Risk Factors Comparison 2024-02-21 to 2023-02-22 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

The following are significant risks which could have a material negative impact on the Company' s financial condition or results of operations. Business and Industry Risks Commercial Truck Market Demand is Variable. The Company' s business is highly sensitive to global and national economic conditions as well as economic conditions in the industries and markets it serves. Negative economic conditions and outlook can materially weaken demand for the Company' s equipment and services. The yearly demand for commercial vehicles may increase or decrease more than overall gross domestic product in markets the Company serves, which are principally North America and Europe. Demand for commercial vehicles may also be affected by the introduction of new vehicles and technologies by the Company or its competitors. Competition and Prices. The Company operates in a highly competitive environment, which could adversely affect the Company' s sales and pricing. Financial results depend largely on the ability to develop, manufacture and market competitive products that profitably meet customer demand. Production Costs, Capacity and Inflation. The Company' s products are exposed to variability in material and commodity costs. Commodity or component price increases, cost pressures due to inflation, significant shortages of component products and labor availability may adversely impact the Company' s financial results or use of its production capacity. Many of the Company' s suppliers also supply automotive manufacturers, and factors that adversely affect the automotive industry can also have adverse effects on these suppliers and the Company. Supplier delivery performance can be adversely affected if increased demand for these suppliers' products exceeds their production capacity. ~~The Company has been affected by an industry- wide undersupply of component parts and anticipates the shortages may continue to affect deliveries into 2023.~~ Unexpected events, including natural disasters, extreme weather events, or pandemics, may increase the Company' s cost of doing business or disrupt the Company' s or its suppliers' operations. The likelihood or severity of these unexpected events may increase due to the effects of climate change. Transition Risks Related to Climate Change. The Company has ongoing product development programs intended to address changing customer demand in the context of climate change and achieve its targeted reductions in emissions. These involve the continuing development of compliant clean diesel powertrains and the design, manufacture, and sale of alternative powertrain commercial vehicles (e. g., battery- electric, hybrid, hydrogen fuel cell, and hydrogen combustion). The pace of transition from diesel combustion to alternative powertrain commercial vehicles is highly uncertain and will be influenced by: • the success of the Company' s research and development programs • customer demand for alternative powertrain vehicles • advancements in battery- electric, hydrogen fuel cell, and hydrogen combustion technology • the cost of batteries, hydrogen fuel cells and liquid hydrogen • global regulations requiring the use of alternative powertrain vehicles and / or providing incentives to facilitate the transition to alternative powertrain commercial vehicles • investments in energy and power infrastructure (e. g., renewable power supply, electric charging services, hydrogen supply and distribution) in key markets, as well as the associated utility costs • the ability of the supply chain to deliver components, including commodities and raw materials that are unique to alternative powertrain commercial vehicles • the success of new and existing competitors in developing and selling alternative powertrain commercial vehicles The Company believes its current strategies, programs and resources are sufficient to address changes in customer demand in the context of climate change and to meet its emissions reduction targets. If the Company is not successful in addressing the risks noted above, there may be a material adverse impact on its business, operations, and financial condition. Liquidity Risks, Credit Ratings and Costs of Funds. Disruptions or volatility in global financial markets could limit the Company' s sources of liquidity, or the liquidity of customers, dealers and suppliers. A lowering of the Company' s credit ratings could increase the cost of borrowing and adversely affect access to capital markets. The Company' s Financial Services segment obtains funds for its operations from commercial paper, medium- term notes and bank debt. If the markets for commercial paper, medium- term notes and bank debt do not provide the necessary liquidity in the future, the Financial Services segment may experience increased costs or may have to limit its financing of retail and wholesale assets. This could result in a reduction of the number of vehicles the Company is able to produce and sell to customers. The Financial Services Industry is Highly Competitive. The Company' s Financial Services segment competes with banks, other commercial finance companies and financial services firms which may have lower costs of borrowing, higher leverage or market share goals that result in a willingness to offer lower interest rates, which may lead to decreased margins, lower market share or both. A decline in the Company' s truck unit sales or a decrease in used truck prices are also factors which may affect the Company' s Financial Services segment. The Financial Services Segment is Subject to Credit Risk. The Financial Services segment is exposed to the risk of loss arising from the failure of a customer, dealer or counterparty to meet the terms of the loans, leases and derivative contracts with the Company. Although