

October 28, 2014



## **Cummins Reports Strong Results for the Third Quarter of 2014**

**Third Quarter Revenues of \$4.9 Billion, EBIT of 14.0 Percent of Sales; Full Year Revenue Expected to Grow Between 10 and 12 Percent and EBIT to Be in the Range of 13.0 to 13.5 Percent of Sales**

COLUMBUS, IN -- (Marketwired) -- 10/28/14 -- Cummins Inc.(NYSE: CMI) today reported results for the third quarter of 2014.

Third quarter revenue of \$4.9 billion increased 15 percent from the same quarter in 2013. The increase year-over-year was driven by stronger demand in on-highway markets and distributor acquisitions in North America, additional content growth for the Components business in Europe and China and higher engine sales to commercial marine customers.

Revenues in North America increased 19 percent and international sales increased 10 percent compared to the third quarter a year ago. Within international markets, stronger demand in Western Europe and China offset weaker sales in Brazil.

Earnings before interest and taxes (EBIT) were \$684 million for the third quarter or 14.0 percent of sales. This compares to \$536 million or 12.6 percent of sales a year ago.

Net income attributable to Cummins in the third quarter was \$423 million (\$2.32 per diluted share), compared to \$355 million (\$1.90 per diluted share) in the third quarter of 2013. The tax rate in the third quarter of 2014 was 34.4 percent and included a non-cash discrete tax expense of \$19 million (\$0.10 per diluted share).

"We delivered strong earnings and cash flow in the third quarter despite facing mixed conditions in international markets," said Chairman and CEO Tom Linebarger. "Earnings improved in all four of our businesses compared to a year ago. During the third quarter we increased the quarterly dividend by 25 percent and repurchased 1.2 million shares putting us well on track to return 50 percent of annual operating cash flow to shareholders. Although results in our Power Generation business improved in the third quarter, global demand for power generation equipment remains weak. As a result we are considering certain actions to reduce our cost structure starting in the fourth quarter. The cost of the actions being considered could range from \$15 million to \$40 million."

Based on the current forecast, Cummins expects full year 2014 revenues to grow between 10 percent and 12 percent, up from its previous forecast of growth of between 8 percent and 11 percent, due to stronger demand in North America. EBIT is expected to be in the range of 13 to 13.5 percent of sales, excluding the impact of cost reduction activities within the Power Generation business that will commence in the fourth quarter.

Other recent highlights:

- Cummins was recognized with the 2014 Robert W. Campbell Award by the National Safety Council for excellence in health, safety and the environment
- Standard and Poor's Rating Services upgraded Cummins corporate credit rating to A+
- The Company was named to Gartner's Supply Chain Top 25 for the third consecutive year, and
- Cummins 6.7 liter Turbo Diesel was the first diesel engine in a medium-duty vehicle to be certified to meet Low-Emission Vehicle III (LEV III) Standards in the US

### ***Third quarter 2014 detail (all comparisons to same period in 2013)***

#### **Engine Segment**

- Sales -- \$2.8 billion, up 13 percent
- Segment EBIT -- \$330 million, or 11.7 percent of sales, compared to \$272 million or 10.9 percent of sales
- Increased demand in on-highway markets in North America and in commercial marine markets offset weakness in the Brazilian truck market

#### **Components Segment**

- Sales -- \$1.3 billion, up 20 percent
- Segment EBIT -- \$172 million, or 13.4 percent of sales, compared to \$132 million or 12.3 percent of sales
- Higher demand in on-highway markets in North America, Europe and China more than offset weaker demand in Brazil

#### **Power Generation Segment**

- Sales -- \$754 million, up 6 percent
- Segment EBIT -- \$60 million, or 8.0 percent of sales, compared to \$45 million or 6.3 percent of sales
- Higher revenues in China, Africa and Middle East offset weaker sales in Mexico and Eastern Europe

#### **Distribution Segment**

- Sales -- \$1.3 billion, up 37 percent overall and up 8 percent excluding acquisitions
- Segment EBIT -- \$131 million, or 10.1 percent of sales, compared to \$86 million or 9.1 percent of sales
- Higher revenues were primarily driven by acquisitions and stronger demand in North America, Asia and Africa
- Current quarter included gains of \$18 million, and amortization costs of \$7 million related to acquisitions

### ***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 48,000 people worldwide and serves customers in approximately 190 countries and territories through a network of approximately 600 company-owned and independent distributor locations and approximately 6,800 dealer locations. Cummins earned \$1.48 billion on sales of \$17.3 billion in 2013. Press releases can be found on the Web at [www.cummins.com](http://www.cummins.com). Follow Cummins on Twitter at @Cummins and on YouTube at Cummins Inc.

### ***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 2014. 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 action; 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 2013 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](http://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.

