

DETROIT DIESEL CORPORATION
SEMI-ANNUAL PROGRESS REPORT No. 2 (January 31, 2018)
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. DDC submitted its first Semi-Annual Progress Report on July 31, 2017. This serves as DDC’s second Semi-Annual Progress Report pursuant to Section VII of the Decree for the time period August 1, 2017 – January 31, 2018 (“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. 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 DDC on June 29, 2017 that DDC’s School Bus Mitigation Plan, as supplemented, had been approved by EPA.

During the reporting period, DDC has undertaken various activities to support the roll-out of its school bus replacement program (“SBRP”), as follows:

- As described in the July 31, 2017 Semi-Annual Progress Report, TBB developed a master list of potential school districts to which its financial incentives may be offered and submitted the master list in accordance with Appendix A paragraph (4)(a) of the Decree (as Exhibit A to the July 31, 2017 Semi-Annual Progress Report). 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, TBB has continued its review process with its independent franchised dealers throughout the U.S. under which dealers are

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reviewing and analyzing the master list to identify the school districts and buses that meet all of the qualifying criteria.

- TBB sales staff and dealer sales staff have continued contacting qualifying school districts and soliciting bus replacements under the SBRP. The second semi-annual report (January 31, 2018) required by Appendix A paragraph (6) containing information relating to these contacts is attached as Exhibit A hereto.
- As of January 30, 2018, DDC's accepted financial incentive offers total approximately \$8,677,431 for the replacement of approximately 239 MY1997 and earlier school buses.

B. Status of Compliance Measures

As set forth in Section I.A. above, DDC submitted its master list of potential school districts as Exhibit A to its July 31, 2017 Semi-Annual Progress Report, which satisfied 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.

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 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. 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

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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.

During the reporting period, DDC has undertaken various activities to support the roll-out of its Locomotive Mitigation Plan, as follows:

- DDC confirmed by email exchange with Evan Belser, Chief, Vehicle and Engine Enforcement Branch, on January 12, 2018, that EPA concurs with DDC's proposed course of action to satisfy its obligations under the Consent Decree as they relate to its Locomotive Mitigation Plan. Specifically, Knoxville Locomotive Works ("KLW"), an experienced manufacturer of re-powered Tier 3 and Tier 4 locomotive engines, will independently obtain equivalent older locomotive chassis/decks (from KLW's inventory or another source), install the new Tier 4 engines onto those chassis, and then replace the locomotives being operated by the end users with the repowered locomotives. The engine destruction process for the replaced locomotives and the anticipated emissions reductions will remain the same as previously set forth in the Locomotive Mitigation Plan.
- DDC negotiated contribution agreements with the end users and KLW, which are now undergoing final review by the end users. Signatures are expected within the next few weeks. The contribution agreements 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

DDC submitted its Locomotive Mitigation Plan on April 18, 2017, thereby satisfying the sole compliance measure required to be implemented within these first two reporting periods since the Effective Date of the Consent Decree.

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.