the financial assets of the Financial Services segment are secured by underlying equipment collateral, in the event a customer cannot meet its obligations to the Company, there is a risk the value of the underlying collateral will not be sufficient to recover the amounts owed to the Company, resulting in credit losses. Interest- Rate Risks. The Financial Services segment is subject to interest- rate risks, because increases in interest rates can reduce demand for its products, increase borrowing costs and potentially reduce interest margins. PFS uses derivative contracts to match the interest- rate characteristics of its debt to the interest- rate characteristics of its finance receivables in order to mitigate the risk of changing interest rates. **All** ~~Substantially all~~ of the Company' s finance contracts which used to reference LIBOR (London Inter- Bank Offered Rate), including dealer wholesale financing contracts, retail loan and lease contracts, medium- term notes, hedging instruments and line of credit arrangements, have been transitioned to alternative benchmark rates. Changes to other benchmark interest rates, such as CDOR (Canadian Dollar Offered Rate), will have an uncertain impact on finance receivables and other financial obligations, the Company' s future cost of funds and / or access to capital markets. The

Company will attempt to minimize the impact of differences between the current and replacement benchmark rates through pricing adjustments on the financing provided by PFS, but it is not certain the Company will be able to do so. The Company does not expect the cessation of ~~LIBOR~~ **CDOR** or the anticipated changes to other benchmark rates will have a material impact on the results of operations. Information Technology **and Cybersecurity** . The Company relies on information technology systems and networks, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of its business processes and activities. Some of the Company' s products include telematics which provide over- the- air software updates, advanced fleet management tools and real- time data analytics on driver and vehicle performance. These computer systems and networks may be subject to disruptions during the process of upgrading or replacing software, databases or components; power outages; hardware failures; computer viruses; or outside parties attempting to disrupt the Company' s business or gain unauthorized access to the Company' s electronic data. The Company maintains **a cybersecurity insurance policy** and continues to invest in protections to guard against such events. ~~Examples of these protections include conducting third- party penetration tests, implementing software detection and prevention tools, event monitoring, and disaster recoverability. Additionally, the Company maintains a cybersecurity insurance policy.~~ Despite these safeguards, there remains a risk of system disruptions, unauthorized access and data loss ~~. The Company has not experienced any notable security incidents that would have a material impact on the results of operations and financial condition of the Company. Certain dealers and suppliers have reported they have experienced cyberattacks and those have not caused any material impact to the Company~~ . If the Company' s computer systems were to be damaged, disrupted or breached, it could impact data availability and integrity, result in a theft of the Company' s intellectual property or lead to unauthorized disclosure of confidential information of the Company' s customers, suppliers and employees. Security breaches could also result in a violation of U. S. and international privacy and other laws and subject the Company to various litigations and governmental proceedings. These events could have an adverse impact on the Company' s results of operations and financial condition, damage its reputation, disrupt operations and negatively impact competitiveness in the marketplace **.** Political, Regulatory and Economic Risks Multinational Operations. The Company' s global operations are exposed to political, economic and other risks and events beyond its control in the countries in which the Company operates. The Company may be adversely affected by political instabilities, fuel shortages or interruptions in utility or transportation systems, natural calamities, recessions or slower economic growth, inflation, epidemics and pandemics (such as COVID- 19), wars, **geopolitical tensions and conflicts (such as conflicts in Ukraine and Israel),** terrorism and labor strikes. Changes in government monetary or fiscal policies and international trade policies may impact demand for the Company' s products, financial results and competitive position. PACCAR' s global operations are subject to extensive trade, competition and anti- corruption laws and regulations that could impose significant compliance costs. ~~Conflict in Ukraine. In accordance with international sanctions, in February 2022 the Company suspended truck and parts sales to Russia and Belarus. The Company has no factories in Russia and has managed export sales to Russia through independent dealers. In 2021, 2, 500 trucks were sold into Russia and Belarus. The Company also sold parts in these markets through a third- party owned warehouse. The trucks were sold on a fully paid- up basis; accordingly, the Company does not have significant receivables exposure. Inventory balances are not significant. The conflict may affect energy supplies in Europe. If the availability of energy in Europe is severely constrained, truck delivery volumes could be impacted. The Company continues to monitor the situation closely. The conflict has not had a significant impact on the results of operations or cash flows of the Company. The potential future impact on the Company' s business will depend on further developments, including the severity and duration of the conflict and its effect on European and global economic conditions. COVID- 19 Pandemic. The effects of the COVID- 19 pandemic decreased over the course of 2022 but still caused disruptions to the global supply chain, in particular the undersupply of component parts and semiconductor chips. A recurrence of a severe COVID- 19 strain could cause industry capacity constraints on our suppliers, and localized outbreaks of COVID- 19 may necessitate facility slowdowns or shutdowns. These and other unforeseen pandemic related factors could impact the Company' s business and results of operations.