

PACCAR Inc

CORPORATE GOVERNANCE GUIDELINES

The Board of Directors of PACCAR adopted the following Corporate Governance Guidelines in furtherance of the Company's commitment to serve the long-term interests of its stockholders.

I. COMPOSITION OF THE BOARD

A. Size of the Board. The PACCAR bylaws provide that the Board shall determine the number of directors by resolution. PACCAR has a "staggered" Board divided into three classes. Approximately one-third of the Board is elected as a class for a three-year term at each annual stockholder meeting. The Board may elect candidates to fill vacancies in any director class.

B. Membership Criteria. The Nominating and Governance Committee has established written criteria for the selection of new directors which is available at www.paccar.com/company/corporateresponsibility/boardguidelines.asp. A majority of the Board must consist of independent directors as defined in NASDAQ Rule 5605(a)(2). To be a qualified director candidate, a person must have achieved significant success in business, education or public service, must not have a conflict of interest and must be committed to representing the long-term interests of the stockholders. In addition the candidate must have other attributes listed in the Guidelines.

C. Retirement Age. The PACCAR bylaws state that a director's term expires on the day before the annual stockholder meeting following the director's 72nd birthday. No person age 72 or older is eligible for election as a director.

D. Director Responsibilities. The Nominating and Governance Committee is responsible for advising the Board with respect to the Board's membership and its governance. In fulfilling that responsibility, the Committee develops and the Board approves the "Responsibilities of PACCAR Directors." Those responsibilities are:

- Integrity;
- Good understanding of PACCAR's businesses;
- Understanding the importance of representing the total shareholder constituency and increasing shareholder value;
- Active, objective and constructive participation at Board and Committee meetings;
- Review and understanding of advance briefing materials;
- Sharing one's expertise, experience, knowledge and insights as they relate to the matters before the Board;
- Advancing PACCAR's purposes and reputation;
- Effectively contributing to management evaluation and succession planning;
- Availability to the Chief Executive Officer for consultation; and
- Regular attendance.

E. Changed Responsibilities. A Director who changes his or her principal employment or responsibility outside the Company, will offer to resign from the Board. The Nominating & Governance Committee will review the matter and recommend to the Board whether or not to accept the resignation. A Director should also notify the Executive Chairman prior to joining the Board of another company to enable the Company to evaluate possible conflicts of interest.

F. Lead Director. The Board of Directors appoints one of its independent directors to serve as a lead director for a three-year term. The lead director presides over the executive sessions of the Board's independent directors.

II. DIRECTOR COMPENSATION

Only non-employee directors receive payment for serving on the Board. The Nominating and Governance Committee is responsible for recommending to the Board compensation and benefits for non-employee directors. In making its recommendation, the Committee reviews the compensation and benefits for directors of comparable companies to ensure that the Board attracts and retains highly qualified directors. The compensation program is designed to enable directors to build an equity interest in the Company to align their personal financial interest with those of the stockholders. All elements of director compensation constitute director fees consistent with the independence rules of NASDAQ and other legal requirements. Director compensation is disclosed each year in the Company's proxy statement.

III. BOARD OPERATIONS

A. Board Meetings. The Board determines its annual meeting schedule. There are generally four board meetings scheduled each calendar year. Directors also are expected to attend the annual stockholder meeting which is usually held in late April. Board meetings generally last at least four hours and involve presentations by key managers of operating entities and executive presentations on strategic policy issues. The agenda for each meeting is established by the Executive Chairman with input from the directors. Meeting materials are distributed to directors in advance of the Board meeting to allow review.

B. Executive Sessions. The independent members of the Board meet in executive session without the participation of any member of management at least twice each year.

C. Board Committees. The Board currently has four committees: the Audit Committee, the Compensation Committee, the Executive Committee and the Nominating and Governance Committee. The responsibilities and authorities of the Audit, Compensation and Nominating and Governance Committees are described in the committee charters which are posted on PACCAR's website. The Executive Committee consists of at least three Board members and is authorized to act on routine Board matters when the Board is not in session. From time to time the Board may decide to form a new committee or disband an existing committee depending on the then current circumstances.

