

February 4, 2016



Cummins Announces Financial Results for the Fourth Quarter and Full Year 2015

Shares Expectations Regarding 2016 Revenue and Earnings

- **Fourth quarter 2015 revenues of \$4.8 billion, EBIT of 11.1 percent of sales excluding restructuring and impairment charges**
- **Full Year 2015 revenues of \$19.1 billion and EBIT of 12.5 percent, excluding restructuring and impairment charges**
- **The company expects revenues to decline between 5 and 9 percent in 2016 and EBIT to be in the range of 11.6 to 12.2 percent of sales**

COLUMBUS, Ind.--(BUSINESS WIRE)-- Cummins Inc. (NYSE: CMI) today reported results for the fourth quarter and full year of 2015.

Fourth quarter revenues of \$4.8 billion decreased 6 percent from the same quarter in 2014, with the impact of currency, primarily a stronger US dollar, negatively impacting sales by 4 percent.

Revenues in North America declined 2 percent while international sales declined by 12 percent. Within international markets, sales in Latin America declined the most.

Earnings before interest and taxes (EBIT) in the fourth quarter of 2015 were \$531 million, or 11.1 percent of sales, excluding charges for impairments of \$211 million and restructuring of \$90 million. This compares to \$661 million or 13.0 percent of sales a year ago, excluding \$32 million of expense related to cost reduction activities in the Power Generation segment in 2014.

“As a result of weakening market conditions in the fourth quarter of 2015, the Company reviewed its global manufacturing footprint and now expects to scale back the range of light duty engines it plans to manufacture in North America,” said Rich Freeland, President and Chief Operating Officer. “This change in plans, combined with the uncertainty of winning additional customers for the V8 light duty engine, caused the Company to reassess the book value of its light duty manufacturing assets in North America. As a result, a non-cash, pre-tax impairment charge of \$211 million was recorded to adjust the assets to fair value. We are disappointed that we had to record the charge, but we remain committed to our light duty

engine customers and are confident in the growth potential of our global light duty engine business, including the V8 engine in North America.”

The Company incurred a pre-tax charge for restructuring of \$90 million associated with a reduction in professional employees, and also recorded a loss contingency of \$60 million in the fourth quarter of 2015.

Net income attributable to Cummins was \$161 million (\$0.92 per diluted share), or \$355 million (\$2.02 per diluted share) excluding impairment and restructuring charges in the fourth quarter of 2015. This compares to \$465 million (\$2.56 per diluted share) in 2014 excluding one-time items. The tax rate in the fourth quarter of 2015, including discrete items, was 16.0 percent.

Revenues for the full year 2015 were \$19.1 billion, 1 percent lower than 2014. Revenues in North America increased 7 percent, but international sales declined 11 percent due to lower sales in Latin America, Europe and Asia Pacific.

EBIT for the year was \$2.09 billion or 10.9 percent of sales. Excluding impairments and restructuring, EBIT was \$2.39 billion or 12.5 percent of sales. This compares to \$2.53 billion or 13.2 percent of sales in 2014, excluding one-time items.

Net income attributable to Cummins for the full year 2015 was \$1.4 billion (\$7.84 per diluted share) in 2015, or \$1.59 billion (\$8.93 per diluted share) excluding impairment and restructuring charges, down from \$1.67 billion (\$9.13 per diluted share) in 2014, excluding one-time items. The full year tax rate was 27.4 percent in 2015.

“We made significant progress in a number of our key initiatives in 2015, including gaining market share with our new products in China, successfully acquiring and integrating our North American distributors, improving the quality of our products and reducing material costs,” said Chairman and CEO Tom Linebarger. “However a combination of weak end markets and a stronger U.S. dollar presented significant challenges to our performance. As demand weakened in the third quarter we moved quickly to lower costs. Through a combination of restructuring and other staffing actions, we reduced headcount by more than 2,000 people in the fourth quarter, and launched a number of initiatives within our manufacturing operations to reduce costs.”

“The benefits of restructuring, material cost reduction initiatives and quality improvements combined with the launch of new and improved products in 2016, should position the Company for stronger performance in the future, despite the challenges of a weak macroeconomic environment. We plan to return 75 percent of operating cash flow to shareholders in the form of dividends and share repurchase in 2016, building on our actions in 2015 when we returned a record \$1.5 billion to shareholders,” concluded Linebarger.

Based on its current forecast, Cummins expects full year 2016 revenues to decline between 5 and 9 percent and EBIT to be in the range of 11.6 to 12.2 percent of sales.

