by other companies. In addition, the annual report includes the financial ratios noted below calculated based on non-GAAP measures.

Management utilizes these non-GAAP measures to evaluate the Company's performance and believes these measures allow investors and management to evaluate operating trends by excluding significant non-recurring items that are not representative of underlying operating trends.

Reconciliations from the most directly comparable GAAP measures of adjusted net income (non-GAAP) and adjusted net income per diluted share (non-GAAP) are as follows:

($ in millions, except per share amounts) *Year Ended December 31,*	2017	2016
Net income	$ 1,675.2	$ 521.7
One-time tax benefit from the Tax Act	(173.4)	
Non-recurring European Commission charge		833.0
Adjusted net income (non-GAAP)	$ 1,501.8	$ 1,354.7
Per diluted share:		
Net income	$ 4.75	$ 1.48
One-time tax benefit from the Tax Act	(.49)	
Non-recurring European Commission charge		2.37
Adjusted net income (non-GAAP)	$ 4.26	$ 3.85
After-tax return on revenues	8.6%	3.1%
One-time tax benefit from the Tax Act	(.9)%	
Non-recurring European Commission charge		4.9%
After-tax adjusted return on revenues (non-GAAP)*	7.7%	8.0%
After-tax return on beginning equity	24.7%	7.5%
One-time tax benefit from the Tax Act	(2.5)%	
Non-recurring European Commission charge		12.0%
After-tax adjusted return on beginning equity (non-GAAP)*	22.2%	19.5%

* Calculated using adjusted net income.

($ in millions, except per share amounts)	Three Months Ended December 31, 2017
Net income	$ 589.2
One-time tax benefit from the Tax Act	(173.4)
Adjusted net income (non-GAAP)	$ 415.8
Per diluted share:	
Net income	$ 1.67
One-time tax benefit from the Tax Act	(.49)
Adjusted net income (non-GAAP)	$ 1.18
Shares used in diluted share calculations:	
GAAP	353.2
Non-GAAP	353.2

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, 2018, 2017 and 2016 were $1.2 million, $1.9 million and $2.2 million, respectively. While the timing and amount of the ultimate costs associated with future

environmental cleanup cannot be determined, management expects that these matters will not have a significant effect on the Company's consolidated cash flow, liquidity or financial condition.

CRITICAL ACCOUNTING POLICIES:

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

Operating Leases

Trucks sold pursuant to agreements accounted for as operating leases are disclosed in Note F of the consolidated financial statements. In determining its estimate of the residual value of such vehicles, the Company considers the length of the lease term, the truck model, the expected usage of the truck and anticipated market demand. Operating lease terms generally range from three to five years. The resulting residual values on operating leases generally range between 30% and 70% of 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 2018, 2017 and 2016, market values on equipment returning upon operating lease maturity were generally lower than the residual values on the equipment, resulting in an increase in depreciation expense of $31.0 million, $45.5 million and $9.6 million, respectively.

At December 31, 2018, 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 $2.41 billion. A 10% decrease in used truck values worldwide, if expected to persist over the remaining maturities of the Company's operating leases, would reduce residual value estimates and result in the Company recording an average of approximately $69 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 E of the consolidated financial statements. The Company has developed a systematic methodology for determining the allowance for credit losses for its two portfolio segments, retail and wholesale. The retail segment consists of retail loans and 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 three to five years, and they are secured by the same type of collateral. The allowance for credit losses consists of both specific and general reserves.

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

Impaired receivables are generally considered collateral dependent. Large balance retail and all wholesale impaired receivables are individually evaluated to determine the appropriate reserve for losses. The determination of reserves for large balance impaired receivables considers the fair value of the associated collateral. When the underlying collateral fair value exceeds the Company's 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 30% and 70%. Over the past three years, the Company's year-end 30+ days past due accounts have ranged between .4% and .5% of loan and lease receivables. Historically, a 100 basis point increase in the 30+ days past due percentage has resulted in an increase in credit losses of 3 to 39 basis points of receivables. At December 31, 2018, 30+ days past dues were .4%. If past dues were 100 basis points higher or 1.4% as of December 31, 2018, the Company's estimate of credit losses would likely have increased by a range of $2 to $33 million depending on the extent of the past dues, the estimated value of the collateral as compared to amounts owed and general economic factors.

Product Warranty

Product warranty is disclosed in Note I of the consolidated financial statements. The expenses related to product warranty are estimated and recorded at the time products are sold based on historical and current data and reasonable expectations for the future regarding the frequency and cost of warranty claims, net of recoveries. Management takes actions to minimize warranty costs through quality-improvement programs; however, actual claim costs incurred could materially differ from the estimated amounts and require adjustments to the reserve. Historically those adjustments have not been material. Over the past three years, warranty expense as a percentage of Truck, Parts and Other net sales and revenues has ranged between 1.3% and 1.6%. If the 2018 warranty expense had been .2% higher as a percentage of net sales and revenues in 2018, warranty expense would have increased by approximately $44.3 million.

FORWARD-LOOKING STATEMENTS:

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements relating to future results of operations or financial position and any other statement that does not relate to any historical or current fact. Such statements are based on currently available operating, financial and other information and are subject to risks and uncertainties that may affect actual results. Risks and uncertainties include, but are not limited to: a significant decline in industry sales; competitive pressures; reduced market share; reduced availability of or higher prices for fuel; increased safety, emissions, or other regulations 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; litigation, including EC settlement-related claims; or legislative and governmental regulations. A more detailed description of these and other risks is included under the heading Part 1, Item 1A, "Risk Factors" and Item 3, "Legal Proceedings" in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Year Ended December 31,	**2018**	2017	2016
		(millions, except per share data)	
TRUCK, PARTS AND OTHER:			
Net sales and revenues	**$ 22,138.6**	$ 18,187.5	$ 15,846.6
Cost of sales and revenues	**18,925.0**	15,628.9	13,533.6
Research and development	**306.1**	264.7	247.2
Selling, general and administrative	**524.9**	464.0	442.6
European Commission charge			833.0
Interest and other (income), net	**(60.8)**	(46.4)	(6.9)
	19,695.2	16,311.2	15,049.5
Truck, Parts and Other Income Before Income Taxes	**2,443.4**	1,876.3	797.1
FINANCIAL SERVICES:			
Interest and fees	**497.7**	431.1	426.2
Operating lease, rental and other revenues	**859.4**	837.8	760.5
Revenues	**1,357.1**	1,268.9	1,186.7
Interest and other borrowing expenses	**186.9**	149.6	127.2
Depreciation and other expenses	**728.0**	727.5	635.2
Selling, general and administrative	**119.8**	107.8	100.2
Provision for losses on receivables	**16.5**	22.3	18.4
	1,051.2	1,007.2	881.0
Financial Services Income Before Income Taxes	**305.9**	261.7	305.7
Investment income	**60.9**	35.3	27.6
Total Income Before Income Taxes	**2,810.2**	2,173.3	1,130.4
Income taxes	**615.1**	498.1	608.7
Net Income	**$ 2,195.1**	$ 1,675.2	$ 521.7
Net Income Per Share			
Basic	**$ 6.25**	$ 4.76	$ 1.49
Diluted	**$ 6.24**	$ 4.75	$ 1.48
Weighted Average Number of Common Shares Outstanding			
Basic	**351.0**	351.9	351.1
Diluted	**351.8**	352.9	351.8

See notes to consolidated financial statements.

Year Ended December 31,	**2018**	2017	2016
		(millions)	
Net income	**$ 2,195.1**	$ 1,675.2	$ 521.7
Other comprehensive income (loss):			
Unrealized gains (losses) on derivative contracts			
Net gain (loss) arising during the period	**121.6**	(125.5)	(6.5)
Tax effect	**(30.7)**	33.9	6.7
Reclassification adjustment	**(121.5)**	133.4	10.8
Tax effect	**31.0**	(36.3)	(8.9)
	.4	5.5	2.1
Unrealized gains (losses) on marketable debt securities			
Net holding gain (loss)	**.2**	(1.5)	(.1)
Tax effect	**(.1)**	.4	.4
Reclassification adjustment	**(.2)**	(.6)	(3.7)
Tax effect	**.1**	.2	1.0
		(1.5)	(2.4)
Pension plans			
Net (loss) gain arising during the period	**(114.0)**	37.1	(50.3)
Tax effect	**27.2**	(16.7)	7.7
Reclassification adjustment	**36.7**	26.6	28.9
Tax effect	**(8.7)**	(8.5)	(10.0)
	(58.8)	38.5	(23.7)
Foreign currency translation (loss) gain	**(213.3)**	292.0	(87.1)
Net other comprehensive (loss) income	**(271.7)**	334.5	(111.1)
Comprehensive Income	**$ 1,923.4**	$ 2,009.7	$ 410.6

See notes to consolidated financial statements.

ASSETS

December 31,	**2018**	2017
	(millions)	
TRUCK, PARTS AND OTHER:		
Current Assets		
Cash and cash equivalents	**$ 3,279.2**	$ 2,254.8
Trade and other receivables, net	**1,314.4**	1,127.9
Marketable debt securities	**1,020.4**	1,367.1
Inventories, net	**1,184.7**	928.4
Other current assets	**364.7**	404.4
Total Truck, Parts and Other Current Assets	**7,163.4**	6,082.6
Equipment on operating leases, net	**786.6**	1,265.7
Property, plant and equipment, net	**2,480.9**	2,464.4
Other noncurrent assets, net	**651.9**	425.2
Total Truck, Parts and Other Assets	**11,082.8**	10,237.9
FINANCIAL SERVICES:		
Cash and cash equivalents	**156.7**	109.9
Finance and other receivables, net	**10,840.8**	9,697.1
Equipment on operating leases, net	**2,855.0**	2,876.3
Other assets	**547.1**	519.0
Total Financial Services Assets	**14,399.6**	13,202.3
	$ 25,482.4	$ 23,440.2

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31,	**2018**	2017
	(millions)	
TRUCK, PARTS AND OTHER:		
Current Liabilities		
Accounts payable, accrued expenses and other	**$ 3,027.7**	$ 2,569.5
Dividend payable	**695.1**	422.1
Total Truck, Parts and Other Current Liabilities	**3,722.8**	2,991.6
Residual value guarantees and deferred revenues	**842.4**	1,339.0
Other liabilities	**1,145.7**	939.8
Total Truck, Parts and Other Liabilities	**5,710.9**	5,270.4
FINANCIAL SERVICES:		
Accounts payable, accrued expenses and other	**523.2**	466.2
Commercial paper and bank loans	**3,540.8**	2,933.9
Term notes	**6,409.7**	5,945.5
Deferred taxes and other liabilities	**704.9**	773.7
Total Financial Services Liabilities	**11,178.6**	10,119.3
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 346.6 million and 351.8 million shares	**346.6**	351.8
Additional paid-in capital	**69.4**	123.2
Retained earnings	**9,275.4**	8,369.1
Accumulated other comprehensive loss	**(1,098.5)**	(793.6)
Total Stockholders' Equity	**8,592.9**	8,050.5
	$ 25,482.4	$ 23,440.2