### The following files are available for download:

- [PDF](#)

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

<i>In millions, except per share amounts</i>	<i>Three months ended</i>		
	<i>September 28, 2014</i>	<i>June 29, 2014</i>	<i>September 29, 2013</i>
<b>NET SALES</b>	<b>\$ 4,890</b>	<b>\$ 4,835</b>	<b>\$ 4,266</b>
Cost of sales <sup>(b)</sup>	<b>3,606</b>	<b>3,630</b>	<b>3,185</b>
<b>GROSS MARGIN</b>	<b>1,284</b>	<b>1,205</b>	<b>1,081</b>
<b>OPERATING EXPENSES AND INCOME</b>			
Selling, general and administrative expenses <sup>(b)</sup>	<b>529</b>	<b>513</b>	<b>464</b>
Research, development and engineering expenses	<b>198</b>	<b>179</b>	<b>173</b>
Equity, royalty and interest income from investees (Note 1)	<b>99</b>	<b>105</b>	<b>91</b>
Other operating income (expense), net	<b>3</b>	<b>(6)</b>	<b>(11)</b>
<b>OPERATING INCOME</b>	<b>659</b>	<b>612</b>	<b>524</b>
Interest income	<b>6</b>	<b>6</b>	<b>6</b>
Interest expense	<b>15</b>	<b>15</b>	<b>8</b>
Other income, net	<b>19</b>	<b>39</b>	<b>6</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>669</b>	<b>642</b>	<b>528</b>
Income tax expense (Note 2)	<b>230</b>	<b>170</b>	<b>154</b>
<b>CONSOLIDATED NET INCOME</b>	<b>439</b>	<b>472</b>	<b>374</b>
Less: Net income attributable to noncontrolling interests	<b>16</b>	<b>26</b>	<b>19</b>
<b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	<b>\$ 423</b>	<b>\$ 446</b>	<b>\$ 355</b>
<b>EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.</b>			
Basic	<b>\$ 2.32</b>	<b>\$ 2.44</b>	<b>\$ 1.91</b>
Diluted	<b>\$ 2.32</b>	<b>\$ 2.43</b>	<b>\$ 1.90</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>			
Basic	<b>182.2</b>	<b>182.8</b>	<b>186.0</b>
Diluted	<b>182.7</b>	<b>183.2</b>	<b>186.5</b>
<b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b>	<b>\$ 0.78</b>	<b>\$ 0.625</b>	<b>\$ 0.625</b>

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

(b) We revised the classification of certain amounts for "Cost of sales" and "Selling, general and administrative expenses." See supplemental schedules for additional information.

<i>In millions, except per share amounts</i>	<i>Nine months ended</i>	
	<i>September 28, 2014</i>	<i>September 29, 2013</i>
<b>NET SALES</b>	<b>\$ 14,131</b>	<b>\$ 12,713</b>
Cost of sales <sup>(b)</sup>	<b>10,543</b>	9,570
<b>GROSS MARGIN</b>	<b>3,588</b>	<b>3,143</b>
<b>OPERATING EXPENSES AND INCOME</b>		
Selling, general and administrative expenses <sup>(b)</sup>	<b>1,527</b>	1,344
Research, development and engineering expenses	<b>567</b>	532
Equity, royalty and interest income from investees (Note 1)	<b>294</b>	281
Other operating income (expense), net	<b>(4)</b>	-
<b>OPERATING INCOME</b>	<b>1,784</b>	<b>1,548</b>
Interest income	<b>17</b>	21
Interest expense	<b>47</b>	22
Other income, net	<b>68</b>	25
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,822</b>	<b>1,572</b>
Income tax expense (Note 2)	<b>553</b>	445
<b>CONSOLIDATED NET INCOME</b>	<b>1,269</b>	<b>1,127</b>
Less: Net income attributable to noncontrolling interests	<b>62</b>	76
<b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	<b>\$ 1,207</b>	<b>\$ 1,051</b>
<b>EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.</b>		
Basic	<b>\$ 6.59</b>	\$ 5.61
Diluted	<b>\$ 6.58</b>	\$ 5.60
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>		
Basic	<b>183.1</b>	187.4
Diluted	<b>183.5</b>	187.8
<b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b>	<b>\$ 2.03</b>	\$ 1.625

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

(b) We revised the classification of certain amounts for "Cost of sales" and "Selling, general and administrative expenses." See supplemental schedules for additional information.

