

July 31, 2012



## Cummins Reports Strong Second Quarter Profits

- **Continues to deliver strong margins despite challenging economic environment**
- **Expects full-year revenues of \$18 billion, EBIT of 14.25 to 14.75 percent**

COLUMBUS, Ind.--(BUSINESS WIRE)-- Cummins Inc. (NYSE: CMI) today reported strong profits for the second quarter of 2012.

Second quarter revenue of \$4.45 billion decreased 4 percent from the same quarter in 2011. Excluding the impact of divestitures and currency movements, revenues were flat year over year. Growth in North America offset weakness in international markets, particularly China and Brazil.

Earnings before interest and taxes (EBIT) was \$669 million or 15.0 percent of sales. Excluding gains from divestitures, EBIT was \$663 million or 14.9 percent of sales compared to \$707 million or 15.2 percent of sales in the second quarter of 2011.

Net income attributable to Cummins in the second quarter of 2012 was \$469 million (\$2.47 per diluted share) compared to \$505 million in the same period a year ago (\$2.60 per diluted share). Excluding gains from divestitures, the Company reported earnings of \$2.45 per share compared to \$2.41 in the second quarter of 2011.

"The Company continued to deliver strong profits despite the weakening global economic conditions," said Tom Linebarger, Chairman and Chief Executive Officer. "Second quarter gross margins were at record levels as we continue to drive improvements in productivity and quality. Looking forward, as the global economy improves, our growth opportunities remain strong."

Based on the current forecast, Cummins expects full year revenues to be \$18 billion, with EBIT in the range of 14.25 to 14.75 percent of sales.

Other recent highlights:

- Cummins increased its dividend by 25 percent.
- The Company repurchased 1.8 million shares of common stock.

- Cummins Emission Solutions and Cummins Parts business each recently received supplier Quality Achievement awards from PACCAR for 2011 performance.
- The Company was recognized by Chrysler Group LLC as the 2012 Sustainability Supplier of the Year.
- The Company completed the acquisition of the emission control assets of Hilite International.

## **Second quarter 2012 detail (all comparisons to same period in 2011)**

### **Engine Segment**

- Sales – \$2.8 billion, down 2 percent
- Segment EBIT – \$376 million, or 13.2 percent of sales, compared to \$377 million or 13.0 percent of sales
- Improved demand in North American heavy duty truck, medium duty truck and light duty truck and construction markets offset by lower sales to China construction, Brazilian truck and North American oil and gas markets

### **Components**

- Sales - \$1.0 billion, flat
- Segment EBIT - \$116 million, or 11.2 percent of sales, compared to \$120 million or 11.6 percent of sales
- Increased demand in North American on-highway markets and higher product content in Brazil offset by lower demand in Europe and China and the impact of divestitures completed in 2011

### **Power Generation**

- Sales – \$909 million, flat
- Segment EBIT – \$94 million, or 10.3 percent of sales, compared to \$105 million or 11.6 percent of sales
- Higher revenues in North America offsetting lower demand in Europe, China and Latin America

### **Distribution**

- Sales – \$794 million, up 1 percent
- Segment EBIT – \$92 million, or 11.6 percent of sales, compared to \$106 million or 13.5 percent of sales
- Revenue increase driven by strong parts and service growth in several regions offsetting weaker demand in North American oil and gas market and power generation in the Middle East

## **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 employs approximately 44,000 people worldwide and serves customers in approximately 190 countries and territories through a network of more than 600 company-owned and independent distributor locations and approximately 6,500 dealer locations. Cummins earned \$1.85 billion on sales of \$18.0 billion in 2011. Press releases can be found on the Web at [www.cummins.com](http://www.cummins.com).

### **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 second quarter of 2012, as well as the full year. 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 2011 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**

*Net income attributable to Cummins excluding gain on divestitures and EBIT are non-GAAP measures used in this release, and are 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. EDT. 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.