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,	2018	2017	2016
		(millions)	
OPERATING ACTIVITIES:			
Net Income	**$ 2,195.1**	$ 1,675.2	$ 521.7
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization:			
Property, plant and equipment	**337.6**	321.4	302.4
Equipment on operating leases and other	**716.5**	786.1	690.7
Provision for losses on financial services receivables	**16.5**	22.3	18.4
Deferred taxes	**17.5**	(173.9)	30.9
Other, net	**35.1**	43.6	30.3
Pension contributions	**(88.9)**	(70.6)	(185.7)
Change in operating assets and liabilities:			
(Increase) decrease in assets other than cash and cash equivalents:			
Receivables:			
Trade and other receivables	**(242.0)**	(207.2)	(61.8)
Wholesale receivables on new trucks	**(512.3)**	(272.0)	401.6
Sales-type finance leases and dealer direct loans on new trucks	**(27.0)**	71.9	116.1
Inventories	**(332.7)**	(149.9)	64.1
Other assets, net	**(217.1)**	131.4	41.0
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	**528.9**	333.6	(8.6)
Residual value guarantees and deferred revenues	**275.0**	166.3	155.9
Other liabilities, net	**290.1**	37.6	183.8
Net Cash Provided by Operating Activities	**2,992.3**	2,715.8	2,300.8
INVESTING ACTIVITIES:			
Originations of retail loans and direct financing leases	**(3,858.9)**	(3,116.8)	(2,825.9)
Collections on retail loans and direct financing leases	**2,914.0**	2,713.7	2,509.8
Net (increase) decrease in wholesale receivables on used equipment	**(.9)**	5.2	9.5
Purchases of marketable debt securities	**(615.9)**	(970.3)	(1,031.9)
Proceeds from sales and maturities of marketable debt securities	**931.5**	779.5	1,304.8
Payments for property, plant and equipment	**(457.6)**	(423.4)	(375.2)
Acquisitions of equipment for operating leases	**(1,494.7)**	(1,423.2)	(1,589.7)
Proceeds from asset disposals	**653.7**	470.7	433.8
Other, net	**(1.9)**		.5
Net Cash Used in Investing Activities	**(1,930.7)**	(1,964.6)	(1,564.3)
FINANCING ACTIVITIES:			
Payments of cash dividends	**(804.3)**	(558.3)	(829.3)
Purchases of treasury stock	**(354.4)**		(70.5)
Proceeds from stock compensation transactions	**19.3**	39.3	29.4
Net increase (decrease) in commercial paper and short-term bank loans	**625.9**	352.1	(322.8)
Proceeds from term debt	**2,339.9**	1,670.2	1,994.8
Payments on term debt	**(1,755.3)**	(1,897.1)	(1,625.1)
Net Cash Provided by (Used in) Financing Activities	**71.1**	(393.8)	(823.5)
Effect of exchange rate changes on cash	**(61.5)**	91.6	(13.7)
Net Increase (Decrease) in Cash and Cash Equivalents	**1,071.2**	449.0	(100.7)
Cash and cash equivalents at beginning of year	**2,364.7**	1,915.7	2,016.4
Cash and cash equivalents at end of year	**$ 3,435.9**	$ 2,364.7	$ 1,915.7

See notes to consolidated financial statements.

December 31,	**2018**	2017	2016
		(millions, except per share data)	
COMMON STOCK, $1 PAR VALUE:			
Balance at beginning of year	**$ 351.8**	$ 350.7	$ 351.3
Treasury stock retirement	**(5.8)**		(1.4)
Stock compensation	**.6**	1.1	.8
Balance at end of year	**346.6**	351.8	350.7
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	**123.2**	70.1	69.3
Treasury stock retirement	**(88.3)**		(43.4)
Stock compensation and tax benefit	**34.5**	53.1	44.2
Balance at end of year	**69.4**	123.2	70.1
TREASURY STOCK, AT COST:			
Balance at beginning of year			
Purchases, shares: 2018 - 5.85; 2017 - nil; 2016 - 1.38	**(354.4)**		(70.5)
Retirements	**354.4**		70.5
Balance at end of year			
RETAINED EARNINGS:			
Balance at beginning of year	**8,369.1**	7,484.9	7,536.8
Net income	**2,195.1**	1,675.2	521.7
Cash dividends declared on common stock, per share: 2018 - $3.09; 2017 - $2.19; 2016 - $1.56	**(1,078.8)**	(771.1)	(547.9)
Treasury stock retirement	**(260.3)**		(25.7)
Cumulative effect of change in accounting principles	**50.3**	(19.9)	
Balance at end of year	**9,275.4**	8,369.1	7,484.9
ACCUMULATED OTHER COMPREHENSIVE LOSS:			
Balance at beginning of year	**(793.6)**	(1,128.1)	(1,017.0)
Other comprehensive (loss) income	**(271.7)**	334.5	(111.1)
Reclassifications to retained earnings in accordance with ASU 2018-02	**(33.2)**		
Balance at end of year	**(1,098.5)**	(793.6)	(1,128.1)
Total Stockholders' Equity	**$ 8,592.9**	$ 8,050.5	$ 6,777.6

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, the Middle East and South America.

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

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

Revenue Recognition:

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

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

Truck sales with residual value guarantee (RVG) that allow customers the option to return their truck are accounted for as a sale when the customer does not have an economic incentive to return the truck to the Company, or as an operating lease when the customer does have an economic incentive to return the truck. The estimate of customers' economic incentive to return the trucks is based on an analysis of historical guaranteed buyback value and estimated market value. When truck sales with RVGs are accounted for as a sale, revenue is recognized when the truck is transferred to the customer less an amount for expected returns. Expected return rates are estimated by using a historical weighted average return rate over a four-year period. The estimated value of the truck assets to be returned and the related return liabilities at December 31, 2018 were $319.8 and $329.3, respectively. The Company's total commitment to acquire trucks at a guaranteed value for contracts accounted for as a sale was $705.9 at December 31, 2018.

Revenues from extended warranties, operating leases and other includes optional extended warranty and repair and maintenance service contracts which can be purchased for periods generally ranging up to five years. The Company defers revenue based on stand-alone observable selling prices when it receives payments in advance and generally recognizes the revenue on a straight-line basis over the warranty or repair and maintenance contract periods. See Note I, Product Support Liabilities, in the Notes to the Consolidated Financial Statements for further information. Also included are truck sales with an RVG accounted for as an operating lease. A liability is created for the residual value obligation with the remainder of the proceeds recorded as deferred revenue. The deferred revenue is recognized on a straight-line basis over the guarantee period, which typically ranges from three to five years.

Aftermarket parts sales allow for returns which are estimated at the time of sale based on historical data. The estimated value of the parts to be returned was $49.0 and the related return liability was $104.5 at December 31, 2018. The Company decreased parts sales by $21.0 in 2018 due to changes in the reserve balance. Parts dealer services and other revenues are recognized as services are performed.

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

Financial Services: 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, 2018, 2017 and 2016 were $797.1, $760.9 and $698.9, respectively. Depreciation and related leased unit operating expenses were $686.9, $665.7 and $581.7 for the years ended December 31, 2018, 2017 and 2016, 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, 2018 or December 31, 2017. 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, 2018 and 2017, respectively, trade and other receivables included trade receivables from dealers and customers of $1,103.6 and $962.0 and other receivables of $210.8 and $165.9 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 $1.0 and $1.5 for the years ended December 31, 2018 and 2017, respectively. Net charge-offs were $.1 for the years ended December 31, 2018, 2017 and 2016.

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

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

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

On average, modifications extended contractual terms by approximately six months in 2018 and five months in 2017 and did not have a significant effect on the weighted average term or interest rate of the total portfolio at December 31, 2018 and 2017.

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 three to five years, and they are secured by the same type of collateral. The allowance for credit losses consists of both specific and general reserves.

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

Impaired receivables are generally considered collateral dependent. Large balance retail and all wholesale impaired receivables are individually evaluated to determine the appropriate reserve for losses. The determination of reserves for large balance impaired receivables considers the fair value of the associated collateral. When the underlying collateral fair value exceeds the Company's 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 sold individually, which is the lowest unit of account, through wholesale channels to the Company's dealers (principal market). The fair value of the collateral also considers the overall condition of the equipment.

Accounts are charged-off against the allowance for credit losses when, in the judgment of management, they are considered uncollectible, which generally occurs upon repossession of the collateral. Typically the timing between the repossession and charge-off is not significant. In cases where repossession is delayed (e.g., for legal proceedings), the Company records a partial charge-off. The charge-off is determined by comparing the fair value of the collateral, less cost to sell, to the 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 an RVG by the Company may be accounted for as an operating lease. Equipment is recorded at cost and is depreciated on the straight-line basis to the lower of the estimated residual value or guarantee value. Lease and guarantee periods generally range from three to five years. Estimated useful lives of the equipment range from three to 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 significant impairment charges for the three years ended December 31, 2018. Goodwill was $112.0 and $117.4 at December 31, 2018 and 2017, respectively. The decrease in value was mostly due to currency translation.

Product Support Liabilities: Product support liabilities include estimated future payments related to product warranties and deferred revenues on optional extended warranties and 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 derivatives not designated as hedged instruments. The Company's policies prohibit the use of derivatives for speculation or trading. At the inception of each hedge relationship, the Company documents its risk management objectives, procedures and accounting treatment. All of the Company's interest-rate and certain foreign-exchange contracts are transacted under International Swaps and Derivatives Association (ISDA) master agreements. Each agreement permits the net settlement of amounts owed in the event of default and certain other termination events. For derivative financial instruments, the Company has elected not to offset derivative positions in the balance sheet with the same counterparty under the same agreements and is not required to post or receive collateral.

Exposure limits and minimum credit ratings are used to minimize the risks of counterparty default. The Company's maximum exposure to potential default of its swap counterparties is limited to the asset position of its swap portfolio. The asset position of the Company's swap portfolio was $84.5 at December 31, 2018.

The Company uses regression analysis to assess effectiveness of interest-rate contracts at inception and uses quantitative analysis to assess subsequent effectiveness on a quarterly basis. For foreign-exchange contracts, the Company performs quarterly assessments to ensure that critical terms continue to match. All components of the derivative instrument's gain or loss are included in the assessment of hedge effectiveness. Hedge accounting is discontinued prospectively when the Company determines that a derivative financial instrument has ceased to be a highly effective hedge. Cash flows from derivative instruments are included in operating activities in the Consolidated Statements of Cash Flows.

Foreign Currency Translation: For most of the Company's foreign subsidiaries, the local currency is the functional currency. All assets and liabilities are translated at year-end exchange rates and all income statement amounts are translated at the weighted average rates for the period. Translation adjustments are recorded in AOCI. The Company uses the U.S. dollar as the functional currency for all but one of its Mexican subsidiaries, which uses the local currency.

For the U.S. functional currency entities in Mexico, inventories, cost of sales, property, plant and equipment and depreciation are remeasured at historical rates and resulting adjustments are included in net income.

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

New Accounting Pronouncements:

New Revenue Standard: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, including subsequently issued ASUs to clarify the implementation guidance in ASU 2014-09. 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. The Company adopted this ASU for outstanding contracts on a modified retrospective basis on January 1, 2018.

The most significant effect of the standard relates to certain trucks sold in Europe that are subject to an RVG and were accounted for as an operating lease in the Truck, Parts and Other section of the Company's Consolidated Balance Sheets. Prior to the adoption of ASU 2014-09, these sales were recognized on a straight-line basis over the guarantee period. Under the new standard, revenues are recognized upon transfer of control for certain of these RVG contracts that allow customers the option to return their truck and for which there is no economic incentive to do so. The estimate of customers' economic incentive to return the truck is based on an analysis of historical guaranteed buyback value and estimated market value. A return asset and liability is recognized for estimated returns. Return rates are estimated by using a historical weighted average return rate over a four-year period. Also as required by the new standard, the Company recognized an asset for the value of expected returned aftermarket parts which had previously been netted with the related liabilities.