2015 highlights:

- The Company increased its dividend by 25 percent and repurchased 7.2 million shares
- For the eighth consecutive year, Cummins was named one of the world’s most ethical

companies by the Ethisphere Institute

- Diversity Inc named Cummins as one of the Top 50 companies for diversity for the seventh consecutive year
- The Company was named as a winner of the Golden Peacock Award for Excellence in Corporate Governance
- Cummins was named to the 2015 Dow Jones North American Sustainability Index for the tenth consecutive year

Fourth quarter 2015 detail (all comparisons to same period in 2014) excluding restructuring and impairment charges in 2015 and excluding one-time items in 2014.

Engine Segment

- Sales - \$2.5 billion, down 11 percent
- Segment EBIT - \$189 million, or 7.5 percent of sales, compared to \$315 million or 11.1 percent of sales
- Segment EBIT reflects a \$60 million charge for a loss contingency
- Weak demand in global industrial markets and a decline in heavy duty truck production in North America were partially offset by strong demand in North American medium-duty truck and bus markets

Distribution Segment

- Sales - \$1.7 billion, up 1 percent
- Segment EBIT - \$111 million, or 6.5 percent of sales, compared to \$158 million or 9.3 percent of sales
- Increased revenues from acquisitions were partially offset by a 6 percent negative impact from currency and a 2 percent decline in organic sales

Components Segment

- Sales - \$1.2 billion, down 6 percent
- Segment EBIT - \$175 million, or 14.2 percent of sales, compared to \$160 million or 12.1 percent of sales
- Reduced sales in on-highway markets in North America and Brazil along with a negative foreign currency impact of 4 percent, were partially offset by increased revenue from China

Power Generation Segment

- Sales - \$654 million, down 14 percent
- Segment EBIT - \$27 million, or 4.1 percent of sales, compared to \$54 million, or 7.1 percent of sales
- Revenue declined in North America by 12 percent and by 15 percent in international

markets. Currency movements negatively impacting revenue by 3 percent. Growth in India and Europe, was more than offset by declines in all other regions.

About Cummins

Cummins Inc., a global power leader, is a corporation of complementary business units that design, manufacture, distribute and service diesel and natural gas engines and related technologies, including fuel systems, controls, air handling, filtration, emission solutions and electrical power generation systems. Headquartered in Columbus, Indiana, (USA) Cummins currently employs approximately 55,000 people worldwide and serves customers in approximately 190 countries and territories through a network of approximately 600 company-owned and independent distributor locations and more than 7,200 dealer locations. Cummins earned \$1.4 billion on sales of \$19.1 billion in 2015. Press releases can be found on the Web at www.cummins.com. Follow Cummins on Twitter at www.twitter.com/cummins and on YouTube at www.youtube.com/cumminsinc.

Forward-looking disclosure statement

Information provided in this release that is not purely historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our forecasts, guidance, preliminary results, expectations, hopes, beliefs and intentions on strategies regarding the future. These forward looking statements include, without limitation, statements relating to our plans and expectations for our revenues for the full year of 2015. Our actual future results could differ materially from those projected in such forward-looking statements because of a number of factors, including, but not limited to: the adoption and implementation of global emission standards; the price and availability of energy; the pace of infrastructure development; increasing global competition among our customers; general economic, business and financing conditions; governmental actions; changes in our customers' business strategies; competitor pricing activity; expense volatility; labor relations; and other risks detailed from time to time in our Securities and Exchange Commission filings, including particularly in the Risk Factors section of our 2014 Annual Report on Form 10-K. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are made only as of the date of this press release and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. More detailed information about factors that may affect our performance may be found in our filings with the Securities and Exchange Commission, which are available at <http://www.sec.gov> or at <http://www.cummins.com> in the Investor Relations section of our website.

Presentation of Non-GAAP Financial Information

EBIT is a non-GAAP measure used in this release, and is defined and reconciled to what management believes to be the most comparable GAAP measure in a schedule attached to this release. Cummins presents this information as it believes it is useful to understanding the Company's operating performance, and because EBIT is a measure used internally to assess the performance of the operating units.

Webcast information

Cummins management will host a teleconference to discuss these results today at 10 a.m. EST. This teleconference will be webcast and available on the Investor Relations section of the Cummins website at www.cummins.com. Participants wishing to view the visuals available with the audio are encouraged to sign-in a few minutes prior to the start of the teleconference.

