

**DETROIT DIESEL CORPORATION**  
**SEMI-ANNUAL PROGRESS REPORT No. 3 (July 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, and its second Semi-Annual Progress Report on January 31, 2018. This serves as DDC’s third Semi-Annual Progress Report pursuant to Section VII of the Decree for the time period February 1, 2018 – July 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, Thomas Built Buses (“TBB”) developed a master list of potential school districts to which the financial incentives may be offered and DDC 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

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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.

- TBB sales staff and dealer sales staff have continued contacting qualifying school districts and soliciting bus replacements under the SBRP. The third semi-annual report (July 31, 2018) required by Appendix A paragraph (6) containing information relating to these contacts is attached as Exhibit A hereto.
- As of June 30, 2018, DDC has paid out approximately \$3,371,334 in financial incentive rebates for eligible school districts, and approximately 111 school buses have been replaced.
- As of July 24, 2018, DDC's accepted financial incentive offers total approximately \$10,880,820 for the replacement of approximately 287 MY1997 and earlier school buses.

**B. Status of Compliance Measures**

On April 25, 2018, DDC submitted an update regarding its outreach to school districts, which was intended to satisfy the requirement in Appendix A paragraph (4)(b) of the Decree that DDC provide, within 300 days after its Plan is approved, a list of potential school districts to which financial incentives may be offered under Tier B (buses with 2006 or earlier engines). In that submission, DDC explained that it had extended sufficient financial incentive offers to eligible school districts, which had been accepted or were pending acceptance, such that DDC anticipated being able to satisfy its obligations based on Tier A outreach only, without needing to move to Tier B.

**C. Summary of Costs**

DDC has paid out approximately \$3,371,334 in financial incentive rebates toward school bus replacements as of June 30, 2018, which applies 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

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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 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:

- Local California Air District Contracts, Contribution Agreements (between DDC, Knoxville Locomotive Works ("KLW"), and end users), and Locomotive Manufacturer Purchase & Sale Agreements were signed by the relevant parties in February and March 2018. 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.
- Locomotive equipment specifications review sessions were held at KLW's production facilities in Knoxville, TN, with Metropolitan Stevedore Company, Stockton Terminal & Eastern Railroad, and Mojave Northern Railroad Company during the late first quarter and early second quarter of 2018.
- Manufacturing production for all three locomotives commenced in the second quarter of 2018. This equipment is currently expected to ship from Knoxville, TN, in the late third quarter / early fourth quarter of 2018.

**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 three reporting periods since the Effective Date of the Consent Decree.

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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.