The cumulative effect of the changes made to the Company's Consolidated Balance Sheet on January 1, 2018 for the adoption of ASU 2014-09 was as follows:

	BALANCE AT DECEMBER 31, 2017	CHANGE DUE TO NEW STANDARD	BALANCE AT JANUARY 1, 2018
Consolidated Balance Sheets			
TRUCK, PARTS AND OTHER:			
Other current assets	$ 404.4	$ 100.0	$ 504.4
Equipment on operating leases, net	1,265.7	(668.8)	596.9
Other noncurrent assets, net	425.2	115.0	540.2
Accounts payable, accrued expenses and other	2,569.5	103.1	2,672.6
Residual value guarantees and deferred revenues	1,339.0	(703.8)	635.2
Other liabilities	939.8	129.8	1,069.6
STOCKHOLDERS' EQUITY:			
Retained earnings	8,369.1	17.1	8,386.2

The following reconciles pro forma amounts as they would have been reported under the prior standard to current reporting:

Year Ended December 31, 2018	PRO FORMA UNDER PRIOR STANDARD	EFFECTS OF NEW STANDARD	CURRENTLY REPORTED
Consolidated Statements of Comprehensive Income			
TRUCK, PARTS AND OTHER:			
Net sales and revenues	$ 21,900.5	$ 238.1	$ 22,138.6
Cost of sales and revenues	18,718.9	206.1	18,925.0
Truck, Parts and Other Income Before Income Taxes	2,411.4	32.0	2,443.4
Total Income Before Income Taxes	2,778.2	32.0	2,810.2
Income taxes	607.1	8.0	615.1
Net Income	2,171.1	24.0	2,195.1
Comprehensive Income	1,900.7	22.7	1,923.4

At December 31, 2018	PRO FORMA UNDER PRIOR STANDARD	EFFECTS OF NEW STANDARD	CURRENTLY REPORTED
Consolidated Balance Sheets			
TRUCK, PARTS AND OTHER:			
Other current assets	$ 238.6	$ 126.1	$ 364.7
Equipment on operating leases, net	1,714.7	(928.1)	786.6
Other noncurrent assets, net	409.1	242.8	651.9
Accounts payable, accrued expenses and other	2,898.7	129.0	3,027.7
Residual value guarantees and deferred revenues	1,835.9	(993.5)	842.4
Other liabilities	880.2	265.5	1,145.7
STOCKHOLDERS' EQUITY:			
Total Stockholders' Equity	8,553.1	39.8	8,592.9

New Pension Standard: In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* The amendment disaggregates the service cost component from non-service cost components of pension expense and prescribes where to present the various components of pension cost on the income statement. This ASU also allows only the service cost component to be eligible for capitalization, when applicable (e.g. as a cost of manufactured inventory or self-constructed assets). The Company adopted this ASU in January 2018 and accordingly applied the income statement presentation of service and non-service components of pension expense retrospectively and the capitalization of service cost prospectively. Adoption of this ASU had no impact on net income. The retrospective application of this ASU had the following effects on the Consolidated Statements of Comprehensive Income:

Year Ended December 31, 2017	PREVIOUSLY REPORTED	EFFECTS OF NEW STANDARD	CURRENTLY REPORTED
Consolidated Statements of Comprehensive Income			
TRUCK, PARTS AND OTHER:			
Cost of sales and revenues	$ 15,593.7	$ 35.2	$ 15,628.9
Selling, general and administrative	449.5	14.5	464.0
Interest and other (income), net	5.6	(52.0)	(46.4)
Truck, Parts and Other Income Before Income Taxes	1,874.0	2.3	1,876.3
FINANCIAL SERVICES:			
Selling, general and administrative	105.5	2.3	107.8
Financial Services Income Before Income Taxes	264.0	(2.3)	261.7

Year Ended December 31, 2016	PREVIOUSLY REPORTED	EFFECTS OF NEW STANDARD	CURRENTLY REPORTED
Consolidated Statements of Comprehensive Income			
TRUCK, PARTS AND OTHER:			
Cost of sales and revenues	$ 13,517.7	$ 15.9	$ 13,533.6
Selling, general and administrative	440.8	1.8	442.6
Interest and other (income), net	11.6	(18.5)	(6.9)
Truck, Parts and Other Income Before Income Taxes	796.3	.8	797.1
FINANCIAL SERVICES:			
Selling, general and administrative	99.4	.8	100.2
Financial Services Income Before Income Taxes	306.5	(.8)	305.7

Other New Accounting Pronouncements: In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* The amendment requires a reclassification from AOCI to retained earnings the difference between the historical corporate income tax rate and the newly enacted income tax rate resulting from the Tax Cuts and Jobs Act. This ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted. In December 2018, the Company early adopted this ASU and recorded an entry to reclassify $33.2 million from AOCI to Retained earnings with no impact to Total Stockholders' Equity.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The amendment in this ASU requires entities having financial assets measured at amortized cost to estimate credit reserves under an expected credit loss model rather than the current incurred loss model. Under this new model, expected credit losses will be based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect collectability. The ASU is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. Early adoption is permitted. This amendment should be applied on a modified retrospective basis with a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, including subsequently issued ASUs to clarify the implementation guidance in ASU 2016-02. Under the new lease standard, lessees will recognize a right-of-use asset and a lease liability for virtually all leases (other than short-term leases). Lessor accounting is largely unchanged, except for a reduction in the capitalization of certain initial direct costs and the classification of certain cash flows. This ASU may be applied retrospectively in each reporting period presented or modified retrospectively with the cumulative effect adjustment to the opening balance of retained earnings. The Company will adopt this ASU on January 1, 2019 on a modified retrospective basis.

The Company will elect the package of practical expedients for its leases existing prior to the adoption of this ASU that will retain its conclusions about lease identification, lease classification and initial direct costs. Upon adoption, the Company will elect the short-term lease exemption to not recognize right-of-use assets and lease liabilities for any leases with a duration of twelve months or less. The Company expects to add approximately $45 million in right-of-use assets and lease liabilities to the Consolidated Balance Sheets with no impact to Retained earnings. The Company does not expect the adoption of this ASU to have a material impact on its Consolidated Statements of Income.

ASU 2016-02 requires lessors to classify cash receipts from leases within operating activities. As required, the Company will present cash receipts from direct financing leases as an operating cash inflow rather than the current presentation as an investing cash inflow. For the year ended December 31, 2018 total cash receipts from direct financing leases was $1.0 billion. On December 19, 2018, the FASB issued a proposed ASU – *Leases (Topic 842): Codification Improvements for Lessors* within the scope of ASC 942, *Financial Services – Depository and Lending*. The proposed ASU would require lessors to classify principal payments received from sales-type and direct financing leases in investing activities in the statement of cash flows. If the proposed ASU is codified, the Company will continue to present cash receipts from direct finance leases as an investing cash inflow and will reclassify cash flows from sales-type leases from operating to investing activities. For the year ended December 31, 2018, total cash originations and cash receipts from sales-type leases were $159.4 million and $189.5 million, respectively.

In addition to adopting the ASUs disclosed above, the Company adopted the following standards effective January 1, 2018, none of which had a material impact on the Company's consolidated financial statements.

STANDARD	DESCRIPTION
2016-01*	*Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.*
2016-15*	*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.*
2017-12**	*Derivative and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.*

* The Company adopted on the effective date of January 1, 2018.

** The Company early adopted in 2018.

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

STANDARD	DESCRIPTION	EFFECTIVE DATE
2018-07*	*Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.*	January 1, 2019
2018-13*	*Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.*	January 1, 2020
2018-14*	*Compensation – Retirement Benefits – Defined Benefit Plans – General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans.*	January 1, 2021
2018-15*	*Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.*	January 1, 2020

* The Company will adopt on the effective date.

B. SALES AND REVENUES

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

Year Ended December 31,	2018
Truck	
Truck sales	$ 17,447.8
Revenues from extended warranties, operating leases and other	739.2
	18,187.0
Parts	
Parts sales	3,731.9
Revenues from dealer services and other	107.0
	3,838.9
Winch sales and other	112.7
Truck, Parts and Other sales and revenues	$ 22,138.6

C. INVESTMENTS IN MARKETABLE DEBT SECURITIES

Marketable debt securities consisted of the following at December 31:

2018	**AMORTIZED COST**	**UNREALIZED GAINS**	**UNREALIZED LOSSES**	**FAIR VALUE**
U.S. tax-exempt securities	**$ 326.0**	**$ .3**	**$ 1.2**	**$ 325.1**
U.S. corporate securities	**147.6**	**.2**	**.4**	**147.4**
U.S. government and agency securities	**98.9**	**.2**	**.4**	**98.7**
Non-U.S. corporate securities	**272.5**	**.4**	**1.6**	**271.3**
Non-U.S. government securities	**55.9**	**.1**	**.1**	**55.9**
Other debt securities	**122.6**	**.2**	**.8**	**122.0**
	$ 1,023.5	**$ 1.4**	**$ 4.5**	**$ 1,020.4**

2017	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
U.S. tax-exempt securities	$ 537.9		$ 2.4	$ 535.5
U.S. corporate securities	89.7	$ .2	.2	89.7
U.S. government and agency securities	48.9		.2	48.7
Non-U.S. corporate securities	459.4	1.3	1.4	459.3
Non-U.S. government securities	91.5	.3	.1	91.7
Other debt securities	142.8	.1	.7	142.2
	$ 1,370.2	$ 1.9	$ 5.0	$ 1,367.1

The cost of marketable debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Amortization, accretion, interest and dividend income and realized gains and losses are included in investment income. The cost of securities sold is based on the specific identification method. Gross realized gains were $1.1, $1.4 and $4.4, and gross realized losses were $.8, $.5 and $.1 for the years ended December 31, 2018, 2017 and 2016, respectively.

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

At December 31,	**2018**		2017	
	LESS THAN TWELVE MONTHS	**TWELVE MONTHS OR GREATER**	LESS THAN TWELVE MONTHS	TWELVE MONTHS OR GREATER
Fair value	**$ 252.8**	**$ 397.9**	$ 908.5	$ 18.4
Unrealized losses	**.8**	**3.7**	4.8	.2

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 on marketable debt securities at December 31, 2018 were as follows:

Maturities:	AMORTIZED COST	FAIR VALUE
Within one year	$ 285.0	$ 284.3
One to five years	731.1	728.7
Six to ten years	3.4	3.4
More than ten years	4.0	4.0
	$ 1,023.5	$ 1,020.4

D. INVENTORIES

Inventories include the following:

At December 31,	**2018**	2017
Finished products	**$ 563.2**	$ 515.7
Work in process and raw materials	**803.3**	586.2
	1,366.5	1,101.9
Less LIFO reserve	**(181.8)**	(173.5)
	$ 1,184.7	$ 928.4

Inventories valued using the LIFO method comprised 47% of consolidated inventories before deducting the LIFO reserve at December 31, 2018 and 2017.