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

| In millions, except per share amounts                         | Three months ended |                 |                 |
|---------------------------------------------------------------|--------------------|-----------------|-----------------|
|                                                               | July 1, 2012       | April 1, 2012   | June 26, 2011   |
| <b>NET SALES</b>                                              | <b>\$4,452</b>     | <b>\$ 4,472</b> | <b>\$ 4,641</b> |
| Cost of sales                                                 | <u>3,242</u>       | <u>3,274</u>    | <u>3,438</u>    |
| <b>GROSS MARGIN</b>                                           | <b>1,210</b>       | <b>1,198</b>    | <b>1,203</b>    |
| <b>OPERATING EXPENSES AND INCOME</b>                          |                    |                 |                 |
| Selling, general and administrative expenses                  | 487                | 475             | 463             |
| Research, development and engineering expenses                | 187                | 181             | 157             |
| Equity, royalty and interest income from investees (Note 1)   | 104                | 104             | 117             |
| Gain on sale of businesses                                    | 6                  | -               | 68              |
| Other operating income (expense), net                         | <u>2</u>           | <u>2</u>        | <u>-</u>        |
| <b>OPERATING INCOME</b>                                       | <b>648</b>         | <b>648</b>      | <b>768</b>      |
| Interest income                                               | 7                  | 8               | 10              |
| Interest expense                                              | 8                  | 8               | 13              |
| Other income (expense), net                                   | <u>14</u>          | <u>2</u>        | <u>(3)</u>      |
| <b>INCOME BEFORE INCOME TAXES</b>                             | <b>661</b>         | <b>650</b>      | <b>762</b>      |
| Income tax expense (Note 2)                                   | <u>166</u>         | <u>175</u>      | <u>225</u>      |
| <b>CONSOLIDATED NET INCOME</b>                                | <b>495</b>         | <b>475</b>      | <b>537</b>      |
| Less: Net income attributable to noncontrolling interests     | 26                 | 20              | 32              |
| <b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>                | <b>\$ 469</b>      | <b>\$ 455</b>   | <b>\$ 505</b>   |
| <b>EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.</b> |                    |                 |                 |
| Basic                                                         | \$ 2.47            | \$ 2.39         | \$ 2.61         |
| Diluted                                                       | \$ 2.47            | \$ 2.38         | \$ 2.60         |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>                    |                    |                 |                 |
| Basic                                                         | 189.8              | 190.4           | 193.8           |
| Diluted                                                       | 190.1              | 190.8           | 194.4           |
| <b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b>               | <b>\$ 0.40</b>     | <b>\$ 0.40</b>  | <b>\$0.2625</b> |

(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 | Six months ended |                 |
|---------------------------------------|------------------|-----------------|
|                                       | July 1, 2012     | June 26, 2011   |
| <b>NET SALES</b>                      | <b>\$ 8,924</b>  | <b>\$ 8,501</b> |
| Cost of sales                         | <u>6,516</u>     | <u>6,341</u>    |
| <b>GROSS MARGIN</b>                   | <b>2,408</b>     | <b>2,160</b>    |

**OPERATING EXPENSES AND INCOME**

|                                                             |               |               |
|-------------------------------------------------------------|---------------|---------------|
| Selling, general and administrative expenses                | 962           | 852           |
| Research, development and engineering expenses              | 368           | 286           |
| Equity, royalty and interest income from investees (Note 1) | 208           | 213           |
| Gain on sale of businesses                                  | 6             | 68            |
| Other operating income (expense), net                       | 4             | (6)           |
| <b>OPERATING INCOME</b>                                     | <b>1,296</b>  | <b>1,297</b>  |
| Interest income                                             | 15            | 16            |
| Interest expense                                            | 16            | 23            |
| Other income (expense), net                                 | 16            | (6)           |
| <b>INCOME BEFORE INCOME TAXES</b>                           | <b>1,311</b>  | <b>1,284</b>  |
| Income tax expense (Note 2)                                 | 341           | 382           |
| <b>CONSOLIDATED NET INCOME</b>                              | <b>970</b>    | <b>902</b>    |
| Less: Net income attributable to noncontrolling interests   | 46            | 54            |
| <b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>              | <b>\$ 924</b> | <b>\$ 848</b> |

**EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.**

|         |         |         |
|---------|---------|---------|
| Basic   | \$ 4.86 | \$ 4.36 |
| Diluted | \$ 4.85 | \$ 4.34 |

**WEIGHTED AVERAGE SHARES OUTSTANDING**

|         |       |       |
|---------|-------|-------|
| Basic   | 190.1 | 194.6 |
| Diluted | 190.5 | 195.2 |

|                                                 |                |                 |
|-------------------------------------------------|----------------|-----------------|
| <b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b> | <b>\$ 0.80</b> | <b>\$ 0.525</b> |
|-------------------------------------------------|----------------|-----------------|