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

<i>In millions, except par value</i>	<i>September 28, 2014</i>	<i>December 31, 2013</i>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	<b>\$ 2,328</b>	\$ 2,699
Marketable securities	<b>53</b>	150
Total cash, cash equivalents and marketable securities	<b>2,381</b>	2,849
Accounts and notes receivable, net	<b>3,059</b>	2,649
Inventories	<b>2,833</b>	2,381
Prepaid expenses and other current assets	<b>795</b>	760
Total current assets	<b>9,068</b>	8,639
Long-term assets		
Property, plant and equipment	<b>6,899</b>	6,410

Accumulated depreciation	(3,435)	(3,254)
Property, plant and equipment, net	3,464	3,156
Investments and advances related to equity method investees	981	931
Goodwill	465	461
Other intangible assets, net	346	357
Prepaid pensions	701	514
Other assets	619	670
Total assets	<u>\$ 15,644</u>	<u>\$ 14,728</u>
<b>LIABILITIES</b>		
Current liabilities		
Loans payable	\$ 78	\$ 17
Accounts payable (principally trade)	1,930	1,557
Current maturities of long-term debt	27	51
Current portion of accrued product warranty	351	360
Accrued compensation, benefits and retirement costs	507	433
Deferred revenue	328	285
Taxes payable (including taxes on income)	134	99
Other accrued expenses	683	566
Total current liabilities	<u>4,038</u>	<u>3,368</u>
Long-term liabilities		
Long-term debt	1,584	1,672
Pensions	234	232
Postretirement benefits other than pensions	333	356
Other liabilities and deferred revenue	1,358	1,230
Total liabilities	<u>7,547</u>	<u>6,858</u>
<b>EQUITY</b>		
Cummins Inc. shareholders' equity		
Common stock, \$2.50 par value, 500 shares authorized, 222.3 and 222.3 shares issued	2,125	2,099
Retained earnings	9,243	8,406
Treasury stock, at cost, 39.6 and 35.6 shares	(2,779)	(2,195)
Common stock held by employee benefits trust, at cost, 1.1 and 1.3 shares	(14)	(16)
Accumulated other comprehensive loss		
Defined benefit postretirement plans	(583)	(611)
Other	(244)	(173)
Total accumulated other comprehensive loss	<u>(827)</u>	<u>(784)</u>
Total Cummins Inc. shareholders' equity	<u>7,748</u>	<u>7,510</u>
Noncontrolling interests	349	360
Total equity	<u>8,097</u>	<u>7,870</u>
Total liabilities and equity	<u>\$ 15,644</u>	<u>\$ 14,728</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)

<i>In millions</i>	<i>Nine months ended</i>	
	<i>September 28, 2014</i>	<i>September 29, 2013</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 1,269	\$ 1,127
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	330	305
Gain on fair value adjustment for consolidated investees	(38)	(12)
Deferred income taxes	(37)	78
Equity in income of investees, net of dividends	(103)	(98)
Pension contributions in excess of expense	(154)	(96)
Other post-retirement benefits payments in excess of expense	(22)	(20)
Stock-based compensation expense	27	29
Excess tax benefits on stock-based awards	(5)	(13)
Translation and hedging activities	(19)	26
Changes in current assets and liabilities, net of acquisitions		
Accounts and notes receivable	(236)	(216)

Inventories	(302)	(206)
Other current assets	(6)	182
Accounts payable	316	252
Accrued expenses	162	(146)
Changes in other liabilities and deferred revenue	184	147
Other, net	22	(6)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,388</b>	<b>1,333</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(409)	(417)
Investments in internal use software	(40)	(43)
Investments in and advances to equity investees	(39)	(12)
Acquisitions of businesses, net of cash acquired	(266)	(145)
Investments in marketable securities-acquisitions	(213)	(360)
Investments in marketable securities-liquidations	316	433
Cash flows from derivatives not designated as hedges	-	(15)
Other, net	11	14
Net cash used in investing activities	(640)	(545)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	39	987
Payments on borrowings and capital lease obligations	(72)	(62)
Net (payments) borrowings under short-term credit agreements	(41)	34
Distributions to noncontrolling interests	(52)	(53)
Dividend payments on common stock	(370)	(305)
Repurchases of common stock	(605)	(289)
Excess tax benefits on stock-based awards	5	13
Other, net	(3)	19
Net cash (used in) provided by financing activities	(1,099)	344
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(20)</b>	<b>(2)</b>
Net (decrease) increase in cash and cash equivalents	(371)	1,130
Cash and cash equivalents at beginning of year	2,699	1,369
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 2,328</b>	<b>\$ 2,499</b>

(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)