E. FINANCE AND OTHER RECEIVABLES

Finance and other receivables include the following:

At December 31,	**2018**	2017
Loans	**$ 4,630.5**	$ 4,147.8
Direct financing leases	**3,459.4**	3,211.7
Sales-type finance leases	**735.3**	781.1
Dealer wholesale financing	**2,342.3**	1,880.6
Operating lease receivables and other	**174.6**	161.1
Unearned interest: Finance leases	**(387.5)**	(368.0)
	$ 10,954.6	$ 9,814.3
Less allowance for losses:		
Loans and leases	**(103.8)**	(101.9)
Dealer wholesale financing	**(6.8)**	(6.0)
Operating lease receivables and other	**(3.2)**	(9.3)
	$ 10,840.8	$ 9,697.1

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, 2019	LOANS	FINANCE LEASES
2019	$ 1,491.1	$ 1,343.6
2020	1,203.1	1,016.8
2021	916.1	747.4
2022	616.6	443.1
2023	363.4	246.3
Thereafter	40.2	84.6
	$ 4,630.5	$ 3,881.8

Estimated residual values included with finance leases amounted to $312.9 in 2018 and $340.9 in 2017. 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:

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

	2017				
	DEALER		CUSTOMER		
	WHOLESALE	RETAIL	RETAIL	OTHER*	TOTAL
Balance at January 1	$ 5.5	$ 9.6	$ 87.5	$ 8.6	$ 111.2
Provision for losses		(.3)	21.1	1.5	22.3
Charge-offs			(24.8)	(1.9)	(26.7)
Recoveries			5.0	.3	5.3
Currency translation and other	.5	.1	3.7	.8	5.1
Balance at December 31	$ 6.0	$ 9.4	$ 92.5	$ 9.3	$ 117.2

	2016				
	DEALER		CUSTOMER		
	WHOLESALE	RETAIL	RETAIL	OTHER*	TOTAL
Balance at January 1	$ 7.3	$ 10.3	$ 88.9	$ 8.3	$ 114.8
Provision for losses	(1.7)	(.7)	18.6	2.2	18.4
Charge-offs			(22.9)	(2.1)	(25.0)
Recoveries			5.5	.3	5.8
Currency translation and other	(.1)		(2.6)	(.1)	(2.8)
Balance at December 31	$ 5.5	$ 9.6	$ 87.5	$ 8.6	$ 111.2

* Operating lease and other trade receivables.

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

	DEALER		CUSTOMER	
At December 31, 2018	WHOLESALE	RETAIL	RETAIL	TOTAL
Recorded investment for impaired finance receivables evaluated individually	**$ .1**	**$ 2.5**	**$ 36.7**	**$ 39.3**
Allowance for impaired finance receivables determined individually	**.1**		**5.8**	**5.9**
Recorded investment for finance receivables evaluated collectively	**2,342.2**	**1,462.1**	**6,936.4**	**10,740.7**
Allowance for finance receivables determined collectively	**6.7**	**10.0**	**88.0**	**104.7**

December 31, 2018, 2017 and 2016 (currencies in millions)

At December 31, 2017	DEALER WHOLESALE	DEALER RETAIL	CUSTOMER RETAIL	TOTAL
Recorded investment for impaired finance receivables evaluated individually	$ .1	$ 4.0	$ 50.8	$ 54.9
Allowance for impaired finance receivables determined individually	.1		6.6	6.7
Recorded investment for finance receivables evaluated collectively	1,880.5	1,354.7	6,363.1	9,598.3
Allowance for finance receivables determined collectively	5.9	9.4	85.9	101.2

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

At December 31,	**2018**	2017
Dealer:		
Wholesale	**$ .1**	$ .1
Customer retail:		
Fleet	**27.5**	44.4
Owner/operator	**7.9**	6.0
	$ 35.5	$ 50.5

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, 2018 and 2017 was not significantly different than the unpaid principal balance.

At December 31, 2018	**DEALER**		**CUSTOMER RETAIL**		
	WHOLESALE	**RETAIL**	**FLEET**	**OWNER/ OPERATOR**	**TOTAL**
Impaired loans with a specific reserve	**$ .1**		**$ 14.5**	**$ 3.4**	**$ 18.0**
Associated allowance	**(.1)**		**(2.3)**	**(1.0)**	**(3.4)**
			12.2	**2.4**	**14.6**
Impaired loans with no specific reserve		**$ 2.5**	**4.9**	**.3**	**7.7**
Net carrying amount of impaired loans		**$ 2.5**	**$ 17.1**	**$ 2.7**	**$ 22.3**
Average recorded investment	**$ .1**	**$ 3.2**	**$ 29.3**	**$ 2.8**	**$ 35.4**

At December 31, 2017	DEALER		CUSTOMER RETAIL		
	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	TOTAL
Impaired loans with a specific reserve	$ .1		$ 18.8	$ 1.0	$ 19.9
Associated allowance	(.1)		(3.0)	(.2)	(3.3)
			15.8	.8	16.6
Impaired loans with no specific reserve		$ 3.9	13.1	.2	17.2
Net carrying amount of impaired loans		$ 3.9	$ 28.9	$ 1.0	$ 33.8
Average recorded investment	$ .1	$ 4.0	$ 31.3	$ 1.8	$ 37.2

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

Year Ended December 31,	**2018**	2017	2016
Fleet	**$ 2.0**	$ 1.6	$ 1.1
Owner/operator	**.2**	.1	.4
	$ 2.2	$ 1.7	$ 1.5

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

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

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

	DEALER		CUSTOMER RETAIL		
At December 31, 2018	**WHOLESALE**	**RETAIL**	**FLEET**	**OWNER/ OPERATOR**	**TOTAL**
Performing	**$ 2,329.5**	**$ 1,462.1**	**$ 5,759.0**	**$ 1,099.3**	**$ 10,649.9**
Watch	**12.6**		**70.0**	**8.2**	**90.8**
At-risk	**.2**	**2.5**	**28.5**	**8.1**	**39.3**
	$ 2,342.3	**$ 1,464.6**	**$ 5,857.5**	**$ 1,115.6**	**$ 10,780.0**

	DEALER		CUSTOMER RETAIL		
At December 31, 2017	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	TOTAL
Performing	$ 1,874.5	$ 1,354.7	$ 5,290.3	$ 1,005.2	$ 9,524.7
Watch	6.0		62.9	4.7	73.6
At-risk	.1	4.0	44.7	6.1	54.9
	$ 1,880.6	$ 1,358.7	$ 5,397.9	$ 1,016.0	$ 9,653.2

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

	DEALER		CUSTOMER RETAIL		
At December 31, 2018	**WHOLESALE**	**RETAIL**	**FLEET**	**OWNER/ OPERATOR**	**TOTAL**
Current and up to 30 days past due	**$ 2,342.1**	**$ 1,464.6**	**$ 5,835.6**	**$ 1,103.1**	**$ 10,745.4**
31 - 60 days past due	**.1**		**11.2**	**6.7**	**18.0**
Greater than 60 days past due	**.1**		**10.7**	**5.8**	**16.6**
	$ 2,342.3	**$ 1,464.6**	**$ 5,857.5**	**$ 1,115.6**	**$ 10,780.0**

	DEALER		CUSTOMER RETAIL		
At December 31, 2017	WHOLESALE	RETAIL	FLEET	OWNER/ OPERATOR	TOTAL
Current and up to 30 days past due	$ 1,880.5	$ 1,358.7	$ 5,365.7	$ 1,007.4	$ 9,612.3
31 - 60 days past due			14.7	4.0	18.7
Greater than 60 days past due	.1		17.5	4.6	22.2
	$ 1,880.6	$ 1,358.7	$ 5,397.9	$ 1,016.0	$ 9,653.2

Troubled Debt Restructurings: The balance of TDRs was $20.1 and $37.9 at December 31, 2018 and 2017, 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:

	2018		2017	
	RECORDED INVESTMENT		RECORDED INVESTMENT	
	PRE-MODIFICATION	**POST-MODIFICATION**	PRE-MODIFICATION	POST-MODIFICATION
Fleet	**$ 12.1**	**$ 12.1**	$ 19.9	$ 19.9
Owner/operator	**1.0**	**1.0**	.6	.6
	$ 13.1	**$ 13.1**	$ 20.5	$ 20.5

The effect on the allowance for credit losses from such modifications was not significant at December 31, 2018 and 2017.

TDRs modified during the previous twelve months that subsequently defaulted (i.e., became more than 30 days past due) in the years ended December 31, 2018 and 2017 were nil and $4.9, respectively, as shown below by portfolio class:

Year Ended December 31,	**2018**	2017
Fleet	**$**	$ 4.7
Owner/operator		.2
	$	$ 4.9

There were nil and $1.6 of finance receivables modified as TDRs during the previous twelve months that subsequently defaulted and were charged off for the year ended December 31, 2018 and 2017, respectively.

Repossessions: When the Company determines a customer is not likely to meet its contractual commitments, the Company repossesses the vehicles which serve as collateral for the loans, finance leases and equipment under operating leases. The Company records the vehicles as used truck inventory included in Financial Services Other assets on the Consolidated Balance Sheets. The balance of repossessed inventory at December 31, 2018 and 2017 was $10.8 and $13.1, respectively. Proceeds from the sales of repossessed assets were $75.8, $58.3 and $51.7 for the years ended December 31, 2018, 2017 and 2016, respectively. These amounts are included in Proceeds from asset disposals in the Consolidated Statements of Cash Flows. Write-downs of repossessed equipment on operating leases are recorded as impairments and included in Financial Services Depreciation and other expenses on the Consolidated Statements of Income.

F. EQUIPMENT ON OPERATING LEASES

A summary of equipment on operating leases for Truck, Parts and Other and for the Financial Services segment is presented below. Refer to Note A for additional details on the cumulative effect of the changes made to the Company's Consolidated Balance Sheet on January 1, 2018 for the adoption of ASU 2014-09.

	TRUCK, PARTS AND OTHER		FINANCIAL SERVICES	
At December 31,	**2018**	2017	**2018**	2017
Equipment on operating leases	**$ 948.1**	$ 1,615.5	**$ 4,098.3**	$ 4,066.3
Less allowance for depreciation	**(161.5)**	(349.8)	**(1,243.3)**	(1,190.0)
	$ 786.6	$ 1,265.7	**$ 2,855.0**	$ 2,876.3

Annual minimum lease payments due on Financial Services operating leases beginning January 1, 2019 are $605.4, $433.7, $270.1, $122.4, $38.5 and $8.8 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,	**2018**	2017
Residual value guarantees	**$ 591.1**	$ 909.8
Deferred lease revenues	**251.3**	429.2
	$ 842.4	$ 1,339.0

The deferred lease revenue is amortized on a straight-line basis over the RVG contract period. At December 31, 2018, the annual amortization of deferred revenues beginning January 1, 2019 is $106.0, $72.8, $42.8, $28.0, $1.4 and $.3 thereafter. Annual maturities of the RVGs beginning January 1, 2019 are $177.4, $141.0, $127.6, $101.3, $27.5 and $16.3 thereafter.

G. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include the following:

At December 31,	USEFUL LIVES	**2018**	2017
Land		**$ 265.4**	$ 263.3
Buildings and improvements	10 - 40 years	**1,329.0**	1,315.1
Machinery, equipment and production tooling	3 - 12 years	**3,884.5**	3,782.1
Construction in progress		**308.8**	253.8
		5,787.7	5,614.3
Less allowance for depreciation		**(3,306.8)**	(3,149.9)
		$ 2,480.9	$ 2,464.4

H. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER

Accounts payable, accrued expenses and other include the following:

At December 31,	**2018**	2017
Truck, Parts and Other:		
Accounts payable	**$ 1,304.9**	$ 1,154.7
Product support liabilities	**446.7**	372.1
Accrued expenses	**626.5**	401.4
Accrued capital expenditures	**98.8**	120.1
Salaries and wages	**267.7**	238.9
Other	**283.1**	282.3
	$ 3,027.7	$ 2,569.5

I. PRODUCT SUPPORT LIABILITIES

Changes in product support liabilities are summarized as follows:

WARRANTY RESERVES	**2018**	2017	2016
Balance at January 1	**$ 298.8**	$ 282.1	$ 346.2
Cost accruals	**331.9**	242.1	211.9
Payments	**(271.8)**	(236.8)	(255.7)
Change in estimates for pre-existing warranties	**25.6**	(2.0)	(7.3)
Currency translation and other	**(4.3)**	13.4	(13.0)
Balance at December 31	**$ 380.2**	$ 298.8	$ 282.1

DEFERRED REVENUES ON EXTENDED WARRANTIES AND R&M CONTRACTS	**2018**	2017	2016
Balance at January 1	**$ 653.9**	$ 573.5	$ 524.8
Deferred revenues	**448.2**	371.8	347.6
Revenues recognized	**(385.0)**	(328.2)	(274.3)
Currency translation	**(17.2)**	36.8	(24.6)
Balance at December 31	**$ 699.9**	$ 653.9	$ 573.5

The Company expects to recognize approximately $225.3 of the remaining deferred revenues on extended warranties and R&M contracts in 2019, $216.4 in 2020, $136.9 in 2021, $88.6 in 2022, $24.6 in 2023 and $8.1 thereafter.