~~ Environmental Regulations. The Company' s operations are subject to environmental laws and regulations that impose significant compliance costs. The Company could experience higher research and development and manufacturing costs due to changes in government requirements for its products, including changes in emissions, fuel, greenhouse gas or other regulations. Emissions Requirements and Reduction Targets. PACCAR' s operations and products are subject to extensive statutory and regulatory requirements governing greenhouse gas and non- greenhouse gas emissions. These include standards imposed by the U. S. Environmental Protection Agency (EPA), the European Union, U. S. state regulatory agencies (such as the California Air Resources Board), regulatory agencies in other international markets where the Company operates, and non- binding international accords related to climate change. The primary laws and regulations are the EPA' s Greenhouse Gas Emissions Standards and Fuel Efficiency Standards for Medium and Heavy- Duty Engines and Vehicles, **EPA' s Clean Truck Initiative,** the Regulation of the European Parliament and of the Council on the Monitoring and Reporting of CO2 Emissions from Fuel Consumption of New Heavy- Duty Vehicles, and the Heavy- Duty Omnibus Regulation **and Advanced Clean Truck (ACT) regulation** of the California Air Resources Board **. The ACT regulation, which has been adopted by several other states, requires an increasing percentage of medium- and heavy- duty trucks sold into the state to be zero emission** . PACCAR established its science- based greenhouse gas emission reduction targets to meet the goals of the Paris Agreement ~~. The Company continually monitors developments in emissions and climate change- related laws and regulations in the markets in which the Company conducts business~~ . The Company' s product planning through 2030 is aligned with these statutory and regulatory requirements, and uses a climate change scenario analysis to limit global warming to below 2 ° C. Even without legislation to reduce greenhouse gas emissions, PACCAR expects to continue to significantly invest in technologies to improve fuel efficiency for its customers, which would also reduce greenhouse gas emissions. ~~PACCAR~~ **The Company continually monitors developments in emissions and climate change- related laws and regulations in the markets in which the Company conducts business, and** expects that climate change- related laws, regulations, and international accords will continue to evolve. **PACCAR** ~~The Company~~ cannot reasonably predict whether future laws, regulations, and international accords could materially increase its environmental compliance costs, alter its product development strategy, or impact its business, financial condition, or results of operations. Litigation, Product Liability and Regulatory. The Company' s products are subject to recall for environmental, performance and safety- related issues. Product recalls, lawsuits, regulatory actions or increases in the reserves the Company establishes for contingencies may increase the Company' s costs and lower profits. Due to the international nature of the Company' s business, some products are also subject to international trade regulations, including customs and import / export related laws and regulations, government embargoes and sanctions prohibiting sales to specific persons or countries, as well as anti- corruption laws. The Company' s telematics depend on cellular frequency allocations regulated by government agencies and collected data is subject to various privacy laws and government regulations. The Company' s reputation and its brand names are valuable assets, and claims or regulatory actions, even if unsuccessful or without merit, could adversely affect the Company' s reputation and brand images because of adverse publicity. Currency Exchange and Translation. The Company' s consolidated financial results are reported in U. S. dollars, while significant operations are denominated in the currencies of other countries. Currency exchange rate fluctuations can affect the Company' s assets, liabilities and results of operations through both translation and transaction risk, as reported in the Company' s financial statements. The Company uses certain derivative financial instruments and localized production of its products to reduce, but not eliminate, the effects of foreign currency exchange rate fluctuations. Accounting Estimates. 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. Certain of these estimates, judgments and assumptions, such as residual values on operating leases, the allowance for credit losses and product warranty are particularly sensitive. If actual results are different from estimates used by management, they may have a material impact on the financial statements. For additional disclosures regarding accounting estimates, see " Critical Accounting Policies " under Item 7 of this Form 10- K. Taxes. Changes in statutory income tax rates in the countries in which the Company operates impact the Company' s effective tax rate. Changes to other taxes or the adoption of other new tax legislation could affect the Company' s provision for income taxes and related tax assets and liabilities.