<i>In millions</i>	<i>Engine</i>	<i>Components</i>	<i>Power Generation</i>	<i>Distribution</i>	<i>Non-segment Items <sup>(1)</sup></i>	<i>Total</i>
<b>Three months ended September 28, 2014</b>						
External sales	\$ 2,181	\$ 946	\$ 481	\$ 1,282	\$ -	\$ 4,890
Intersegment sales	635	341	273	10	(1,259)	-
Total sales	2,816	1,287	754	1,292	(1,259)	4,890
Depreciation and amortization <sup>(2)</sup>	50	27	13	22	-	112
Research, development and engineering expenses	114	64	18	2	-	198
Equity, royalty and interest income from investees	40	9	13	37	-	99
Interest income	3	1	1	1	-	6
Segment EBIT	330	172	60	131 <sup>(3)</sup>	(9)	684
Segment EBIT as a percentage of total sales	11.7%	13.4 %	8.0 %	10.1 %		14.0%
<b>Three months ended June 29, 2014</b>						
External sales	\$ 2,178	\$ 953	\$ 475	\$ 1,229	\$ -	\$ 4,835
Intersegment sales	566	327	268	9	(1,170)	-
Total sales	2,744	1,280	743	1,238	(1,170)	4,835

Depreciation and amortization <sup>(2)</sup>	52	26	13	20	-	111
Research, development and engineering expenses	105	53	18	3	-	179
Equity, royalty and interest income from investees	45	9	9	42	-	105
Interest income	4	1	1	-	-	6
Segment EBIT	311	185	61	126	(3)	(26) 657
Segment EBIT as a percentage of total sales	11.3%	14.5 %	8.2 %	10.2 %		13.6%

**Three months ended September 29, 2013**

External sales	\$ 2,045	\$ 784	\$ 499	\$ 938	\$ -	\$ 4,266
Intersegment sales	447	288	213	6	(954)	-
Total sales	2,492	1,072	712	944	(954)	4,266
Depreciation and amortization <sup>(2)</sup>	53	24	13	15	-	105
Research, development and engineering expenses	103	51	18	1	-	173
Equity, royalty and interest income from investees	31	5	13	42	-	91
Interest income	4	1	1	-	-	6
Segment EBIT	272	132	45	86	1	536
Segment EBIT as a percentage of total sales	10.9%	12.3 %	6.3 %	9.1 %		12.6%

(1) Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the three months ended September 28, 2014, June 29, 2014 and September 29, 2013.

(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) Distribution segment EBIT for the three months ended September 28, 2014 and June 29, 2014 included gains of \$18 million and \$14 million on the fair value adjustments resulting from the acquisitions of controlling interests in North American distributors in each period, respectively.

<i>In millions</i>	<i>Engine</i>	<i>Components</i>	<i>Power Generation</i>	<i>Distribution</i>	<i>Non-segment Items <sup>(1)</sup></i>	<i>Total</i>
<b>Nine months ended September 28, 2014</b>						
External sales	\$ 6,449	\$ 2,821	\$ 1,408	\$ 3,453	\$ -	\$14,131
Intersegment sales	1,674	976	728	27	(3,405)	-
Total sales	8,123	3,797	2,136	3,480	(3,405)	14,131
Depreciation and amortization <sup>(2)</sup>	153	79	38	58	-	328
Research, development and engineering expenses	335	170	55	7	-	567
Equity, royalty and interest income from investees	117	27	30	120	-	294
Interest income	9	3	3	2	-	17
Segment EBIT	910	524	146	333	(3)	(44) 1,869
Segment EBIT as a percentage of total sales	11.2%	13.8 %	6.8 %	9.6 %		13.2%

**Nine months ended September 29, 2013**

External sales	\$ 6,139	\$ 2,292	\$ 1,621	\$ 2,661	\$ -	\$12,713
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Intersegment sales	1,312	915	651	15	(2,893)	-
Total sales	7,451	3,207	2,272	2,676	(2,893)	12,713
Depreciation and amortization <sup>(2)</sup>	156	71	37	40	-	304
Research, development and engineering expenses	310	165	53	4	-	532
Equity, royalty and interest income from investees	106	21	30	124	-	281
Interest income	13	2	5	1	-	21
Segment EBIT	806	387	172	281	(3) (52)	1,594
Segment EBIT as a percentage of total sales	10.8%	12.1 %	7.6 %	10.5 %		12.5%

(1) Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the nine months ended September 28, 2014 and September 29, 2013.

(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 \$2 million and \$8 million for the nine months ended September 28, 2014 and September 29, 2013, respectively.

(3) Distribution segment EBIT for the nine months ended September 28, 2014 and September 29, 2013 included gains of \$38 million and \$12 million on the fair value adjustments resulting from the acquisitions of controlling interests in North American distributors in each period, respectively.