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

	WARRANTY RESERVES		DEFERRED REVENUES	
At December 31,	**2018**	2017	**2018**	2017
Truck, Parts and Other:				
Accounts payable, accrued expenses and other	**$ 233.0**	$ 176.0	**$ 213.7**	$ 196.1
Other liabilities	**147.2**	122.8	**468.8**	441.0
Financial Services:				
Deferred taxes and other liabilities			**17.4**	16.8
	$ 380.2	$ 298.8	**$ 699.9**	$ 653.9

J. BORROWINGS AND CREDIT ARRANGEMENTS

Financial Services borrowings include the following:

At December 31,	**2018**		2017	
	EFFECTIVE RATE	**BORROWINGS**	EFFECTIVE RATE	BORROWINGS
Commercial paper	**1.9%**	**$ 3,256.8**	1.3%	$ 2,723.7
Bank loans	**7.2%**	**284.0**	6.9%	210.2
		3,540.8		2,933.9
Term notes	**1.8%**	**6,409.7**	1.7%	5,945.5
	2.0%	**$ 9,950.5**	1.7%	$ 8,879.4

Commercial paper and term notes borrowings were $9,666.5 and $8,669.2 at December 31, 2018 and 2017, respectively. Unamortized debt issuance costs, unamortized discounts and the net effect of fair value hedges were $(19.3) and $(20.9) at December 31, 2018 and 2017, respectively. The effective rate is the weighted average rate as of December 31, 2018 and 2017 and includes the effects of interest-rate contracts.

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

Beginning January 1, 2019	COMMERCIAL PAPER	BANK LOANS	TERM NOTES	TOTAL
2019	$ 3,259.8	$ 47.6	$ 1,769.4	$ 5,076.8
2020		120.1	1,730.7	1,850.8
2021		47.2	2,220.2	2,267.4
2022		63.5	405.7	469.2
2023		5.6	300.0	305.6
	$ 3,259.8	$ 284.0	$ 6,426.0	$ 9,969.8

Interest paid on borrowings was $166.5, $127.4 and $108.2 in 2018, 2017 and 2016, respectively. For the years ended December 31, 2018, 2017 and 2016, the Company capitalized nil interest on borrowings for all periods presented, 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, PACCAR Financial Mexico and PACCAR Financial Pty. Ltd. (PFPL).

In November 2018, the Company's U.S. finance subsidiary, PFC, filed a shelf registration under the Securities Act of 1933. The total amount of medium-term notes outstanding for PFC as of December 31, 2018 was $4,900.0. The registration expires in November 2021 and does not limit the principal amount of debt securities that may be issued during that period.

As of December 31, 2018, the Company's European finance subsidiary, PACCAR Financial Europe, had €1,350.0 available for issuance under a €2,500.0 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 2018 and is renewable annually through the filing of new listing particulars.

In April 2016, PACCAR Financial Mexico registered a 10,000.0 pesos medium-term note and commercial paper program with the Comision Nacional Bancaria y de Valores. The registration expires in April 2021 and limits the

amount of commercial paper (up to one year) to 5,000.0 pesos. At December 31, 2018, 7,750.0 pesos remained available for issuance.

In August 2018, the Company's Australian subsidiary, PFPL, registered a medium-term note program. The program does not limit the principal amount of debt securities that may be issued under the program. The total amount of medium-term notes outstanding for PFPL as of December 31, 2018 was 150.0 Australian dollars.

The Company has line of credit arrangements of $3,500.8, of which $3,269.0 were unused at December 31, 2018. Included in these arrangements are $3,000.0 of syndicated bank facilities, of which $1,000.0 expires in June 2019, $1,000.0 expires in June 2022 and $1,000.0 expires in June 2023. 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, 2018.

K. LEASES

The Company leases certain facilities and computer equipment under operating leases. Leases expire at various dates through the year 2026. At January 1, 2019, annual minimum rent payments under non-cancelable operating leases having initial or remaining terms in excess of one year are $18.2, $14.1, $9.0, $5.8, $2.2 and $1.2 thereafter. For the years ended December 31, 2018, 2017 and 2016, total rental expenses under all leases amounted to $35.7, $30.1 and $28.8, respectively.

L. COMMITMENTS AND CONTINGENCIES

At December 31, 2018, PACCAR had standby letters of credit and surety bonds totaling $49.9, from third-party financial institutions, in the normal course of business, which guarantee various insurance, financing and other activities. At December 31, 2018, PACCAR's financial services companies, in the normal course of business, had outstanding commitments to fund new loan and lease transactions amounting to $1,122.3. The commitments generally expire in 90 days. The Company had other commitments, primarily to purchase production inventory, equipment and energy amounting to $132.0, $75.0, $59.6, $58.0 and nil for 2019, 2020, 2021, 2022 and 2023 and beyond, respectively.

The Company is involved in various stages of investigations and cleanup actions in different countries related to environmental matters. In certain of these matters, the Company has been designated as a "potentially responsible party" by domestic and foreign environmental agencies. The Company has accrued the estimated costs to investigate and complete cleanup actions where it is probable that the Company will incur such costs in the future. Expenditures related to environmental activities for the years ended December 31, 2018, 2017 and 2016 were $1.2, $1.9 and $2.2, respectively.

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

On July 19, 2016, the European Commission (EC) concluded its investigation of all major European truck manufacturers and reached a settlement with DAF. Following the settlement, claims and lawsuits have been filed against the Company, DAF and certain DAF subsidiaries and other truck manufacturers. Others may bring EC-related claims and lawsuits against the Company or its subsidiaries. While the Company believes it has meritorious defenses, such claims and lawsuits will likely take a significant period of time to resolve. An adverse outcome of such proceedings could have a material impact on the Company's results of operations.

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

M. EMPLOYEE BENEFITS

Severance Costs: The Company incurred severance expense in 2018, 2017 and 2016 of $.7, $.8 and $2.0, 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 $88.9 to its pension plans in 2018 and $70.6 in 2017. The Company expects to contribute in the range of $70.0 to $100.0 to its pension plans in 2019, of which $23.2 is estimated to satisfy minimum funding requirements. Annual benefits expected to be paid beginning January 1, 2019 are $88.8, $92.1, $99.0, $105.7, $111.5 and a total of $642.0 for the five years thereafter.

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

The fair value of mutual funds, common stocks and U.S. treasuries is determined using the market approach and is based on the quoted prices in active markets. These securities are categorized as Level 1. The fair value of debt securities is determined using the market approach and is based on the quoted market prices of the securities or other observable inputs. These securities are categorized as Level 2.

The fair value of commingled trust funds is determined using the market approach and is based on the unadjusted net asset value (NAV) per unit as determined by the sponsor of the fund based on the fair values of underlying investments. These assets are collective investment trusts, and substantially all of these investments have no redemption restrictions or unfunded commitments. Securities measured at NAV per unit as a practical expedient are not classified in the fair value hierarchy.

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

		FAIR VALUE HIERARCHY				
At December 31, 2018	TARGET	LEVEL 1	LEVEL 2	TOTAL	MEASURED AT NAV	TOTAL
Equities:						
U.S. equities					**$ 680.2**	**$ 680.2**
Global equities					**772.6**	**772.6**
Total equities	**50 - 70%**				**1,452.8**	**1,452.8**
Fixed income:						
U.S. fixed income		**$ 223.2**	**$ 223.4**	**$ 446.6**	**$ 419.6**	**$ 866.2**
Non-U.S. fixed income			**21.6**	**21.6**	**279.0**	**300.6**
Total fixed income	**30 - 50%**	**223.2**	**245.0**	**468.2**	**698.6**	**1,166.8**
Cash and other		**9.0**	**69.0**	**78.0**	**1.6**	**79.6**
Total plan assets		**$ 232.2**	**$ 314.0**	**$ 546.2**	**$ 2,153.0**	**$ 2,699.2**

		FAIR VALUE HIERARCHY				
At December 31, 2017	TARGET	LEVEL 1	LEVEL 2	TOTAL	MEASURED AT NAV	TOTAL
Equities:						
U.S. equities					$ 768.5	$ 768.5
Global equities					866.8	866.8
Total equities	50 - 70%				1,635.3	1,635.3
Fixed income:						
U.S. fixed income		$ 223.3	$ 238.2	$ 461.5	$ 416.0	$ 877.5
Non-U.S. fixed income			27.4	27.4	299.4	326.8
Total fixed income	30 - 50%	223.3	265.6	488.9	715.4	1,204.3
Cash and other		9.2	70.1	79.3	.7	80.0
Total plan assets		$ 232.5	$ 335.7	$ 568.2	$ 2,351.4	$ 2,919.6

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

At December 31,	**2018**	2017
Weighted average assumptions:		
Discount rate	**3.9%**	3.3%
Rate of increase in future compensation levels	**3.8%**	3.9%
Assumed long-term rate of return on plan assets	**6.3%**	6.4%

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

At December 31,	**2018**	2017
Change in projected benefit obligation:		
Benefit obligation at January 1	**$ 2,820.7**	$ 2,505.6
Service cost	**108.3**	92.9
Interest cost	**85.8**	81.1
Benefits paid	**(87.6)**	(82.6)
Actuarial (gain) loss	**(232.6)**	154.7
Currency translation and other	**(39.6)**	68.6
Participant contributions	**.4**	.4
Projected benefit obligation at December 31	**$ 2,655.4**	$ 2,820.7
Change in plan assets:		
Fair value of plan assets at January 1	**$ 2,919.6**	$ 2,494.1
Employer contributions	**88.9**	70.6
Actual return on plan assets	**(177.5)**	369.8
Benefits paid	**(87.6)**	(82.6)
Currency translation and other	**(44.6)**	67.3
Participant contributions	**.4**	.4
Fair value of plan assets at December 31	**$ 2,699.2**	$ 2,919.6
Funded status at December 31	**$ 43.8**	$ 98.9

At December 31,	**2018**	2017
Amounts recorded on Balance Sheet:		
Other noncurrent assets	**$ 174.7**	$ 228.9
Other liabilities	**130.9**	130.0
Accumulated other comprehensive loss:		
Actuarial loss	**471.5**	372.9
Prior service cost	**6.2**	2.6
Net initial transition amount	**.1**	.1

Of the December 31, 2018 amounts in accumulated other comprehensive loss, $17.5 of unrecognized actuarial loss and $1.4 of unrecognized prior service cost are expected to be amortized into net pension expense in 2019.

The accumulated benefit obligation for all pension plans of the Company was $2,356.2 and $2,492.4 at December 31, 2018 and 2017, respectively.