(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                               | July 1, 2012 | December 31, 2011 |
|-------------------------------------------------------------|--------------|-------------------|
| <b>ASSETS</b>                                               |              |                   |
| Current assets                                              |              |                   |
| Cash and cash equivalents                                   | \$ 1,145     | \$ 1,484          |
| Marketable securities                                       | 261          | 277               |
| Total cash, cash equivalents and marketable securities      | 1,406        | 1,761             |
| Accounts and notes receivable, net                          | 2,620        | 2,526             |
| Inventories                                                 | 2,581        | 2,141             |
| Prepaid expenses and other current assets                   | 639          | 663               |
| Total current assets                                        | 7,246        | 7,091             |
| Long-term assets                                            |              |                   |
| Property, plant and equipment                               | 5,475        | 5,245             |
| Accumulated depreciation                                    | (3,051)      | (2,957)           |
| Property, plant and equipment, net                          | 2,424        | 2,288             |
| Investments and advances related to equity method investees | 890          | 838               |
| Goodwill                                                    | 345          | 339               |
| Other intangible assets, net                                | 268          | 227               |
| Other assets                                                | 996          | 885               |
| Total assets                                                | \$ 12,169    | \$ 11,668         |
| <b>LIABILITIES</b>                                          |              |                   |
| Current liabilities                                         |              |                   |
| Loans payable                                               | \$ 58        | \$ 28             |
| Accounts payable (principally trade)                        | 1,634        | 1,546             |

|                                                     |              |              |
|-----------------------------------------------------|--------------|--------------|
| Current portion of accrued product warranty         | 407          | 422          |
| Accrued compensation, benefits and retirement costs | 340          | 511          |
| Deferred revenue                                    | 208          | 208          |
| Taxes payable (including taxes on income)           | 258          | 282          |
| Other accrued expenses                              | 665          | 660          |
| Total current liabilities                           | <u>3,570</u> | <u>3,657</u> |
| Long-term liabilities                               |              |              |
| Long-term debt                                      | 653          | 658          |
| Pensions                                            | 118          | 205          |
| Postretirement benefits other than pensions         | 425          | 432          |
| Other liabilities and deferred revenue              | 966          | 885          |
| Total liabilities                                   | <u>5,732</u> | <u>5,837</u> |

## EQUITY

|                                                                                      |                  |                  |
|--------------------------------------------------------------------------------------|------------------|------------------|
| Cummins Inc. shareholders' equity                                                    |                  |                  |
| Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.2 shares issued | 2,036            | 2,001            |
|                                                                                      | 6,810            | 6,038            |
| Retained earnings                                                                    |                  |                  |
| Treasury stock, at cost, 32.0 and 30.2 shares                                        | (1,777)          | (1,587)          |
| Common stock held by employee benefits trust, at cost, 1.6 and 1.8 shares            | (20)             | (22)             |
| Accumulated other comprehensive loss                                                 |                  |                  |
| Defined benefit postretirement plans                                                 | (703)            | (724)            |
| Other                                                                                | (243)            | (214)            |
| Total accumulated other comprehensive loss                                           | <u>(946)</u>     | <u>(938)</u>     |
| Total Cummins Inc. shareholders' equity                                              | 6,103            | 5,492            |
| Noncontrolling interests                                                             | 334              | 339              |
| Total equity                                                                         | <u>6,437</u>     | <u>5,831</u>     |
| Total liabilities and equity                                                         | <u>\$ 12,169</u> | <u>\$ 11,668</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                                                                                   | Six months ended |               |
|-----------------------------------------------------------------------------------------------|------------------|---------------|
|                                                                                               | July 1, 2012     | June 26, 2011 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                   |                  |               |
| Consolidated net income                                                                       | \$ 970           | \$ 902        |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities |                  |               |
| Depreciation and amortization                                                                 | 171              | 159           |
| Gain on sale of businesses                                                                    | (6)              | (68)          |
| Deferred income taxes                                                                         | (39)             | 87            |
| Equity in income of investees, net of dividends                                               | (25)             | 2             |
| Pension contributions in excess of expense                                                    | (52)             | (47)          |
| Other post-retirement benefits payments in excess of expense                                  | (7)              | (10)          |
| Stock-based compensation expense                                                              | 21               | 18            |
| Excess tax benefits on stock-based awards                                                     | (11)             | (4)           |
| Translation and hedging activities                                                            | 7                | (6)           |
| Changes in current assets and liabilities, net of acquisitions and divestitures:              |                  |               |
| Accounts and notes receivable                                                                 | (116)            | (513)         |
| Inventories                                                                                   | (439)            | (290)         |
| Other current assets                                                                          | (47)             | 11            |
| Accounts payable                                                                              | 61               | 307           |
| Accrued expenses                                                                              | (173)            | 169           |
| Changes in other liabilities and deferred revenue                                             | 103              | 58            |
| Other, net                                                                                    | (21)             | (31)          |
| Net cash provided by operating activities                                                     | <u>397</u>       | <u>744</u>    |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|                                                      |       |       |
|------------------------------------------------------|-------|-------|
| Capital expenditures                                 | (266) | (215) |
| Investments in internal use software                 | (40)  | (22)  |
| Investments in and advances to equity investees      | (40)  | (20)  |
| Proceeds from sale of business, net of cash sold     | -     | 111   |
| Acquisition of businesses, net of cash acquired      | (12)  | -     |
| Investments in marketable securities—acquisitions    | (276) | (361) |
| Investments in marketable securities—liquidations    | 280   | 343   |
| Cash flows from derivatives not designated as hedges | 1     | 6     |
| Other, net                                           | 3     | 7     |
| Net cash used in investing activities                | (350) | (151) |