1. Committee membership. Committee members are appointed by the Board of Directors in consultation with the Executive Chairman. In general, committee chairpersons and members should rotate periodically, but the Board believes that such rotation may be waived in individual cases where there are reasons to

maintain an individual director's committee membership. All members of the Audit, Compensation and Nominating and Governance Committees are independent directors.

2. Committee agenda. Each committee has a chairperson who, in consultation with the appropriate members of management, will develop the committee's agenda and will direct management to prepare and distribute appropriate written materials prior to the meeting.
3. Committee meetings. The committee chairperson, in consultation with committee members, will determine the frequency and length of committee meetings. Committees should regularly meet in executive session. The Committee chairperson is responsible for apprising the full Board on a regular basis of all committee proceedings, determinations and recommendations.

D. Director Orientation and Continuing Education. Directors participate in an orientation program that includes historical and background information on the Company, a review of the Company's key programs, presentations by senior managers and facility visits. The Company provides opportunities for directors to attend continuing education programs and reimburses directors for programs attended.

E. Board Self-Evaluation. The Board and each of its committees perform a self-evaluation at least annually. The purpose of the evaluation is to increase the effectiveness of the Board and the committees, as well as the individual members. Each committee reports the results of its evaluation to the Chair of the Nominating and Governance Committee annually.

IV. CEO EVALUATION AND MANAGEMENT SUCCESSION

The Compensation Committee annually meets in executive session to review the CEO's compensation and attainment of established performance goals as set forth in its charter. The Committee chair communicates the results of the review both to the independent members of the Board in executive session and to the CEO.

The CEO annually reviews the Company's succession planning and development with the Compensation Committee and with the Board of Directors and provides recommendations for potential successors for all executive officers. The CEO provides to the Compensation Committee, on a continuing basis, his recommendation as to his successor should he be unable to serve.

V. CODES OF CONDUCT

Each director is required to comply with the applicable provisions of the Company's Code of Business Conduct. Directors are expected to be mindful of their fiduciary obligations to the Company and avoid any action, position or interest that conflicts, or appears to conflict, with the interest of the Company.

VI. BOARD INTERACTION WITH THIRD PARTIES

Management speaks for the Company in contacts with investors, shareholders, the press, customers and others. The Company has published on its website a means for stockholders and interested persons to make their concerns known to non-management directors, in accordance with applicable laws and stock exchange listing requirements. Concerns involving accounting, internal auditing controls or auditing matters will be directed to the Audit Committee chairman in accordance with the procedure outlined.

VII. BOARD ACCESS TO MANAGEMENT AND INDEPENDENT ADVISORS

Directors have full access to all members of management and to independent advisors. The Board and its committees may retain counsel or consultants with respect to any issue without consulting or obtaining the approval of any officer of the Company in advance. Further, as set forth in their respective charters:

- The Nominating and Governance Committee has sole authority to retain and terminate any search firm to be used to identify director candidates.
- The Compensation Committee has sole authority to retain and terminate compensation consultants used to advise it with respect to executive compensation.
- The Audit Committee has sole authority to retain and terminate the independent auditors.

VIII. STOCK OWNERSHIP GUIDELINES

All non-employee directors are expected to hold at least three times their annual cash retainer in Company stock, and/or deferred stock units while serving as a director. Directors have three years from election to the Board to attain this ownership threshold. In addition, the chief executive officer of the Company is expected to hold five times his base salary in Company stock and/or deferred stock units. The other named executive officers are expected to hold three times their base salary in Company stock and/or deferred stock units. Other executive officers are expected to hold one times their base salary in Company stock and/or deferred stock units. All executive officers have three years from the first January after the executive first holds the position to attain this ownership threshold.

IX. GUIDELINES SUBJECT TO PERIODIC REVIEW

The Nominating and Governance Committee will review these Guidelines periodically to assure that they are in accordance with sound corporate governance. It will recommend to the Board appropriate revisions to enable the Board to discharge its responsibilities more effectively. The Guidelines are not intended to change or interpret any law, regulation or Company policy.