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

At December 31,	**2018**	2017
Projected benefit obligation	**$ 138.3**	$ 142.5
Accumulated benefit obligation	**124.0**	124.0
Fair value of plan assets	**22.0**	23.5

The components of pension expense are as follows:

Year Ended December 31,	**2018**	2017	2016
Service cost	**$ 108.3**	$ 92.9	$ 88.6
Interest on projected benefit obligation	**85.8**	81.1	94.3
Expected return on assets	**(177.2)**	(159.7)	(141.7)
Amortization of prior service costs	**1.4**	1.2	1.2
Recognized actuarial loss	**35.3**	25.4	27.7
Net pension expense	**$ 53.6**	$ 40.9	$ 70.1

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		
			2018	2017	2016
Metal and Electrical Engineering Industry Pension Fund		135668	**$ 27.9**	$ 25.0	$ 23.1
Western Metal Industry Pension Plan	91-6033499	001	**2.7**	1.4	1.5
Other plans			**1.2**	.8	.7
			$ 31.8	$ 27.2	$ 25.3

The Company contributions shown in the table above approximate the multi-employer pension expense for each of the years ended December 31, 2018, 2017 and 2016, 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 May 31, 2018; 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 2018. 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 97.6% at December 31, 2018, a funding improvement plan effective through 2027 is in place. The funding improvement plan includes a possible reduction in pension benefits and delays in future benefit increases.

The Western Metal Industry Pension Plan is located in the U.S. and is covered by a collective bargaining agreement that will expire on November 1, 2020. In accordance with the U.S. Pension Protection Act of 2006, the plan was certified as critical (red) status as of December 31, 2018, and a funding improvement plan was implemented requiring additional contributions through 2022 as long as the plan remains in critical status. Contributions by the Company were 14% and 7% of the total contributions to the plan for the years ended December 31, 2018 and 2017, respectively.

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 2018, 2017 and 2016. Other plans are located in Australia, Brasil, Canada, the Netherlands, Belgium and Germany. Expenses for these plans were $45.3, $37.9 and $34.1 in 2018, 2017 and 2016, respectively.

N. INCOME TAXES

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

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

Year Ended December 31,	**2018**	2017	2016
Domestic	**$ 1,775.2**	$ 1,347.8	$ 1,190.7
Foreign	**1,035.0**	825.5	(60.3)
	$ 2,810.2	$ 2,173.3	$ 1,130.4

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

Year Ended December 31,	**2018**	2017	2016
Current provision:			
Federal	**$ 267.1**	$ 397.7	$ 322.9
State	**67.5**	63.8	41.7
Foreign	**263.0**	210.5	213.2
	597.6	672.0	577.8
Deferred provision (benefit):			
Federal	**22.6**	(173.8)	31.5
State	**1.3**	2.3	4.8
Foreign	**(6.4)**	(2.4)	(5.4)
	17.5	(173.9)	30.9
	$ 615.1	$ 498.1	$ 608.7

Tax benefits recognized for net operating loss carryforwards were $5.0, $4.3 and $1.2 for the years ended 2018, 2017 and 2016, respectively.

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

	2018	2017	2016
Statutory rate	**21.0%**	35.0%	35.0%
Effect of:			
Rate change on deferred taxes		(14.0)	
Transition tax	**(.2)**	6.0	
Non-deductible EC charge			25.8
State	**2.2**	1.8	2.9
Federal domestic production deduction		(1.1)	(2.6)
Tax on foreign earnings	**1.0**	(4.0)	(7.4)
Other, net	**(2.1)**	(.8)	.1
	21.9%	22.9%	53.8%

On December 22, 2017, the U.S. enacted new federal income tax legislation, the Tax Cuts and Jobs Act ("the Tax Act"). The Tax Act lowered the U.S. statutory income tax rate from 35% to 21%, imposed a one-time transition tax on the Company's foreign earnings, which previously had been deferred from U.S. income tax and created a modified territorial system. As a result, the Company recorded a provisional amount of $304.0 of deferred tax benefits, due to the re-measurement of net deferred tax liabilities at the new lower statutory tax rate. In addition, the Company recorded a provisional amount of $130.6 of tax expense on the Company's foreign earnings, which previously had been deferred from U.S. income tax. As of December 31, 2018, the Company does not expect any further adjustments for the provisional amounts recorded.

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

Included in domestic taxable income for 2016 are $180.4 of foreign earnings which are not indefinitely reinvested, for which domestic taxes of $7.1 were provided to account for the difference between the domestic and foreign tax rate on those earnings.

At December 31, 2018, the Company had net operating loss carryforwards of $393.3, of which $297.2 related to foreign subsidiaries and $96.1 related to states in the U.S. The related deferred tax asset was $102.1, for which an $89.0 valuation allowance has been provided. The carryforward periods range from three 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,	**2018**	2017
Assets:		
Accrued expenses	**$ 179.4**	$ 183.9
Net operating loss and tax credit carryforwards	**112.1**	102.1
Allowance for losses on receivables	**30.7**	35.6
Goodwill and intangibles	**24.2**	34.4
Other	**102.0**	89.2
	448.4	445.2
Valuation allowance	**(118.3)**	(118.6)
	330.1	326.6
Liabilities:		
Financial Services leasing depreciation	**(676.4)**	(608.2)
Depreciation and amortization	**(145.2)**	(165.1)
Postretirement benefit plans	**(8.0)**	(39.5)
Other	**(32.9)**	(28.8)
	(862.5)	(841.6)
Net deferred tax liability	**$ (532.4)**	$ (515.0)

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

At December 31,	**2018**	2017
Truck, Parts and Other:		
Other noncurrent assets, net	**$ 97.1**	$ 71.0
Other liabilities	**(2.5)**	(1.9)
Financial Services:		
Other assets	**37.7**	45.2
Deferred taxes and other liabilities	**(664.7)**	(629.3)
Net deferred tax liability	**$ (532.4)**	$ (515.0)

Cash paid for income taxes was $607.6, $661.4 and $499.4 in 2018, 2017 and 2016, respectively.

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

	2018	2017	2016
Balance at January 1	**$ 22.9**	$ 17.3	$ 19.1
Additions for tax positions related to the current year	**11.2**	5.6	3.9
Reductions for tax positions related to prior years			(.3)
Reductions related to settlements	**(5.7)**		(5.4)
Lapse of statute of limitations	**(7.2)**		
Balance at December 31	**$ 21.2**	$ 22.9	$ 17.3

The Company had $21.2, $22.9 and $17.3 of unrecognized tax benefits, of which $18.9, $16.8 and $13.9 would impact the effective tax rate, if recognized, as of December 31, 2018, 2017 and 2016, respectively.

The Company recognized $(.1), $.2 and $1.9 of income related to interest in 2018, 2017 and 2016, respectively. Accrued interest expense and penalties were $1.1, $1.1 and $.9 as of December 31, 2018, 2017 and 2016, respectively. Interest and penalties are classified as income taxes in the Consolidated Statements of Income.

As of December 31, 2018, the United States Internal Revenue Service has completed examinations of the Company's tax returns for all years through 2014. The Company's tax returns for other major jurisdictions remain subject to examination for the years ranging from 2010 through 2018.

O. STOCKHOLDERS' EQUITY

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

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

	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
Balance at January 1, 2017	$ (4.3)	$ (.3)	$ (414.1)	$ (709.4)	$ (1,128.1)
Recorded into AOCI	(91.6)	(1.1)	20.4	292.0	219.7
Reclassified out of AOCI	97.1	(.4)	18.1		114.8
Net other comprehensive income (loss)	5.5	(1.5)	38.5	292.0	334.5
Balance at December 31, 2017	$ 1.2	$ (1.8)	$ (375.6)	$ (417.4)	$ (793.6)

	DERIVATIVE CONTRACTS	MARKETABLE DEBT SECURITIES	PENSION PLANS	FOREIGN CURRENCY TRANSLATION	TOTAL
Balance at January 1, 2016	$ (6.4)	$ 2.1	$ (390.4)	$ (622.3)	$ (1,017.0)
Recorded into AOCI	.2	.3	(42.6)	(87.1)	(129.2)
Reclassified out of AOCI	1.9	(2.7)	18.9		18.1
Net other comprehensive income (loss)	2.1	(2.4)	(23.7)	(87.1)	(111.1)
Balance at December 31, 2016	$ (4.3)	$ (.3)	$ (414.1)	$ (709.4)	$ (1,128.1)

Reclassifications out of AOCI during the years ended December 31, 2018, 2017 and 2016 are as follows:

		AMOUNT RECLASSIFIED OUT OF AOCI		
AOCI COMPONENTS	LINE ITEM IN THE CONSOLIDATED STATEMENTS OF INCOME	**2018**	2017	2016
Unrealized losses and (gains) on derivative contracts:				
Truck, Parts and Other				
Foreign-exchange contracts	Net sales and revenues	**$ 5.4**	$ 12.1	$ (27.9)
	Cost of sales and revenues	**(6.6)**	3.9	.6
	Interest and other (income), net	**(1.6)**	1.8	1.3
Financial Services				
Interest-rate contracts	Interest and other borrowing expenses	**(118.7)**	115.6	36.8
	Pre-tax expense (reduction) increase	**(121.5)**	133.4	10.8
	Tax expense (benefit)	**31.0**	(36.3)	(8.9)
	After-tax expense (reduction) increase	**(90.5)**	97.1	1.9
Unrealized (gains) and losses on marketable debt securities:				
Marketable debt securities	Investment income	**(.2)**	(.6)	(3.7)
	Tax expense	**.1**	.2	1.0
	After-tax income increase	**(.1)**	(.4)	(2.7)
Unrealized losses on pension plans:				
Truck, Parts and Other				
Actuarial loss	Interest and other (income), net	**35.3**	25.4	27.7
Prior service costs	Interest and other (income), net	**1.4**	1.2	1.2
	Pre-tax expense increase	**36.7**	26.6	28.9
	Tax benefit	**(8.7)**	(8.5)	(10.0)
	After-tax expense increase	**28.0**	18.1	18.9
Total reclassifications out of AOCI		**$ (62.6)**	$ 114.8	$ 18.1

Other Capital Stock Changes: The Company purchased treasury shares of 5.8 million, nil and 1.4 million in 2018, 2017 and 2016, respectively. The Company retired treasury shares of 5.8 million in 2018, nil in 2017 and 1.4 million in 2016.

P. DERIVATIVE FINANCIAL INSTRUMENTS

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

Interest-Rate Contracts: The Company enters into various interest-rate contracts, including interest-rate swaps and cross currency interest-rate swaps. Interest-rate swaps involve the exchange of fixed for floating rate or floating for fixed rate interest payments based on the contractual notional amounts in a single currency. Cross currency interest-rate swaps involve the exchange of notional amounts and interest payments in different currencies. The Company is exposed to interest-rate and exchange-rate risk caused by market volatility as a result of its borrowing activities. The objective of these contracts is to mitigate the fluctuations on earnings, cash flows and fair value of borrowings. Net amounts paid or received are reflected as adjustments to interest expense.

At December 31, 2018, the notional amount of the Company's interest-rate contracts was $3,348.1. Notional maturities for all interest-rate contracts are $907.3 for 2019, $647.9 for 2020, $1,230.0 for 2021, $414.4 for 2022, $67.4 for 2023 and $81.1 thereafter.