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

	Three months ended			Nine months ended	
	September 28, 2014	June 29, 2014	September 29, 2013	September 28, 2014	September 29, 2013
<i>In millions</i>					
Total EBIT	\$ 684	\$ 657	\$ 536	\$ 1,869	\$ 1,594
Less: Interest expense	15	15	8	47	22
Income before income taxes	\$ 669	\$ 642	\$ 528	\$ 1,822	\$ 1,572

**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:

	Three months ended			Nine months ended	
	September 28, 2014	June 29, 2014	September 29, 2013	September 28, 2014	September 29, 2013
<i>In millions</i>					
<b>Distribution Entities</b>					
North American distributors	\$ 27	\$ 30	\$ 34	\$ 89	\$ 98
Komatsu Cummins Chile, Ltda.	8	8	6	22	17
All other distributors	-	1	1	2	1
<b>Manufacturing Entities</b>					
Dongfeng Cummins Engine Company, Ltd.	15	22	13	51	45

Chongqing Cummins Engine Company, Ltd.	13	15	15	39	44
Beijing Foton Cummins Engine Co., Ltd. (Light-duty)	10	8	4	24	14
Shanghai Fleetguard Filter Co., Ltd.	3	3	4	9	11
Tata Cummins, Ltd.	2	2	1	6	4
Cummins Westport, Inc.	2	-	2	3	5
Beijing Foton Cummins Engine Co., Ltd. (Heavy-duty)	(5)	(7)	(4)	(18)	(14)
All other manufacturers	13	14	7	36	29
Cummins share of net income	88	96	83	263	254
Royalty and interest income	11	9	8	31	27
Equity, royalty and interest income from investees	\$ 99	\$ 105	\$ 91	\$ 294	\$ 281

## NOTE 2. INCOME TAXES

Our effective tax rate for the year is expected to approximate 29.5 percent, excluding any one-time items that may arise. The expected tax rate does not include the benefits of the research tax credit which expired December 31, 2013 and has not yet been renewed by Congress. Our tax rate is generally less than the 35 percent U.S. statutory income tax rate primarily due to lower tax rates on foreign income.

The effective tax rates for the three and nine month periods ended September 28, 2014, were 34.4 percent and 30.4 percent, respectively. The tax rate for the three months ended September 28, 2014, included a \$19 million discrete tax expense to reflect the reduction in value of state tax credits as a result of a favorable state tax rate change that will lower future taxes. Additionally, the tax rate for the nine month period included a second quarter \$2 million discrete tax benefit for the release of reserves for uncertain tax positions related to multiple state audit settlements, a first quarter \$12 million discrete tax expense attributable primarily to state deferred tax adjustments, as well as a first quarter \$6 million discrete net tax benefit resulting from a \$70 million dividend paid from China earnings generated prior to 2012.

Our effective tax rate for the three month period ended June 29, 2014, was 26.5 percent. The tax rate included a \$2 million discrete tax benefit for the release of reserves for uncertain tax positions related to multiple state audit settlements.

Our effective tax rates for the three and nine month periods ended September 29, 2013, were 29.2 percent and 28.3 percent, respectively. These tax rates include a \$7 million discrete net tax expense for the third quarter tax adjustments: \$4 million expense attributable to prior year tax return true-up adjustments, \$1 million benefit related to release of prior year tax reserves and a discrete tax charge for \$4 million related to a third quarter enactment of U.K. tax law changes. In addition, the nine month tax rate includes a discrete tax benefit in the first quarter of 2013 of \$28 million attributable to the reinstatement of the research credit back to 2012, as well as a discrete tax expense in the first quarter of 2013 of \$17 million, which primarily relates to the write-off of a deferred tax asset deemed unrecoverable.

The increase in the three month effective tax rate from 2013 to 2014 is primarily due to unfavorable changes in the jurisdictional mix of pre-tax income and the 2014 unfavorable discrete tax items.

## NOTE 3. ACQUISITION

### Cummins Eastern Canada LP

On August 4, 2014, we acquired the remaining 50 percent interest in Cummins Eastern Canada LP (Eastern Canada) from the former distributor principal. The preliminary purchase consideration was \$62 million, which included \$22 million in cash and an additional \$32 million to eliminate outstanding debt. The remaining \$8 million will be paid in future periods. The intangible assets are primarily customer related, the majority of which will be amortized within one year subject to customary purchase price adjustments. The acquisition was accounted for as a business combination and the results of the acquired entity were included in the Distribution operating segment subsequent to the acquisition date. As a result of this transaction, third quarter 2014 Distribution segment results included an \$18 million gain, as we were required to re-measure our pre-existing 50 percent ownership interest in Eastern Canada to fair value. The transaction generated \$5 million of goodwill based on the preliminary purchase price allocation. Net sales for Eastern Canada were \$228 million for the year ended December 31, 2013. This amount is not fully incremental to our consolidated sales as the amount would be reduced by the elimination of sales to the previously unconsolidated entity.

