

**DETROIT DIESEL CORPORATION**  
**SEMI-ANNUAL PROGRESS REPORT No. 1 (July 31, 2017)**  
**UNDER 2016 CONSENT DECREE**

On December 19, 2016, the United States District Court for the District of Columbia entered a Consent Decree between the United States of America and Detroit Diesel Corporation (“DDC”). Section VII of the Consent Decree requires DDC to submit a semi-annual progress report by July 31 and January 31 of each year for the preceding six months which shall provide: 1) a discussion of DDC’s progress in satisfying Section V of the Decree, including, at a minimum, a narrative description of any activities undertaken; 2) the status of any compliance measures, including the progress of and date of completion for any projects set forth in the mitigation plans; and 3) a summary of costs incurred since the previous report. Because the Decree was entered in late December, 2016, this shall serve as DDC’s first semi-annual progress report pursuant to Section VII of the Decree for the time period January 1, 2017 – July 31, 2017 (“reporting period”).

**I. School Bus Mitigation Plan**

A. DDC’s Satisfaction of Section V Requirements and Related Plan Activities

Under Section V and Appendix A of the Decree, DDC is required to implement a school bus replacement project under which school buses owned and operated by qualifying school districts with MY 2006 and older diesel engines will be replaced with new clean diesel, LNG or CNG powered school buses. During the reporting period, DDC submitted and obtained approval of its School Bus Mitigation Plan and has also undertaken various activities to support the roll-out of its school bus replacement program (“SBRP”), as follows:

- In partnership with its corporate sibling, Thomas Built Buses (“TBB”), DDC developed an implementation plan for the SBRP which will target school districts across the United States that are located in high poverty districts, non-attainment areas and statistical metropolitan areas. To support the SBRP, TBB assembled a team of sales and administrative staff to effectively and successfully implement the plan. As part of the Plan development, TBB retained an emissions modeling expert to perform the initial baseline emissions reduction estimates and to perform any additional emissions reduction modeling needed under the Decree.
- Pursuant to paragraph 12 of the Decree, DDC submitted its School Bus Mitigation Plan on April 18, 2017. In response to this Plan submission, EPA e-mailed DDC’s counsel on May 12, 2017 and requested additional information relating to DDC’s plan submission. On May 31, 2017, DDC submitted its Supplemental School Bus Mitigation Plan addressing the questions raised and information requested by EPA in its May 12 e-mail. Thereafter, EPA notified

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DDC on June 29, 2017 that DDC's School Bus Mitigation Plan, as supplemented, had been approved by EPA.

- In furtherance of the SBRP implementation, TBB has already developed a master list of potential school districts to which its financial incentives may be offered. Through its analysis of Vehicles In Operation ("VIO") data received from RL Polk -- which reflects various information about school buses that are currently being operated in the US -- TBB has identified school buses that may be candidates for replacement and which appear to be owned and operated by school districts in either high poverty, non-attainment or statistical metropolitan areas. This master list is attached hereto as Exhibit A and its submission as part of this semi-annual progress report is intended to satisfy the requirement in Appendix A paragraph (4)(a) of the Decree that DDC provide, within 45 days after its Plan is approved, a list of potential school districts to which financial incentives may be offered.
- In order to determine whether the school buses from the master list do, in fact, meet the qualifying criteria set forth Appendix A paragraphs (1) & (2) of the Decree and whether all of the qualifying criteria for school districts in Appendix A paragraph (3) are met, starting in June 2017, TBB initiated a review process with its independent franchised dealers throughout the U.S. under which dealers are reviewing and analyzing the master list to identify the school districts and buses that meet all of the qualifying criteria.
- Starting in June 2017, TBB sales staff and dealer sales staff have begun to contact qualifying school districts and to solicit bus replacements under the SBRP. The first semi-annual report (July 31, 2017) required by Appendix A paragraph (6) containing information relating to these contacts is attached as Exhibit B hereto.

**B. Status of Compliance Measures**

As set forth in Section I.A. above, DDC submitted its School Bus Mitigation Plan on April 18, 2017, thereby satisfying the sole compliance measure required to be implemented during this reporting period.

**C. Summary of Costs**

Aside from its administrative costs related to plan implementation, DDC has not yet paid out any financial incentives towards school bus replacements and therefore has

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not yet incurred any costs to be applied towards its financial commitments set forth in paragraph 11 of the Decree.

**II. Locomotive Mitigation Plan**

**A. DDC's Satisfaction of Section V Requirements and Related Plan Activities**

Under Section V and Appendix B of the Decree, DDC is required to implement a Locomotive Mitigation Plan under which DDC will provide financial incentives towards the replacement (repowering) of at least two Tier 2 or lower switching or short haul locomotive engines with engines certified to the EPA Tier 3 or more stringent locomotive emission standards. During the reporting period, DDC submitted and obtained approval of its Locomotive Mitigation Plan and has also undertaken various activities to support the roll-out of its Locomotive Mitigation Plan, as follows:

- During this reporting period, DDC's efforts under the Consent Decree have been focused on identifying qualifying locomotive end-users who would be interested in repowering their qualifying locomotives with Tier 3 or Tier 4 engines. To that end, DDC partnered with Knoxville Locomotive Works ("KLW"), an experienced manufacturer of re-powered Tier 3 and Tier 4 locomotive engines, to solicit repower opportunities with a number of end users throughout the United States.
- During late 2016 - Q2 2017, DDC and KLW worked with several locomotive end users to determine qualification of their equipment for the Locomotive Mitigation Plan and their interest in participating in DDC's program. Ultimately, two different end users involving three different locomotives were identified for participation in the program. Conditional agreement has been reached relative to the cost of those repowers and DDC's financial contribution towards the transactions, along with the financial participation of two public air quality districts. DDC expects to enter into binding agreements with these end users and KLW in Q3 - Q4 2017 so that the repower process can be formally initiated.
- Pursuant to paragraph 12 of the Decree, DDC submitted its Locomotive Mitigation Plan on April 18, 2017. In response to this Plan submission, EPA e-mailed DDC's counsel on May 12, 2017 and requested additional information relating to DDC's plan submission. On May 31, 2017, DDC submitted its Supplemental Locomotive Mitigation Plan addressing the questions raised and information requested by EPA in its May 12 e-mail. Thereafter, EPA notified DDC on June 29, 2017 that DDC's Locomotive Mitigation Plan, as supplemented, had been approved by EPA.

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- Since the approval of DDC's Locomotive Mitigation Plan on June 29, 2017, DDC has focused its efforts on preparing the contribution agreement that will serve as the contractual framework under which DDC will offer its financial incentives to support the approved engine replacements and under which the identified locomotive end users will commit to meeting all applicable requirements under the Consent Decree.

B. Status of Compliance Measures

As set forth in Section II.A. above, DDC submitted its Locomotive Mitigation Plan on April 18, 2017, thereby satisfying the sole compliance measure required to be implemented during this reporting period.

C. Summary of Costs

Aside from its administrative costs related to plan implementation, DDC has not yet paid out any financial incentives towards the Locomotive Mitigation Plan and therefore has not yet incurred any costs to be applied towards its financial commitments set forth in paragraph 11 of the Decree.