CUMMINS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited) (a)

In millions, except per share amounts	Three months ended	
	December 31, 2015	December 31, 2014
NET SALES	\$ 4,766	\$ 5,090
Cost of sales	3,554	3,817
GROSS MARGIN	1,212	1,273
OPERATING EXPENSES AND INCOME		
Selling, general and administrative expenses	508	568
Research, development and engineering expenses	177	187
Equity, royalty and interest income from investees	75	76
Impairment of light-duty diesel assets	211	—
Restructuring actions and other charges	90	—
Other operating expense, net	(72)	(13)
OPERATING INCOME	229	581
Interest income	4	6
Interest expense	18	17
Other (expense) income, net	(3)	42
INCOME BEFORE INCOME TAXES	212	612
Income tax expense	34	145
CONSOLIDATED NET INCOME	178	467
Less: Net income attributable to noncontrolling interests	17	23
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 161	\$ 444
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.		
Basic	\$ 0.92	\$ 2.45
Diluted	\$ 0.92	\$ 2.44
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	175.5	181.4
Diluted	175.8	181.9
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.975	\$ 0.78

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

CUMMINS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited) (a)

In millions, except per share amounts	Years ended December 31,	
	2015	2014
NET SALES	\$ 19,110	\$ 19,221
Cost of sales	14,163	14,360
GROSS MARGIN	4,947	4,861
OPERATING EXPENSES AND INCOME		
Selling, general and administrative expenses	2,092	2,095
Research, development and engineering expenses	735	754
Equity, royalty and interest income from investees	315	370
Impairment of light-duty diesel assets	211	—
Restructuring actions and other charges	90	—
Other operating expense, net	(77)	(17)
OPERATING INCOME	2,057	2,365
Interest income	24	23
Interest expense	65	64
Other income, net	9	110
INCOME BEFORE INCOME TAXES	2,025	2,434
Income tax expense	555	698
CONSOLIDATED NET INCOME	1,470	1,736
Less: Net income attributable to noncontrolling interests	71	85
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 1,399	\$ 1,651
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.		
Basic	\$ 7.86	\$ 9.04
Diluted	\$ 7.84	\$ 9.02
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	178.0	182.7
Diluted	178.4	183.1
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$ 3.51	\$ 2.81

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

CUMMINS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited) (a)

In millions, except par value	December 31, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,711	\$ 2,301
Marketable securities	100	93
Total cash, cash equivalents and marketable securities	<u>1,811</u>	<u>2,394</u>
Accounts and notes receivable, net	2,820	2,946
Inventories	2,707	2,866
Prepaid expenses and other current assets	609	849
Total current assets	<u>7,947</u>	<u>9,055</u>
Long-term assets		
Property, plant and equipment, net	3,745	3,686
Investments and advances related to equity method investees	975	981
Goodwill and other intangible assets, net	810	822
Other assets	1,657	1,220
Total assets	<u>\$ 15,134</u>	<u>\$ 15,764</u>
LIABILITIES		
Current liabilities		
Accounts payable (principally trade)	\$ 1,706	\$ 1,881
Loans payable	24	86
Accrued expenses	2,073	2,054
Total current liabilities	<u>3,803</u>	<u>4,021</u>
Long-term liabilities		
Long-term debt	1,576	1,577
Other liabilities	2,005	2,073
Total liabilities	<u>\$ 7,384</u>	<u>\$ 7,671</u>
EQUITY		
Cummins Inc. shareholders' equity		
Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.3 shares issued	\$ 2,178	\$ 2,139
Retained earnings	10,322	9,545
Treasury stock, at cost, 47.2 and 40.1 shares	(3,735)	(2,844)
Common stock held by employee benefits trust, at cost, 0.9 and 1.1 shares	(11)	(13)
Accumulated other comprehensive loss	(1,348)	(1,078)
Total Cummins Inc. shareholders' equity	<u>7,406</u>	<u>7,749</u>
Noncontrolling interests	344	344
Total equity	<u>\$ 7,750</u>	<u>\$ 8,093</u>
Total liabilities and equity	<u>\$ 15,134</u>	<u>\$ 15,764</u>

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

CUMMINS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (a)

In millions	Years ended December 31,	
	2015	2014
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,059	\$ 2,266
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(744)	(743)
Investments in internal use software	(55)	(55)
Investments in and advances to equity investees	(7)	(60)
Acquisitions of businesses, net of cash acquired	(117)	(436)
Investments in marketable securities—acquisitions	(282)	(275)
Investments in marketable securities—liquidations	270	336
Cash flows from derivatives not designated as hedges	8	(14)
Other, net	9	13
Net cash used in investing activities	(918)	(1,234)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	44	55
Payments on borrowings and capital lease obligations	(76)	(94)
Net payments under short-term credit agreements	(41)	(40)
Distributions to noncontrolling interests	(49)	(83)
Dividend payments on common stock	(622)	(512)
Repurchases of common stock	(900)	(670)
Other, net	—	1
Net cash used in financing activities	(1,644)	(1,343)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(87)	(87)
Net decrease in cash and cash equivalents	(590)	(398)
Cash and cash equivalents at beginning of year	2,301	2,699
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,711	\$ 2,301