**CASH FLOWS FROM FINANCING ACTIVITIES**

|                                                      |       |       |
|------------------------------------------------------|-------|-------|
| Proceeds from borrowings                             | 46    | 60    |
| Payments on borrowings and capital lease obligations | (75)  | (94)  |
| Net borrowings under short-term credit agreements    | 3     | 11    |
| Distributions to noncontrolling interests            | (32)  | (26)  |
| Dividend payments on common stock                    | (152) | (102) |
| Repurchases of common stock                          | (196) | (373) |
| Excess tax benefits on stock-based awards            | 11    | 4     |
| Other, net                                           | 9     | 7     |
| Net cash used in financing activities                | (386) | (513) |

**EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS**

|                                                      |       |       |
|------------------------------------------------------|-------|-------|
| Net increase (decrease) in cash and cash equivalents | (339) | 88    |
| Cash and cash equivalents at beginning of year       | 1,484 | 1,023 |

**CASH AND CASH EQUIVALENTS AT END OF PERIOD**

|                 |                 |
|-----------------|-----------------|
| <b>\$ 1,145</b> | <b>\$ 1,111</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)**

|                                                    | Engine   | Components | Power<br>Generation | Distribution | Non-segment<br>Items <sup>(1)</sup> | Total    |
|----------------------------------------------------|----------|------------|---------------------|--------------|-------------------------------------|----------|
| <b>In millions</b>                                 |          |            |                     |              |                                     |          |
| <b>Three months ended July 1, 2012</b>             |          |            |                     |              |                                     |          |
| External sales                                     | \$ 2,381 | \$ 710     | \$ 572              | \$ 789       | \$ -                                | \$ 4,452 |
| Intersegment sales                                 | 460      | 326        | 337                 | 5            | (1,128)                             | -        |
| Total sales                                        | 2,841    | 1,036      | 909                 | 794          | (1,128)                             | 4,452    |
| Depreciation and amortization <sup>(2)</sup>       | 47       | 19         | 11                  | 8            | -                                   | 85       |
| Research, development and engineering expenses     | 115      | 51         | 19                  | 2            | -                                   | 187      |
| Equity, royalty and interest income from investees | 37       | 8          | 10                  | 49           | -                                   | 104      |
| Interest income                                    | 3        | 1          | 3                   | -            | -                                   | 7        |
| Segment EBIT                                       | 376      | 116        | 94                  | 92           | (9)                                 | 669      |
| <b>Three months ended April 1, 2012</b>            |          |            |                     |              |                                     |          |
| External sales                                     | \$ 2,412 | \$ 774     | \$ 516              | \$ 770       | \$ -                                | \$ 4,472 |
| Intersegment sales                                 | 447      | 325        | 264                 | 5            | (1,041)                             | -        |
| Total sales                                        | 2,859    | 1,099      | 780                 | 775          | (1,041)                             | 4,472    |
| Depreciation and amortization <sup>(2)</sup>       | 47       | 19         | 11                  | 7            | -                                   | 84       |
| Research, development and engineering expenses     | 111      | 51         | 18                  | 1            | -                                   | 181      |
| Equity, royalty and interest income from investees | 38       | 8          | 10                  | 48           | -                                   | 104      |
| Interest income                                    | 4        | 1          | 2                   | 1            | -                                   | 8        |
| Segment EBIT                                       | 381      | 143        | 76                  | 94           | (36)                                | 658      |