Foreign-Exchange Contracts: The Company enters into foreign-exchange contracts to hedge certain anticipated transactions and assets and liabilities denominated in foreign currencies, particularly the Canadian dollar, the euro, the British pound, the Australian dollar, the Brazilian real and the Mexican peso. The objective is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates. At December 31, 2018, the notional amount of the outstanding foreign-exchange contracts was $674.6. 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,	**2018**		2017	
	ASSETS	**LIABILITIES**	ASSETS	LIABILITIES
Derivatives designated under hedge accounting:				
Interest-rate contracts:				
Financial Services:				
Other assets	**$ 84.5**		$ 53.3	
Deferred taxes and other liabilities		**$ 18.5**		$ 98.3
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**8.9**		3.8	
Accounts payable, accrued expenses and other		**4.2**		1.9
	$ 93.4	**$ 22.7**	$ 57.1	$ 100.2
Derivatives not designated as hedging instruments:				
Interest-rate contracts:				
Financial Services:				
Deferred taxes and other liabilities				
Foreign-exchange contracts:				
Truck, Parts and Other:				
Other current assets	**$ .4**		$ .6	
Accounts payable, accrued expenses and other		**$ .9**		$ .6
Financial Services:				
Other assets	**.9**		.1	
Deferred taxes and other liabilities		**1.0**		2.2
	$ 1.3	**$ 1.9**	$ .7	$ 2.8
Gross amounts recognized in Balance Sheet	**$ 94.7**	**$ 24.6**	$ 57.8	$ 103.0
Less amounts not offset in financial instruments:				
Truck, Parts and Other:				
Foreign-exchange contracts	**(.9)**	**(.9)**	(.4)	(.4)
Financial Services:				
Interest-rate contracts	**(3.9)**	**(3.9)**	(8.7)	(8.7)
Pro forma net amount	**$ 89.9**	**$ 19.8**	$ 48.7	$ 93.9

Fair Value Hedges: Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings together with the changes in fair value of the hedged item attributable to the risk being hedged. As of December 31, 2018, the following amounts were recorded on the Consolidated Balance Sheets related to cumulative basis adjustments for fair value hedges:

Hedged Balance Sheet Line Item	CARRYING AMOUNT OF THE HEDGED LIABILITIES	CUMULATIVE BASIS AMOUNT INCLUDED IN THE CARRYING AMOUNT
Medium-term notes	**$ 188.7**	**$ (1.3)**

The above table excludes the cumulative basis adjustments on discounted hedge relationships of ($2.9) million as of December 31, 2018.

The following table presents the location and amount of (income) expense on fair value hedges recognized in the Consolidated Statements of Comprehensive Income. The loss (gain) on fair value hedges for foreign-exchange contracts was nil for the years ended December 31, 2018 and 2017. The amounts related to interest-rate contracts were as follows:

Year Ended December 31,	**2018**	2017	2016
Financial Services:			
Interest and other borrowing expenses:			
Derivatives	**$ (.4)**	$ 2.3	$ 5.5
Hedged term notes	**2.2**	(1.5)	(6.4)
	$ 1.8	$ .8	$ (.9)

Cash Flow Hedges: Substantially all of the Company's interest-rate contracts and some foreign-exchange contracts have been designated as cash flow hedges. Changes in the fair value of derivatives designated as cash flow hedges are recorded in AOCI. Amounts in AOCI are reclassified into net income in the same period in which the hedged transaction affects earnings. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is 9.5 years.

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

Year Ended December 31,	**2018**		2017		2016	
	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		**$ 4.5**		$ (17.4)		$ 24.4
Financial Services	**$ 117.1**		$ (108.1)		$ (30.9)	
	$ 117.1	**$ 4.5**	$ (108.1)	$ (17.4)	$ (30.9)	$ 24.4

The following presents the amount of (gain) loss from cash flow hedges reclassified from AOCI into income:

Year Ended December 31,	**2018**		2017		2016	
	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		**$ 5.4**		$ 12.1		$ (27.9)
Cost of sales and revenues		**(6.6)**		3.9		.6
Interest and other (income), net		**(1.6)**		1.8		1.3
Financial Services:						
Interest and other borrowing expenses	**$ (118.7)**		$ 115.6		$ 36.8	
	$ (118.7)	**$ (2.8)**	$ 115.6	$ 17.8	$ 36.8	$ (26.0)

The amount of gain recorded in AOCI at December 31, 2018 that is estimated to be reclassified into earnings in the following 12 months if interest rates and exchange rates remain unchanged is approximately $9.8, 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 year ended December 31, 2018, nil for the year ended December 31, 2017 and a loss of $.3 for the year ended December 31, 2016.

Derivatives Not Designated As Hedging Instruments: For other risk management purposes, the Company enters into derivative instruments that do not qualify for hedge accounting. These derivative instruments are used to mitigate the risk of market volatility arising from borrowings and foreign currency denominated transactions. Changes in the fair value of derivatives not designated as hedging instruments are recorded in earnings in the period in which the change occurs.

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

Year Ended December 31,	**2018**		2017		2016	
	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						$ (.4)
Cost of sales and revenues		**$ (.3)**		$ .3		.4
Interest and other (income), net		**6.9**		2.1		14.9
Financial Services:						
Interest and other borrowing expenses		**(14.9)**	$ (.1)	49.1	$ .1	(28.4)
Selling, general and administrative		**1.7**		.5		1.8
		$ (6.6)	$ (.1)	$ 52.0	$ .1	$ (11.7)

Q. FAIR VALUE MEASUREMENTS

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

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

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

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

There were no transfers of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy during the year ended December 31, 2018. 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, 2018	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		**$ 325.1**	**$ 325.1**
U.S. corporate securities		**147.4**	**147.4**
U.S. government and agency securities	**$ 97.1**	**1.6**	**98.7**
Non-U.S. corporate securities		**271.3**	**271.3**
Non-U.S. government securities		**55.9**	**55.9**
Other debt securities		**122.0**	**122.0**
Total marketable debt securities	**$ 97.1**	**$ 923.3**	**$ 1,020.4**
Derivatives			
Cross currency swaps		**$ 75.4**	**$ 75.4**
Interest-rate swaps		**9.1**	**9.1**
Foreign-exchange contracts		**10.2**	**10.2**
Total derivative assets		**$ 94.7**	**$ 94.7**
Liabilities:			
Derivatives			
Cross currency swaps		**$ 11.2**	**$ 11.2**
Interest-rate swaps		**7.3**	**7.3**
Foreign-exchange contracts		**6.1**	**6.1**
Total derivative liabilities		**$ 24.6**	**$ 24.6**

At December 31, 2017	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Marketable debt securities			
U.S. tax-exempt securities		$ 535.5	$ 535.5
U.S. corporate securities		89.7	89.7
U.S. government and agency securities	$ 48.7		48.7
Non-U.S. corporate securities		459.3	459.3
Non-U.S. government securities		91.7	91.7
Other debt securities		142.2	142.2
Total marketable debt securities	$ 48.7	$ 1,318.4	$ 1,367.1
Derivatives			
Cross currency swaps		$ 44.2	$ 44.2
Interest-rate swaps		9.1	9.1
Foreign-exchange contracts		4.5	4.5
Total derivative assets		$ 57.8	$ 57.8
Liabilities:			
Derivatives			
Cross currency swaps		$ 93.0	$ 93.0
Interest-rate swaps		5.3	5.3
Foreign-exchange contracts		4.7	4.7
Total derivative liabilities		$ 103.0	$ 103.0

Fair Value Disclosure of Other Financial Instruments

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

Cash and Cash Equivalents: Carrying amounts approximate fair value.

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

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

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

At December 31,	**2018**		2017	
	CARRYING AMOUNT	**FAIR VALUE**	CARRYING AMOUNT	FAIR VALUE
Assets:				
Financial Services fixed rate loans	**$ 4,265.4**	**$ 4,269.5**	$ 3,793.8	$ 3,804.8
Liabilities:				
Financial Services fixed rate debt	**5,419.2**	**5,396.4**	5,397.6	5,387.0

R. STOCK COMPENSATION PLANS

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

The Company recognizes compensation cost on these options and restricted stock awards on a straight-line basis over the requisite period the employee is required to render service less estimated forfeitures based on historical experience. The maximum number of shares of the Company's common stock authorized for issuance under these plans is 46.7 million shares, and as of December 31, 2018, the maximum number of shares available for future grants was 13.3 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.

	2018	2017	2016
Risk-free interest rate	**2.64%**	1.97%	1.37%
Expected volatility	**23%**	23%	26%
Expected dividend yield	**3.8%**	3.1%	4.0%
Expected term	**6 years**	5 years	5 years
Weighted average grant date fair value of options per share	**$ 10.67**	$ 10.56	$ 7.51

The fair value of options granted was $6.3, $6.4 and $6.0 for the years ended December 31, 2018, 2017 and 2016, respectively. The fair value of options vested during the years ended December 31, 2018, 2017 and 2016 was $5.3, $5.2 and $7.8, respectively.

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

	2018	2017	2016
Intrinsic value of options exercised	**$ 13.4**	$ 22.0	$ 10.4
Cash received from stock option exercises	**19.7**	40.0	29.4
Tax benefit related to stock award exercises	**2.4**	4.9	1.0
Stock-based compensation	**13.2**	12.7	13.1
Tax benefit related to stock-based compensation	**1.9**	4.6	4.7

The summary of options as of December 31, 2018 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	**4,056,200**	**$ 51.57**		
Granted	**586,500**	**68.69**		
Exercised	**(492,500)**	**40.02**		
Cancelled	**(59,300)**	**58.22**		
Options outstanding at December 31	**4,090,900**	**$ 55.32**	**5.71**	**$ 23.1**
Vested and expected to vest	**3,968,800**	**$ 54.93**	**5.61**	**$ 23.1**
Exercisable	**2,254,600**	**$ 50.46**	**3.81**	**$ 18.1**

* **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, 2018 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	**211,700**	**$ 60.16**
Granted	**185,700**	**67.41**
Vested	**(207,900)**	**63.27**
Nonvested awards outstanding at December 31	**189,500**	**$ 63.85**

* **Weighted Average**

As of December 31, 2018, there was $5.5 of total unrecognized compensation cost related to nonvested stock options, which is recognized over a remaining weighted average vesting period of 1.50 years. Unrecognized compensation cost related to nonvested restricted stock awards of $3.1 is expected to be recognized over a remaining weighted average vesting period of 1.52 years.

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

Year Ended December 31,	**2018**	2017	2016
Additional shares	**785,100**	1,038,400	694,700
Antidilutive options	**1,176,600**	696,400	1,943,500

December 31, 2018, 2017 and 2016 (currencies in millions)

S. SEGMENT AND RELATED INFORMATION

PACCAR operates in three principal segments: Truck, Parts and Financial Services. The Company evaluates the performance of its Truck and Parts segments based on operating profits, which excludes investment income, other income and expense, the EC charge, 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 as well as sales, income and expense not attributable to a reportable segment. Other also includes non-service cost components of pension (income) expense, a portion of corporate expenses and the EC charge in 2016. Intercompany interest (expense) income on cash advances to the financial services companies is included in Other and was $(.3), nil and $.4 for 2018, 2017 and 2016, respectively.