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

CUMMINS INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)

In millions	Engine	Distribution	Components	Power Generation	Non-segment Items ⁽¹⁾	Total
Three months ended December 31, 2015						
External sales	\$1,793	\$ 1,699	\$ 906	\$ 368	\$ —	\$4,766
Intersegment sales	735	8	330	286	(1,359)	—
Total sales	2,528	1,707	1,236	654	(1,359)	4,766
Depreciation and amortization ⁽²⁾	61	27	27	15	—	130
Research, development and engineering expenses	107	2	53	15	—	177
Equity, royalty and interest income from investees	44	18	9	4	—	75
Interest income	2	1	1	—	—	4
Segment EBIT (excluding impairment of light-duty diesel assets and restructuring actions and other charges)	\$ 189 ⁽⁵⁾	\$ 111 ⁽⁶⁾	\$ 175	\$ 27	\$ 29	\$ 531
Impairment of light-duty diesel assets ⁽³⁾	202	—	9	—	—	211
Restructuring actions and other charges ⁽⁴⁾	26	23	13	19	9	90
Segment EBIT	\$ (39) ⁽⁵⁾	\$ 88 ⁽⁶⁾	\$ 153	\$ 8	\$ 20	\$ 230
Segment EBIT (excluding impairment of light-duty diesel assets and restructuring actions and other charges) as a percentage of total sales	7.5 %	6.5%	14.2%	4.1%		11.1%
Segment EBIT as a percentage of total sales	(1.5)%	5.2%	12.4%	1.2%		4.8%
Three months ended December 31, 2014						
External sales	\$1,988	\$ 1,682	\$ 970	\$ 450	\$ —	\$5,090
Intersegment sales	851	12	351	310	(1,524)	—
Total sales	2,839	1,694	1,321	760	(1,524)	5,090
Depreciation and amortization ⁽²⁾	54	28	27	15	—	124
Research, development and engineering expenses	103	2	60	22	—	187
Equity, royalty and interest income from investees	30	28	9	9	—	76
Interest income	3	2	1	—	—	6
Segment EBIT	315	158 ⁽⁶⁾	160	22 ⁽⁷⁾	(26)	629
Segment EBIT as a percentage of total sales	11.1 %	9.3%	12.1%	2.9%		12.4%

(1) Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the three months ended December 31, 2015 and December 31, 2014.

(2) Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount and deferred costs included in the *Condensed Consolidated Statements of Income* as "Interest expense."

(3) See Note 2, "IMPAIRMENT OF LIGHT-DUTY DIESEL ASSETS," for additional information.

(4) See Note 3, "RESTRUCTURING ACTIONS AND OTHER CHARGES," for additional information.

(5) Engine segment EBIT included an accrual for a loss contingency of \$60 million. See Note 4, "LOSS CONTINGENCY," for additional information.

(6) Distribution segment EBIT included gains of \$1 million and \$35 million on the fair value adjustments resulting from the acquisition of the controlling interests in North American distributors for the three months ended December 31, 2015 and December 31, 2014, respectively.

(7) Power Generation segment EBIT for the three months ended December 31, 2014, included actions taken to reduce its future cost structure. Costs associated with these actions were \$32 million and are primarily related to the closure of a plant in Germany.

CUMMINS INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)

