

DETROIT DIESEL CORPORATION
SEMI-ANNUAL PROGRESS REPORT No. 4 (January 31, 2019)
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; its second Semi-Annual Progress Report on January 31, 2018; and its third Semi-Annual Progress Report on July 31, 2018. This serves as DDC’s fourth Semi-Annual Progress Report pursuant to Section VII of the Decree for the time period August 1, 2018 – January 31, 2019 (“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) were met, TBB undertook

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a review process with its independent franchised dealers throughout the U.S. under which dealers reviewed and analyzed the master list to identify the school districts and buses that met all of the qualifying criteria.

- TBB sales staff and dealer sales staff continued contacting qualifying school districts and soliciting bus replacements under the SBRP. The fourth semi-annual report (January 31, 2019) required by Appendix A paragraph (6) containing information relating to these contacts is attached as Exhibit A hereto.
- As of January 22, 2019, approximately \$10,050,935 has been paid out in financial incentive rebates for eligible school districts, and approximately 272 school buses have been replaced.
- As of January 22, 2019, DDC's accepted financial incentive offers total approximately \$10,880,669 for the replacement of approximately 287 MY1997 and earlier school buses.

B. Status of Compliance Measures

DDC submitted its third Semi-Annual Progress Report on July 31, 2018, including as Exhibit A, information relating to school district contacts as required by Appendix A paragraph (6) of the Decree.

C. Summary of Costs

DDC has paid out approximately \$9,527,917 in financial incentive rebates toward school bus replacements as of January 22, 2019, 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 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

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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:

- The Mojave Northern Railroad Company replacement locomotive was completed and shipped from Knoxville Locomotive Works in early November 2018 and received at the project site in Victorville, California, during the third week of December 2018. The locomotive is currently being commissioned and is expected to be fully operational in February 2019. Engine removal from the existing locomotive and closing documentation are expected by the end of February 2019.
- The Metropolitan Stevedore Company replacement locomotive is scheduled to be completed and shipped by the first week of February 2019. It is anticipated to arrive in Stockton, California, for commissioning before the end of March 2019.
- The Stockton Terminal & Eastern Railroad replacement locomotive is scheduled to be completed and shipped during the third week of February 2019, and anticipated to arrive in Stockton, California, for commissioning before the end of April 2019.

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 four 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.