#### CUMMINS INC. AND SUBSIDIARIES FINANCIAL MEASURES THAT SUPPLEMENT GAAP

(unaudited)

### Earnings before interest, taxes and noncontrolling interests

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, accounting principles generally accepted in the United States of America 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			Nine months ended	
	September 28, 2014	June 29, 2014	September 29, 2013	September 28, 2014	September 29, 2013
<b>In millions</b>					
Earnings before interest expense and income taxes	\$ 684	\$ 657	\$ 536	\$ 1,869	\$ 1,594
EBIT as a percentage of net sales	14.0 %	13.6%	12.6 %	13.2 %	12.5 %
Less					
Interest expense	15	15	8	47	22
Income tax expense	230	170	154	553	445
Consolidated net income	439	472	374	1,269	1,127
Less					
Net income attributable to noncontrolling interests	16	26	19	62	76
Net income attributable to Cummins Inc.	\$ 423	\$ 446	\$ 355	\$ 1,207	\$ 1,051

Net income attributable to Cummins Inc.  
as a percentage of net sales

8.7 %

9.2%

8.3 %

8.5 %

8.3 %

**CUMMINS INC. AND SUBSIDIARIES**  
**SUPPLEMENTAL COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**  
**(Unaudited)**

## Supplemental Information

This Current Report on Form 8-K includes supplemental unaudited historical "Cost of sales" and "Selling, general and administrative expenses" information. We revised the classification of certain amounts for "Cost of sales" and "Selling, general and administrative expenses" for 2014, 2013 and 2012. In connection with the integration of recently acquired North American distributors and anticipating the future acquisition and integration of the entire North American channel, our Distribution segment has developed a framework against which Distribution management intends to measure the performance of the distribution channel. The segment EBIT (defined as earnings before interest expense, taxes and noncontrolling interests) performance measure is unchanged, however, certain activities that were previously classified in "Selling, general and administrative expenses" will be classified as "Cost of sales" to align with the new framework and allow for consistent treatment across the channel. We revised the expense presentation of our *Condensed Consolidated Statements of Income* for the periods presented below to follow the new cost framework. The net impact of this revision for the six months ended June 29, 2014 and years ended December 31, 2013 and 2012 were \$39 million, \$103 million and \$92 million, respectively. The revision had no impact on reported net income, cash flows or the balance sheet. We will begin to report comparative results under the new framework with the filing of our Quarterly Report for the quarter ending September 28, 2014.

<b>2014 Revised</b>	<b>Three months ended</b>		<b>Six months ended</b>
	<b>March 30, 2014</b>	<b>June 29, 2014</b>	<b>June 29, 2014</b>
<b>In millions</b>			
<b>NET SALES</b>	\$ 4,406	\$ 4,835	\$ 9,241
Cost of sales	3,307	3,630	6,937
<b>GROSS MARGIN</b>	1,099	1,205	2,304
<b>OPERATING EXPENSES AND INCOME</b>			
Selling, general and administrative expenses	485	513	998
Research, development and engineering expenses	190	179	369
Equity, royalty and interest income from investees	90	105	195
Other operating income (expense), net	(1)	(6)	(7)
<b>OPERATING INCOME</b>	513	612	1,125
Interest income	5	6	11
Interest expense	17	15	32
Other income (expense), net	10	39	49
<b>INCOME BEFORE INCOME TAXES</b>	511	642	1,153
Income tax expense	153	170	323
<b>CONSOLIDATED NET INCOME</b>	358	472	830
Less: Net income attributable to noncontrolling interests	20	26	46
<b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	\$ 338	\$ 446	\$ 784

<b>2013 and 2012 Revised</b>	<b>Three months ended</b>				<b>Years Ended</b>	
	<b>March 31, 2013</b>	<b>June 30, 2013</b>	<b>September 29, 2013</b>	<b>December 31, 2013</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>
<b>In millions</b>						
<b>NET SALES</b>	\$ 3,922	\$ 4,525	\$ 4,266	\$ 4,588	\$ 17,301	\$ 17,334
Cost of sales	2,988	3,397	3,185	3,451	13,021	12,918
<b>GROSS MARGIN</b>	934	1,128	1,081	1,137	4,280	4,416

**OPERATING EXPENSES  
AND INCOME**

Selling, general and administrative expenses	421	459	464	473	1,817	1,808
Research, development and engineering expenses	182	177	173	181	713	728
Equity, royalty and interest income from investees	82	108	91	80	361	384
Other operating income (expense), net	1	10	(11)	(10)	(10)	(10)
<b>OPERATING INCOME</b>	<b>414</b>	<b>610</b>	<b>524</b>	<b>553</b>	<b>2,101</b>	<b>2,254</b>
Interest income	5	10	6	6	27	25
Interest expense	6	8	8	19	41	32
Other income (expense), net	18	1	6	7	32	24
<b>INCOME BEFORE INCOME TAXES</b>	<b>431</b>	<b>613</b>	<b>528</b>	<b>547</b>	<b>2,119</b>	<b>2,271</b>
Income tax expense	119	172	154	86	531	533
<b>CONSOLIDATED NET INCOME</b>	<b>312</b>	<b>441</b>	<b>374</b>	<b>461</b>	<b>1,588</b>	<b>1,738</b>
Less: Net income attributable to noncontrolling interests	30	27	19	29	105	93
<b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	<b>\$ 282</b>	<b>\$ 414</b>	<b>\$ 355</b>	<b>\$ 432</b>	<b>\$ 1,483</b>	<b>\$ 1,645</b>