In millions	Engine	Distribution	Components	Power Generation	Non-segment Items ⁽¹⁾	Total
Year ended December 31, 2015						
External sales	\$ 7,540	\$ 6,198	\$ 3,745	\$ 1,627	\$ —	\$19,110
Intersegment sales	2,909	31	1,427	1,113	(5,480)	—
Total sales	10,449	6,229	5,172	2,740	(5,480)	19,110
Depreciation and amortization ⁽²⁾	239	105	109	58	—	511
Research, development and engineering expenses	428	10	236	61	—	735
Equity, royalty and interest income from investees	171	78	35	31	—	315
Interest income	13	4	4	3	—	24
Segment EBIT (excluding impairment of light-duty diesel assets and restructuring actions and other charges)	\$ 1,035 ⁽⁵⁾	\$ 435 ⁽⁶⁾	\$ 749	\$ 175	\$ (3)	\$ 2,391
Impairment of light-duty diesel assets ⁽³⁾	202	—	9	—	—	211
Restructuring actions and other charges ⁽⁴⁾	26	23	13	19	9	90
Segment EBIT	<u>\$ 807 ⁽⁵⁾</u>	<u>\$ 412 ⁽⁶⁾</u>	<u>\$ 727</u>	<u>\$ 156</u>	<u>\$ (12)</u>	<u>\$ 2,090</u>
Segment EBIT (excluding impairment of light-duty diesel assets and restructuring actions and other charges) as a percentage of total sales	9.9%	7.0%	14.5%	6.4%		12.5%
Segment EBIT as a percentage of total sales	7.7%	6.6%	14.1%	5.7%		10.9%
Year ended December 31, 2014						
External sales	\$8,437	\$ 5,135	\$ 3,791	\$ 1,858	\$ —	\$19,221
Intersegment sales	2,525	39	1,327	1,038	(4,929)	—
Total sales	10,962	5,174	5,118	2,896	(4,929)	19,221
Depreciation and amortization ⁽²⁾	207	86	106	53	—	452
Research, development and engineering expenses	438	9	230	77	—	754
Equity, royalty and interest income from investees	147	148	36	39	—	370
Interest income	12	4	4	3	—	23
Segment EBIT	1,225	491 ⁽⁶⁾	684	168 ⁽⁷⁾	(70)	2,498
Segment EBIT as a percentage of total sales	11.2%	9.5%	13.4%	5.8%		13.0%

(1) Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the years ended December 31, 2015 and December 31, 2014.

(2) Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount and deferred costs included in the *Condensed Consolidated Statements of Income* as "Interest expense." The amortization of debt discount and deferred costs were \$3 million and \$3 million for the years ended December 31, 2015 and 2014, respectively.

(3) See Note 2, "IMPAIRMENT OF LIGHT-DUTY DIESEL ASSETS," for additional information.

(4) See Note 3, "RESTRUCTURING ACTIONS AND OTHER CHARGES," for additional information.

(5) Engine segment EBIT included an accrual for a loss contingency of \$60 million. See Note 4, "LOSS CONTINGENCY," for additional information.

(6) Distribution segment EBIT included gains of \$18 million and \$73 million on the fair value adjustments resulting from the acquisition of the controlling interests in North American distributors for the years ended December 31, 2015 and December 31, 2014, respectively.

(7) Power Generation segment EBIT for the year ended December 31, 2014, included actions taken to reduce its future cost structure. Costs associated with these actions were \$32 million and are primarily related to the closure of a plant in Germany.

CUMMINS INC. AND SUBSIDIARIES
RECONCILIATION OF SEGMENT INFORMATION
(Unaudited)

A reconciliation of our segment information to the corresponding amounts in the *Condensed Consolidated Statements of Income* is shown in the table below:

In millions	Three months ended		Years ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Total segment EBIT	\$ 230	\$ 629	\$ 2,090	\$ 2,498
Less: Interest expense	18	17	65	64
Income before income taxes	<u>\$ 212</u>	<u>\$ 612</u>	<u>\$ 2,025</u>	<u>\$ 2,434</u>

CUMMINS INC. AND SUBSIDIARIES SELECTED FOOTNOTE DATA (Unaudited)

NOTE 1. EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEEES

Equity, royalty and interest income from investees included in our *Condensed Consolidated Statements of Income* for the reporting periods was as follows:

In millions	Three months ended		Years ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Distribution Entities				
North American distributors	\$ 6	\$ 18	\$ 33	\$ 107
Komatsu Cummins Chile, Ltda.	8	7	31	29
All other distributors	1	2	3	4
Manufacturing Entities				
Beijing Foton Cummins Engine Co., Ltd.	15	(8)	62	(2)
Dongfeng Cummins Engine Company, Ltd.	11	16	51	67
Chongqing Cummins Engine Company, Ltd.	9	12	41	51
All other manufacturers	11	20	52	74
Cummins share of net income	<u>61</u>	<u>67</u>	<u>273</u>	<u>330</u>
Royalty and interest income	<u>14</u>	<u>9</u>	<u>42</u>	<u>40</u>
Equity, royalty and interest income from investees	<u>\$ 75</u>	<u>\$ 76</u>	<u>\$ 315</u>	<u>\$ 370</u>

