

PACCAR Inc

COMPENSATION COMMITTEE CHARTER

I. STATEMENT OF PURPOSE

The purpose of the committee is (i) to discharge the responsibilities of the Board of Directors relating to compensation of the Company's Executive Chairman, CEO and other executives and (ii) to administer the Company's Long Term Incentive Plan, the Senior Executive Yearly Incentive Compensation Plan, and the Deferred Incentive Compensation Plan (the "Plans").

II. ORGANIZATION

A. Charter. At least annually, the Committee shall review this Charter and any proposed changes shall be submitted to the Board of Directors for review and action.

B. Members. The members of the Committee shall be appointed and may be removed by the Board of Directors and shall number at least three (3). The Board of Directors shall also designate one (1) of the members to be chairman. All members of the Committee shall meet the independence requirements of The Nasdaq Stock Market, Inc and applicable law.

C. Meetings. The Committee shall meet at its convenience but shall endeavor to schedule meetings in conjunction with meetings of the Board of Directors, when possible. A quorum of the Committee shall be a majority of the members. Any decision or action of the Committee reduced to writing and signed by all the members shall be as effective as if it had been made at a meeting duly called and held.

III. RESPONSIBILITIES

A. Salaries. The Committee shall review and approve the salaries of Executive Officers and senior executives of the Company at least annually, taking into consideration salaries for comparable positions at companies with which the Company competes for executive talent and the comprehensive employee benefit programs provided by the Company to employees generally or to broad classes of employees. The CEO shall not be present during Committee deliberations or voting with respect to his compensation review.

B. Performance and Goals. The Committee is responsible for establishing annual and long term performance goals for Executive Officers. In addition to setting the compensation of the CEO, the Committee shall annually evaluate the CEO's performance and attainment of established goals. The Committee shall also review and approve the attainment by Executive Officers of individual goals approved by the CEO. The Committee, in its sole discretion, may reduce or eliminate any award earned by the CEO or an Executive Officer based on an assessment of individual performance.

In determining the long-term incentive component of the CEO and other Executive Officers' compensation, the Committee may consider: (i) the Company's performance and

relative shareholder return; (ii) the value of similar incentive awards to chief executive officers and executive officers at comparable companies; and (iii) the awards given to the Company's CEO and other Executive Officers in previous years.

C. Succession Planning. The Committee shall review succession plans semi-annually for Executive Officers.

D. Administration of the Plans. The Committee shall administer the Long Term Incentive Plan, the Senior Executive Yearly Incentive Compensation Plan, and the Deferred Incentive Compensation Plan by discharging the following responsibilities:

1. Interpret, as necessary, the provisions of the Plans;
2. Establish any rules it finds necessary or appropriate for implementing or conducting the Plans;
3. Select the persons who are to receive awards under the Long Term Incentive Plan, determine the amount, form and other conditions of such awards, and authorize issuance of, and the creation and issuance of rights or options entitling the holders thereof to purchase from the Company, Common Stock of the Company pursuant to and subject to the terms and conditions of the Long Term Incentive Plan, or when appropriate, authorize the purchase by the Company of shares of its Common Stock for allocation to the accounts of persons to whom such shares have been awarded;
4. Determine the form and time of payment of cash and stock accounts under the Plans;
5. Make all other decisions and determinations required of the Committee by the terms of the Plans or as the Committee considers appropriate for the operation of the Plans and the distribution of benefits thereunder; and
6. Make any recommendations to the Board of Directors the Committee considers desirable for amendment, termination or replacement of the Plans.

E. Annual Reports. The Committee shall: (i) review and discuss with management the Compensation Discussion and Analysis (the "CD&A") included in the Company's annual proxy statement and (ii) produce a Compensation Committee Report for inclusion in the Company's annual proxy statement that complies with the rules and regulations of the Securities and Exchange Commission.

IV. OTHER POWERS AND DUTIES

A. Consultants. The Committee may, in its sole discretion, employ a compensation consultant, legal counsel or other adviser to assist in the evaluation of the compensation of the Company's CEO or other Executive Officers after taking into consideration the factors specified in NASDAQ Listing Rule 5605(d)(3)(D). The Committee shall have the sole authority to approve the fees and other retention terms with respect to any advisor it retains which shall be funded by the Company.

B. Recommendations. The Committee shall periodically review and recommend to the Board of Directors such changes to incentive compensation plans and salary programs as it deems appropriate.

C. Structure and Procedures. The Committee shall establish such rules and operating procedures as may from time to time be necessary or appropriate for the conduct of the business of the Committee including the authority to delegate to subcommittees.

D. Evaluation. The Committee shall conduct an evaluation of its performance on an annual basis.