The following schedule reflects the change in cost of sales, gross margin, gross margin percentage trend, selling, general and administrative expenses and the impact of the change on the trend for selling, general and administrative expenses and research, development and engineering expenses (SARS).

<i>In millions</i>	<b>2012</b>		<b>2013</b>				<b>2014</b>		
	<b>FY</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>FY</b>	<b>Q1</b>	<b>Q2</b>	<b>Q2 YTD</b>
<b>REPORTED</b>									
<b>NET SALES</b>	<b>\$ 17,334</b>	<b>\$ 3,922</b>	<b>\$ 4,525</b>	<b>\$ 4,266</b>	<b>\$ 4,588</b>	<b>\$ 17,301</b>	<b>\$ 4,406</b>	<b>\$ 4,835</b>	<b>\$ 9,241</b>
Cost of sales	12,826	2,965	3,372	3,157	3,424	12,918	3,290	3,608	6,898
<b>GROSS MARGIN</b>	<b>4,508</b>	<b>957</b>	<b>1,153</b>	<b>1,109</b>	<b>1,164</b>	<b>4,383</b>	<b>1,116</b>	<b>1,227</b>	<b>2,343</b>
<b>GROSS MARGIN %</b>	<b>26.0%</b>	<b>24.4%</b>	<b>25.5%</b>	<b>26.0%</b>	<b>25.4%</b>	<b>25.3%</b>	<b>25.3%</b>	<b>25.4%</b>	<b>25.4%</b>
Selling, general and administrative expenses	1,900	444	484	492	500	1,920	502	535	1,037
Research, development and engineering expenses	728	182	177	173	181	713	190	179	369
<b>Total SARS</b>	<b>2,628</b>	<b>626</b>	<b>661</b>	<b>665</b>	<b>681</b>	<b>2,633</b>	<b>692</b>	<b>714</b>	<b>1,406</b>
<b>SARS %</b>	<b>15.2%</b>	<b>16.0%</b>	<b>14.6%</b>	<b>15.6%</b>	<b>14.8%</b>	<b>15.2%</b>	<b>15.7%</b>	<b>14.8%</b>	<b>15.2%</b>
<b>REVISED</b>									
<b>NET SALES</b>	<b>\$ 17,334</b>	<b>\$ 3,922</b>	<b>\$ 4,525</b>	<b>\$ 4,266</b>	<b>\$ 4,588</b>	<b>\$ 17,301</b>	<b>\$ 4,406</b>	<b>\$ 4,835</b>	<b>\$ 9,241</b>
Cost of sales	12,918	2,988	3,397	3,185	3,451	13,021	3,307	3,630	6,937
<b>GROSS MARGIN</b>	<b>4,416</b>	<b>934</b>	<b>1,128</b>	<b>1,081</b>	<b>1,137</b>	<b>4,280</b>	<b>1,099</b>	<b>1,205</b>	<b>2,304</b>
<b>GROSS MARGIN %</b>	<b>25.5%</b>	<b>23.8%</b>	<b>24.9%</b>	<b>25.3%</b>	<b>24.8%</b>	<b>24.7%</b>	<b>24.9%</b>	<b>24.9%</b>	<b>24.9%</b>
Selling, general and administrative expenses	1,808	421	459	464	473	1,817	485	513	998
Research, development and engineering expenses	728	182	177	173	181	713	190	179	369
<b>Total SARS</b>	<b>2,536</b>	<b>603</b>	<b>636</b>	<b>637</b>	<b>654</b>	<b>2,530</b>	<b>675</b>	<b>692</b>	<b>1,367</b>
<b>SARS %</b>	<b>14.6%</b>	<b>15.4%</b>	<b>14.1%</b>	<b>14.9%</b>	<b>14.3%</b>	<b>14.6%</b>	<b>15.3%</b>	<b>14.3%</b>	<b>14.8%</b>

**BUSINESS UNIT SALES DATA**  
(Unaudited)

Engine segment net sales by market:

**2014**

**In millions**

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>YTD</b>
Heavy-duty truck	\$ 722	\$ 796	\$ <b>823</b>	\$ -	\$ 2,341
Medium-duty truck and bus	601	646	<b>631</b>	-	1,878
Light-duty automotive and RV	361	336	<b>354</b>	-	1,051
Industrial	700	757	<b>788</b>	-	2,245
Stationary power	179	209	<b>220</b>	-	608
Total sales	<u>\$ 2,563</u>	<u>\$ 2,744</u>	<u>\$ <b>2,816</b></u>	<u>\$ -</u>	<u>\$ 8,123</u>

**2013**

**In millions**

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>YTD</b>
Heavy-duty truck	\$ 654	\$ 723	\$ 690	\$ 638	\$ 2,705
Medium-duty truck and bus	448	595	570	572	2,185
Light-duty automotive and RV	260	345	330	365	1,300
Industrial	714	762	709	811	2,996
Stationary power	227	231	193	176	827
Total sales	<u>\$ 2,303</u>	<u>\$ 2,656</u>	<u>\$ 2,492</u>	<u>\$ 2,562</u>	<u>\$ 10,013</u>

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

**2014**

**Units**

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>YTD</b>
Midrange	118,900	118,700	<b>117,700</b>	-	355,300
Heavy-duty	28,800	30,300	<b>32,300</b>	-	91,400
High-horsepower	3,400	3,900	<b>3,900</b>	-	11,200
Total units	<u>151,100</u>	<u>152,900</u>	<u><b>153,900</b></u>	<u>-</u>	<u>457,900</u>

**2013**

**Units**

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>YTD</b>
Midrange	94,600	121,900	113,800	115,700	446,000
Heavy-duty	24,900	28,300	26,500	25,700	105,400
High-horsepower	4,200	3,600	3,500	3,500	14,800
Total units	<u>123,700</u>	<u>153,800</u>	<u>143,800</u>	<u>144,900</u>	<u>566,200</u>

Component segment sales by business:

**2014**

**In millions**

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>YTD</b>
Emission solutions	\$ 543	\$ 582	\$ <b>598</b>	\$ -	\$ 1,723
Turbo technologies	313	307	<b>297</b>	-	917
Filtration	265	275	<b>268</b>	-	808
Fuel systems	109	116	<b>124</b>	-	349
Total sales	<u>\$ 1,230</u>	<u>\$ 1,280</u>	<u>\$ <b>1,287</b></u>	<u>\$ -</u>	<u>\$ 3,797</u>

**2013**

**In millions**

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>YTD</b>
Emission solutions	\$ 400	\$ 444	\$ 458	\$ 489	\$ 1,791
Turbo technologies	266	294	263	292	1,115
Filtration	255	271	248	254	1,028
Fuel systems	97	108	103	100	408
Total sales	<u>\$ 1,018</u>	<u>\$ 1,117</u>	<u>\$ 1,072</u>	<u>\$ 1,135</u>	<u>\$ 4,342</u>

## Power Generation segment sales by business:

**2014**

***In millions***

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>YTD</b>
Power products	\$ 373	\$ 445	\$ <b>439</b>	\$ -	\$ 1,257
Power systems	137	141	<b>159</b>	-	437
Alternators	105	126	<b>115</b>	-	346
Power solutions	24	31	<b>41</b>	-	96
Total sales	<u>\$ 639</u>	<u>\$ 743</u>	<u>\$ <b>754</b></u>	<u>\$ -</u>	<u>\$ 2,136</u>

**2013**

***In millions***

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>YTD</b>
Power products	\$ 409	\$ 474	\$ 421	\$ 421	\$ 1,725
Power systems	179	187	122	168	656
Alternators	126	125	126	119	496
Power solutions	32	28	43	51	154
Total sales	<u>\$ 746</u>	<u>\$ 814</u>	<u>\$ 712</u>	<u>\$ 759</u>	<u>\$ 3,031</u>

## Distribution segment sales by business:

**2014**

***In millions***

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>YTD</b>
Parts and filtration	\$ 382	\$ 461	\$ <b>491</b>	\$ -	\$ 1,334
Power generation	193	278	<b>279</b>	-	750
Engines	174	249	<b>270</b>	-	693
Service	201	250	<b>252</b>	-	703
Total sales	<u>\$ 950</u>	<u>\$ 1,238</u>	<u>\$ <b>1,292</b></u>	<u>\$ -</u>	<u>\$ 3,480</u>

**2013**

***In millions***

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>YTD</b>
Parts and filtration	\$ 322	\$ 369	\$ 377	\$ 397	\$ 1,465
Power generation	163	241	234	293	931
Engines	152	183	170	208	713
Service	141	161	163	175	640
Total sales	<u>\$ 778</u>	<u>\$ 954</u>	<u>\$ 944</u>	<u>\$ 1,073</u>	<u>\$ 3,749</u>

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Source: Cummins Inc.