NOTE 2. IMPAIRMENT OF LIGHT-DUTY DIESEL ASSETS

We began development of a new North American light-duty diesel engine (LDD) platform in July of 2006 for use in a variety of on- and off-highway applications. Since that time, and as of December 31, 2015, we capitalized investments of approximately \$279 million, with a net book value prior to the impairment of \$246 million (\$235 million of which is in our Engine segment and \$11 million of which is in our Components segment). Market uncertainty due to the global recession in 2008/2009 resulted in some customers delaying or canceling their vehicle programs, while others remained active. We announced an agreement with Nissan Motor Co. Ltd. in 2013 to supply our light-duty diesel engine and began commercial shipment in 2015. In the fourth quarter of 2015, we learned that we were not successful in our bid to supply this product for an additional customer. In addition, the recent deterioration in global economic conditions and excess manufacturing capacity in other markets make it unlikely that we will manufacture additional products on the LDD line to utilize its excess capacity during the asset recovery period. As a result, we concluded that the combination of these events presented a triggering event requiring an assessment of the recoverability of these assets in the fourth quarter of 2015. The assessment indicated that the projected

undiscounted cash flows related to this asset group were not sufficient to recover its carrying value. Consequently, we were required to write down the LDD asset group to fair value. Our fourth quarter results included an impairment charge of \$211 million (\$133 million after-tax), of which \$202 million is in the Engine segment and \$9 million is in the Components segment, to reflect the assets at fair value. We remain committed to servicing existing contracts and are not exiting this product line.

NOTE 3. RESTRUCTURING ACTIONS AND OTHER CHARGES

In the fourth quarter of 2015, we announced and executed restructuring actions primarily in the form of voluntary and involuntary employee separation programs in response to the continued deterioration in our global markets in the second half of 2015, as well as expected reductions in orders in most U.S. and global markets in 2016. We reduced our worldwide professional workforce by approximately 1,900 employees, or 5 percent, including approximately 370 employees accepting voluntary retirement packages with the remainder of the reductions being involuntary. We incurred a charge of \$90 million (\$61 million after-tax) in the fourth quarter of 2015, which included \$86 million for the severance costs related to both voluntary and involuntary terminations and \$4 million for asset impairments and other charges.

Employee termination and severance costs were recorded based on approved plans developed by the businesses and corporate management which specified positions to be eliminated, benefits to be paid under existing severance plans or statutory requirements and the expected timetable for completion of the plan. Estimates of restructuring costs and benefits were made based on information available at the time charges were recorded. Due to the inherent uncertainty involved, actual amounts paid for such activities may differ from amounts initially recorded and we may need to revise previous estimates.

NOTE 4. LOSS CONTINGENCY

Engines systems sold in the United States must be certified to comply with the Environmental Protection Agency (EPA) and California Air Resources Board (CARB) emission standards. EPA and CARB regulations require that in-use testing be performed on vehicles by the emission certificate holder and reported to the EPA and CARB in order to ensure ongoing compliance with these emission standards. We are the holder of this emission certificate for our engines, including engines installed in certain vehicles with one customer on which we did not also manufacture or sell the emission after treatment system. During 2015, a wash coat quality issue in certain of these third party after treatment systems caused some of our inter-related engines to fail in-use emission testing. In the fourth quarter, the vehicle manufacturer made a request that we assist in the design and bear the financial cost of a field campaign (Campaign) to address the technical issue purportedly causing some vehicles to fail the in-use testing.

While we are not responsible for the warranty issues related to a component that we did not manufacture or sell, as the emission compliance certificate holder, we are responsible for proposing a remedy to the EPA and CARB. As a result, we have proposed actions to the agencies that we believe will address the emission failures. As the certificate holder, we expect to participate in the cost of the proposed voluntary Campaign and have recorded a charge for this Campaign in other operating expenses of \$60 million (\$38 million after tax) in the fourth quarter. We are pursuing a cost sharing arrangement with the vehicle

manufacturer which could reduce the economic cost of this Campaign. We will record a cost recovery in the period when a binding agreement is obtained.

We currently do not expect any fines or penalties from the EPA or CARB related to this matter.

NOTE 5. INCOME TAXES

Our income tax rates are generally less than the 35 percent U.S. income tax rate primarily because of lower taxes on foreign earnings and research tax credits. The effective tax rate for the three and twelve month periods ended December 31, 2015, was 16.0 percent and 27.4 percent, respectively. The effective tax rate for the three month period ended December 31, 2015 included U.S. tax legislation that was passed in the fourth quarter extending the federal research tax credit permanently. We recorded a \$25 million benefit in the fourth quarter related to this legislation.

In addition to the fourth quarter item, the tax rate for the twelve month period ended December 31, 2015, included an \$18 million one-time tax benefit primarily to reflect the release of reserves for uncertain tax positions related to a favorable federal audit settlement.