Geographic Area Data	**2018**	2017	2016
Net sales and revenues:			
United States	**$ 13,165.7**	$ 10,530.1	$ 9,221.3
Europe	**6,071.9**	5,354.6	4,903.3
Other	**4,258.1**	3,571.7	2,908.7
	$ 23,495.7	$ 19,456.4	$ 17,033.3
Property, plant and equipment, net:			
United States	**$ 1,353.8**	$ 1,238.1	$ 1,187.0
The Netherlands	**397.8**	464.5	406.7
Other	**729.3**	761.8	666.3
	$ 2,480.9	$ 2,464.4	$ 2,260.0
Equipment on operating leases, net:			
United States	**$ 1,405.1**	$ 1,530.8	$ 1,458.0
Germany	**361.0**	385.1	318.3
United Kingdom	**130.3**	343.1	309.7
Mexico	**306.4**	316.1	304.8
Other	**1,438.8**	1,566.9	1,247.0
	$ 3,641.6	$ 4,142.0	$ 3,637.8

December 31, 2018, 2017 and 2016 (currencies in millions)

Business Segment Data	**2018**	2017	2016
Net sales and revenues:			
Truck	**$ 18,863.1**	$ 15,543.7	$ 13,652.7
Less intersegment	**(676.1)**	(768.9)	(885.4)
External customers	**18,187.0**	14,774.8	12,767.3
Parts	**3,896.2**	3,380.2	3,052.9
Less intersegment	**(57.3)**	(53.2)	(47.2)
External customers	**3,838.9**	3,327.0	3,005.7
Other	**112.7**	85.7	73.6
	22,138.6	18,187.5	15,846.6
Financial Services	**1,357.1**	1,268.9	1,186.7
	$ 23,495.7	$ 19,456.4	$ 17,033.3
Income before income taxes:			
Truck	**$ 1,672.1**	$ 1,253.8	$ 1,107.4
Parts	**768.6**	610.0	542.1
Other*	**2.7**	12.5	(852.4)
	2,443.4	1,876.3	797.1
Financial Services	**305.9**	261.7	305.7
Investment income	**60.9**	35.3	27.6
	$ 2,810.2	$ 2,173.3	$ 1,130.4
Depreciation and amortization:			
Truck	**$ 406.2**	$ 468.2	$ 432.8
Parts	**9.2**	8.1	7.3
Other	**18.4**	18.1	15.8
	433.8	494.4	455.9
Financial Services	**620.3**	613.1	537.2
	$ 1,054.1	$ 1,107.5	$ 993.1
Expenditures for long-lived assets:			
Truck	**$ 778.5**	$ 769.7	$ 735.6
Parts	**29.4**	23.4	16.9
Other	**38.8**	54.0	25.5
	846.7	847.1	778.0
Financial Services	**1,085.1**	1,008.0	1,214.4
	$ 1,931.8	$ 1,855.1	$ 1,992.4
Segment assets:			
Truck	**$ 5,347.3**	$ 5,159.7	$ 4,429.4
Parts	**1,090.9**	950.7	805.1
Other	**345.0**	505.6	287.0
Cash and marketable securities	**4,299.6**	3,621.9	2,922.6
	11,082.8	10,237.9	8,444.1
Financial Services	**14,399.6**	13,202.3	12,194.8
	$ 25,482.4	$ 23,440.2	$ 20,638.9

* Other includes the $833.0 European Commission charge in 2016.

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, 2018, 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, 2018.

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

Ronald E. Armstrong
Chief Executive Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of PACCAR Inc

Opinion on the Financial Statements

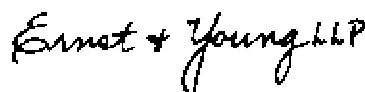
We have audited the accompanying consolidated balance sheets of PACCAR Inc (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, 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 21, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.



We have served as the Company's auditor since 1945
Seattle, Washington
February 21, 2019

To the Stockholders and the Board of Directors of PACCAR Inc

Opinion on Internal Control Over Financial Reporting

We have audited PACCAR Inc's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, PACCAR Inc (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, 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, 2018, and the related notes and our report dated February 21, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Ernst & Young LLP

Seattle, Washington
February 21, 2019

SELECTED FINANCIAL DATA

	2018	2017	2016	2015	2014
			(millions except per share data)		
Truck, Parts and Other Net Sales and Revenues	**$ 22,138.6**	$ 18,187.5	$ 15,846.6	$ 17,942.8	$ 17,792.8
Financial Services Revenues	**1,357.1**	1,268.9	1,186.7	1,172.3	1,204.2
Total Revenues	**$ 23,495.7**	$ 19,456.4	$ 17,033.3	$ 19,115.1	$ 18,997.0
Net Income	**$ 2,195.1**	$ 1,675.2	$ 521.7	$ 1,604.0	$ 1,358.8
Adjusted Net Income*		1,501.8	1,354.7		
Net Income Per Share:					
Basic	**6.25**	4.76	1.49	4.52	3.83
Diluted	**6.24**	4.75	1.48	4.51	3.82
Adjusted Diluted*		4.26	3.85		
Cash Dividends Declared Per Share	**3.09**	2.19	1.56	2.32	1.86
Total Assets:					
Truck, Parts and Other	**11,082.8**	10,237.9	8,444.1	8,855.2	8,701.5
Financial Services	**14,399.6**	13,202.3	12,194.8	12,254.6	11,917.3
Financial Services Debt	**9,950.5**	8,879.4	8,475.2	8,591.5	8,230.6
Stockholders' Equity	**8,592.9**	8,050.5	6,777.6	6,940.4	6,753.2

* See Reconciliation of GAAP to Non-GAAP Financial Measures for 2017 and 2016 on pages 46-47 and see Note L on page 73.

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 1,529 record holders of the common stock at December 31, 2018.

	2018			2017		
	DIVIDENDS	**STOCK PRICE**		DIVIDENDS	STOCK PRICE	
QUARTER	**DECLARED**	**HIGH**	**LOW**	DECLARED	HIGH	LOW
First	**$ .25**	**$79.69**	**$62.82**	$ .24	$70.12	$64.61
Second	**.28**	**71.58**	**60.36**	.25	69.17	61.93
Third	**.28**	**72.89**	**59.82**	.25	73.29	62.72
Fourth	**.28**	**70.76**	**53.43**	.25	75.68	66.33
Year-End Extra	**2.00**			1.20		

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)			
2018				
Truck, Parts and Other:				
Net sales and revenues	**$ 5,321.8**	**$ 5,467.2**	**$ 5,416.9**	**$ 5,932.7**
Cost of sales and revenues	**4,535.5**	**4,647.3**	**4,653.6**	**5,088.6**
Research and development	**76.0**	**76.7**	**72.9**	**80.5**
Financial Services:				
Revenues	**332.2**	**338.0**	**339.9**	**347.0**
Interest and other borrowing expenses	**41.3**	**45.7**	**49.0**	**50.9**
Depreciation and other expenses	**186.4**	**185.5**	**178.5**	**177.6**
Net Income	**512.1**	**559.6**	**545.3**	**578.1**
Net Income Per Share:				
Basic	**$ 1.45**	**$ 1.59**	**$ 1.55**	**$ 1.66**
Diluted	**1.45**	**1.59**	**1.55**	**1.65**
2017				
Truck, Parts and Other:				
Net sales and revenues	$ 3,935.7	$ 4,397.9	$ 4,731.5	$ 5,122.4
Cost of sales and revenues	3,390.9	3,764.0	4,055.6	4,418.4
Research and development	61.0	66.1	67.0	70.6
Financial Services:				
Revenues	302.2	306.3	328.2	332.2
Interest and other borrowing expenses	34.1	37.4	38.3	39.8
Depreciation and other expenses	179.7	172.8	186.2	188.8
Net Income	310.3	373.0	402.7	589.2
Adjusted Net Income *				415.8
Net Income Per Share:				
Basic **	$ .88	$ 1.06	$ 1.14	$ 1.67
Diluted	.88	1.06	1.14	1.67
Adjusted Diluted *				1.18

* See Reconciliation of GAAP to Non-GAAP Financial Measures for 2017 on pages 46-47.

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

(currencies in millions)

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

Fair Value (Losses) Gains		**2018**		2017
CONSOLIDATED:				
Assets				
Cash equivalents and marketable debt securities	**$**	**(15.9)**	$	(21.0)
FINANCIAL SERVICES:				
Assets				
Fixed rate loans		**(79.2)**		(69.7)
Liabilities				
Fixed rate term debt		**95.7**		99.1
Interest-rate swaps		**16.3**		15.0
Total	**$**	**16.9**	$	23.4

Currency Risks - The Company enters into foreign currency exchange contracts to hedge its exposure to exchange rate fluctuations of foreign currencies, particularly the Canadian dollar, the euro, the British pound, the Australian dollar, the Brazilian real and the Mexican peso *(see Note P for additional information concerning these hedges)*. Based on the Company's sensitivity analysis, the potential loss in fair value for such financial instruments from a 10% unfavorable change in quoted foreign currency exchange rates would be a loss of $101.2 related to contracts outstanding at December 31, 2018, compared to a loss of $55.7 at December 31, 2017. 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

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

R. Preston Feight
Executive Vice President

Gary L. Moore
Executive Vice President

Michael T. Barkley
Senior Vice President and Controller

Robert A. Bengston (retired 2/1/2019)
Senior Vice President

T. Kyle Quinn
Senior Vice President and
Chief Technology Officer

Darrin C. Siver
Senior Vice President

Ronald R. Augustyn
Vice President

David J. Danforth
Vice President

Marco A. Davila
Vice President

C. Michael Dozier
Vice President

Douglas S. Grandstaff
Vice President and General Counsel

Todd R. Hubbard
Vice President

Jack K. LeVier
Vice President

A. Lily Ley
Vice President and
Chief Information Officer

Debra E. Poppas
Vice President

Jason P. Skoog
Vice President

Landon J. Sproull
Vice President

George E. West, Jr.
Vice President

Harry M.B. Wolters
Vice President

Michael K. Kuester
Assistant Vice President

Ulrich Kammholz
Treasurer

Irene E. Song
Corporate Secretary

DIRECTORS

Mark C. Pigott
Executive Chairman
PACCAR Inc (3)

Ronald E. Armstrong
Chief Executive Officer
PACCAR Inc

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

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

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

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

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

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

Mark A. Schulz
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, Paraná, Brasil

Factory:
Ponta Grossa, Paraná, Brasil

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

Factories:
Eindhoven, The Netherlands
Westerlo, Belgium

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

Factory:
Leyland, Lancashire,
United Kingdom

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

Factory:
Mexicali, Baja California
Mexico

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

Factory:
Bayswater, Victoria, Australia

TRUCK PARTS AND SUPPLIES

PACCAR Engine Company
1000 PACCAR Drive
Columbus, Mississippi 39701

Factory:
Columbus, Mississippi

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

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

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

Factories:
Algona, Washington
Louisville, Kentucky
McKinney, Texas

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
12479 Farm to Market Road
Mount Vernon, Washington
98273

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

PACCAR Innovation Center
1277 Reamwood Avenue
Sunnyvale, CA 94089

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

PACCAR FINANCIAL SERVICES GROUP

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

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

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

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

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

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

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

PACCAR GLOBAL SALES

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

Offices:
Beijing, People's Republic of China
Manama, Bahrain
Moscow, Russia
Shanghai, People's Republic of China

STOCKHOLDERS' INFORMATION

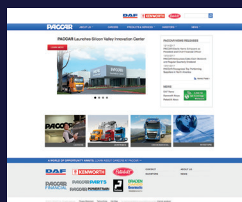
Corporate Offices
PACCAR Building
777 106th Avenue N.E.
Bellevue, Washington
98004

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

Telephone
425.468.7400

Facsimile
425.468.8216

Website
www.paccar.com



Stock Transfer and Dividend Dispersing Agent
Equiniti Trust Company
Shareowner Services
P.O. Box 64854
St. Paul, Minnesota
55164-0854
800.468.9716
www.shareowneronline.com

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

Online Delivery of Annual Report and Proxy Statement
PACCAR's 2018 Annual Report and the 2019 Proxy Statement are available on PACCAR's website at www.paccar.com/2019annualmeeting

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

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

Independent Auditors
Ernst & Young LLP
Seattle, Washington

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

Annual Stockholders' Meeting
April 30, 2019, 10:30 a.m.
PACCAR Parts Distribution Center,
750 Houser Way N,
Renton Washington, 98057

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PACCAR Inc

PACCAR Inc