CUMMINS INC. AND SUBSIDIARIES FINANCIAL MEASURES THAT SUPPLEMENT GAAP (Unaudited)

Net income and diluted earnings per share (EPS) attributable to Cummins Inc. excluding special items

We believe these are useful measures of our operating performance for the periods presented as they illustrate our operating performance without regard to special items including tax adjustments. These measures are not in accordance with, or an alternative for, accounting principles generally accepted in the United States of America (GAAP) and may not be consistent with measures used by other companies. It should be considered supplemental data. The following table reconciles net income attributable to Cummins Inc. to net income attributable to Cummins Inc. excluding special items for the following periods:

In millions	Three months ended			
	December 31, 2015		December 31, 2014	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income attributable to Cummins Inc.	\$ 161	\$ 0.92	\$ 444	\$ 2.44
Add				
Impairment of light-duty diesel assets ⁽¹⁾	133	0.75	—	—
Restructuring actions and other charges ⁽¹⁾	61	0.35	21 (2)	0.12
Loss contingency ⁽¹⁾	38	0.22	—	—
Less				
Federal research tax credit	25	0.15	—	—
Net income attributable to Cummins Inc. excluding special items	<u>\$ 368</u>	<u>\$ 2.09</u>	<u>\$ 465</u>	<u>\$ 2.56</u>

In millions	Years ended			
	December 31, 2015		December 31, 2014	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income attributable to Cummins Inc.	\$ 1,399	\$ 7.84	\$ 1,651	\$ 9.02
Add				
Impairment of light-duty diesel assets ⁽¹⁾	133	0.75	—	—
Restructuring actions and other charges ⁽¹⁾	61	0.34	21 (2)	0.11
Loss contingency ⁽¹⁾	38	0.21	—	—
Net income attributable to Cummins Inc. excluding special items	<u>\$ 1,631</u>	<u>\$ 9.14</u>	<u>\$ 1,672</u>	<u>\$ 9.13</u>

⁽¹⁾ See the respective previous footnotes for additional information.

⁽²⁾ In the fourth quarter of 2014, we recorded a plant closing and initiated other actions totaling \$32 million (\$21 million after tax).

Earnings before interest, income taxes, noncontrolling interests and special items

We define EBIT as earnings before interest expense, income tax expense and noncontrolling interests in income of consolidated subsidiaries (EBIT). We use EBIT to assess and measure the performance of our operating segments and also as a component in measuring our variable compensation programs. This measure is not in accordance with, or an alternative for, GAAP and may not be consistent with measures used by other companies. It should be considered supplemental data. Below is a reconciliation of EBIT to "Net income attributable to Cummins Inc." for each of the applicable periods:

	Three months ended		Years ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
In millions				
Earnings before interest expense, income taxes and special items	\$ 591	\$ 661	\$ 2,451	\$ 2,530
<i>Earnings before interest expense, income taxes and special items as a percentage of net sales</i>	12.4%	13.0%	12.8%	13.2%
Less				
Impairment of light-duty diesel assets	211	—	211	—
Restructuring actions and other charges	90	—	90	—
Loss contingency	60	—	60	—
Plant closing and other actions	—	32	—	32
Earnings before interest expense and income taxes	\$ 230	\$ 629	\$ 2,090	\$ 2,498
<i>EBIT as a percentage of net sales</i>	4.8%	12.4%	10.9%	13.0%
Less				
Interest expense	18	17	65	64
Income tax expense	34	145	555	698
Consolidated net income	178	467	1,470	1,736
Less				
Net income attributable to noncontrolling interests	17	23	71	85
Net income attributable to Cummins Inc.	\$ 161	\$ 444	\$ 1,399	\$ 1,651
<i>Net income attributable to Cummins Inc. as a percentage of net sales</i>	3.4%	8.7%	7.3%	8.6%

CUMMINS INC. AND SUBSIDIARIES BUSINESS UNIT SALES DATA (Unaudited)

Engine Segment Sales by Market and Unit Shipments by Engine Classification

In the first quarter of 2015, our Engine segment reorganized its reporting structure to include the following markets: heavy-duty truck, medium-duty truck and bus, light-duty automotive (pickup and light commercial vehicle), industrial and stationary power. Sales by market for our Engine segment by business (including 2014 and 2013 reorganized balances) were as follows:

2015

In millions	Q1	Q2	Q3	Q4	YTD
Heavy-duty truck	\$ 757	\$ 875	\$ 784	\$ 700	\$ 3,116
Medium-duty truck and bus	608	674	585	640	2,507
Light-duty automotive	381	354	339	401	1,475
Industrial	616	624	617	601	2,458
Stationary power	234	270	203	186	893
Total sales	<u>\$ 2,596</u>	<u>\$2,797</u>	<u>\$2,528</u>	<u>\$2,528</u>	<u>\$10,449</u>

2014

In millions	Q1	Q2	Q3	Q4	YTD
Heavy-duty truck	\$ 718	\$ 769	\$ 801	\$ 784	\$ 3,072
Medium-duty truck and bus	575	605	599	652	2,431
Light-duty automotive	391	392	396	388	1,567
Industrial	669	739	768	775	2,951
Stationary power	210	239	252	240	941
Total sales	<u>\$ 2,563</u>	<u>\$2,744</u>	<u>\$2,816</u>	<u>\$2,839</u>	<u>\$10,962</u>

2013

In millions	YTD
Heavy-duty truck	\$ 2,618
Medium-duty truck and bus	2,064
Light-duty automotive	1,465
Industrial	2,921
Stationary power	945
Total sales	<u>\$10,013</u>

Unit shipments by engine classification (including unit shipments to Power Generation):

2015

Units	Q1	Q2	Q3	Q4	YTD
Mid-range	112,400	120,000	107,400	116,600	456,400
Heavy-duty	28,700	32,800	28,600	24,300	114,400
High-horsepower	3,500	3,700	3,200	3,400	13,800
Total units	<u>144,600</u>	<u>156,500</u>	<u>139,200</u>	<u>144,300</u>	<u>584,600</u>

2014

Units	Q1	Q2	Q3	Q4	YTD
Mid-range	118,900	118,700	117,700	115,900	471,200
Heavy-duty	28,800	30,300	32,300	30,700	122,100
High-horsepower	3,400	3,900	3,900	3,600	14,800
Total units	<u>151,100</u>	<u>152,900</u>	<u>153,900</u>	<u>150,200</u>	<u>608,100</u>

Distribution Segment Sales by Business

2015

In millions	Q1	Q2	Q3	Q4	YTD
Parts and filtration	\$ 573	\$ 598	\$ 604	\$ 648	\$2,423
Engines	321	318	323	332	1,294
Power generation	298	272	323	397	1,290
Service	284	307	301	330	1,222
Total sales	<u>\$1,476</u>	<u>\$1,495</u>	<u>\$1,551</u>	<u>\$1,707</u>	<u>\$6,229</u>

2014

In millions	Q1	Q2	Q3	Q4	YTD
Parts and filtration	\$ 382	\$ 461	\$ 491	\$ 590	\$1,924
Engines	174	249	270	368	1,061
Power generation	193	278	279	413	1,163
Service	201	250	252	323	1,026
Total sales	<u>\$ 950</u>	<u>\$1,238</u>	<u>\$1,292</u>	<u>\$1,694</u>	<u>\$5,174</u>

Component Segment Sales by Business**2015**

In millions	Q1	Q2	Q3	Q4	YTD
Emission solutions	\$ 613	\$ 679	\$ 607	\$ 600	\$2,499
Turbo technologies	301	307	266	267	1,141
Filtration	255	266	240	249	1,010
Fuel systems	130	145	127	120	522
Total sales	<u>\$1,299</u>	<u>\$1,397</u>	<u>\$1,240</u>	<u>\$1,236</u>	<u>\$5,172</u>

2014

In millions	Q1	Q2	Q3	Q4	YTD
Emission solutions	\$ 543	\$ 582	\$ 598	\$ 620	\$2,343
Turbo technologies	313	307	297	305	1,222
Filtration	265	275	268	267	1,075
Fuel systems	109	116	124	129	478
Total sales	<u>\$1,230</u>	<u>\$1,280</u>	<u>\$1,287</u>	<u>\$1,321</u>	<u>\$5,118</u>

Power Generation Segment Sales by Business

In the first quarter of 2015, our Power Generation segment reorganized its reporting structure to include the following businesses: power systems, alternators and power solutions. Sales for our Power Generation segment by business (including 2014 and 2013 reorganized balances) were as follows:

2015

In millions	Q1	Q2	Q3	Q4	YTD
Power systems	\$ 543	\$611	\$551	\$533	\$2,238
Alternators	98	92	86	82	358
Power solutions	39	44	22	39	144
Total sales	<u>\$ 680</u>	<u>\$747</u>	<u>\$659</u>	<u>\$654</u>	<u>\$2,740</u>

2014

In millions	Q1	Q2	Q3	Q4	YTD
Power systems	\$ 510	\$586	\$598	\$606	\$2,300
Alternators	105	126	115	103	449
Power solutions	24	31	41	51	147
Total sales	<u>\$ 639</u>	<u>\$743</u>	<u>\$754</u>	<u>\$760</u>	<u>\$2,896</u>

2013

In millions	YTD
Power systems	\$2,381
Alternators	496
Power solutions	154
Total sales	<u>\$3,031</u>

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Source: Cummins Inc.