**Three months ended June 26, 2011**

|                                                    |          |        |        |        |       |         |
|----------------------------------------------------|----------|--------|--------|--------|-------|---------|
| External sales                                     | \$ 2,476 | \$ 741 | \$ 649 | \$ 775 | \$ -  | \$4,641 |
| Intersegment sales                                 | 424      | 291    | 260    | 10     | (985) | -       |
| Total sales                                        | 2,900    | 1,032  | 909    | 785    | (985) | 4,641   |
| Depreciation and amortization <sup>(2)</sup>       | 44       | 18     | 11     | 5      | -     | 78      |
| Research, development and engineering expenses     | 102      | 43     | 12     | -      | -     | 157     |
| Equity, royalty and interest income from investees | 49       | 9      | 13     | 46     | -     | 117     |
| Interest income                                    | 6        | 1      | 3      | -      | -     | 10      |
| Segment EBIT                                       | 377      | 120    | 105    | 106    | 67    | 775     |

#### Six months ended July 1, 2012

|                                                    |          |          |          |          |         |         |
|----------------------------------------------------|----------|----------|----------|----------|---------|---------|
| External sales                                     | \$ 4,793 | \$ 1,484 | \$ 1,088 | \$ 1,559 | \$ -    | \$8,924 |
| Intersegment sales                                 | 907      | 651      | 601      | 10       | (2,169) | -       |
| Total sales                                        | 5,700    | 2,135    | 1,689    | 1,569    | (2,169) | 8,924   |
| Depreciation and amortization <sup>(2)</sup>       | 94       | 38       | 22       | 15       | -       | 169     |
| Research, development and engineering expenses     | 226      | 102      | 37       | 3        | -       | 368     |
| Equity, royalty and interest income from investees | 75       | 16       | 20       | 97       | -       | 208     |
| Interest income                                    | 7        | 2        | 5        | 1        | -       | 15      |
| Segment EBIT                                       | 757      | 259      | 170      | 186      | (45)    | 1,327   |

#### Six months ended June 26, 2011

|                                                    |          |          |          |          |         |         |
|----------------------------------------------------|----------|----------|----------|----------|---------|---------|
| External sales                                     | \$ 4,482 | \$ 1,401 | \$ 1,206 | \$ 1,412 | \$ -    | \$8,501 |
| Intersegment sales                                 | 809      | 555      | 498      | 15       | (1,877) | -       |
| Total sales                                        | 5,291    | 1,956    | 1,704    | 1,427    | (1,877) | 8,501   |
| Depreciation and amortization <sup>(2)</sup>       | 89       | 36       | 21       | 11       | -       | 157     |
| Research, development and engineering expenses     | 182      | 80       | 23       | 1        | -       | 286     |
| Equity, royalty and interest income from investees | 91       | 17       | 21       | 84       | -       | 213     |
| Interest income                                    | 9        | 2        | 4        | 1        | -       | 16      |
| Segment EBIT                                       | 667      | 225      | 194      | 195      | 26      | 1,307   |

(1) Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. The three and six months ended July 1, 2012, include a \$6 million gain (\$4 million after-tax) related to adjustments from our 2011 divestitures. There were no significant unallocated corporate expenses for the three months ended April 1, 2012. The three and six months ended June 26, 2011, include a \$68 million gain (\$37 million after-tax) related to the sale of certain assets and liabilities of our exhaust business from the Components segment. The gains have been excluded from segment results as they were not considered in our evaluation of operating results for the three and six months ended July 1, 2012 and June 26, 2011. There were no other significant unallocated corporate expenses for the three and six months ended July 1, 2012 and June 26, 2011.

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

### 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 |               |               | Six months ended |               |
|----------------------------|--------------------|---------------|---------------|------------------|---------------|
|                            | July 1, 2012       | April 1, 2012 | June 26, 2011 | July 1, 2012     | June 26, 2011 |
| Segment EBIT               | \$ 669             | \$ 658        | \$ 775        | \$ 1,327         | \$ 1,307      |
| Less                       |                    |               |               |                  |               |
| Interest expense           | 8                  | 8             | 13            | 16               | 23            |
| Income before income taxes | \$ 661             | \$ 650        | \$ 762        | \$ 1,311         | \$ 1,284      |

### 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 interim reporting periods was as follows:

| In millions                                        | Three months ended |               |               | Six months ended |               |
|----------------------------------------------------|--------------------|---------------|---------------|------------------|---------------|
|                                                    | July 1, 2012       | April 1, 2012 | June 26, 2011 | July 1, 2012     | June 26, 2011 |
| <b>Distribution Entities</b>                       |                    |               |               |                  |               |
| North American distributors                        | \$ 38              | \$ 40         | \$ 35         | \$ 78            | \$ 65         |
| Komatsu Cummins Chile, Ltda.                       | 6                  | 5             | 6             | 11               | 10            |
| All other distributors                             | 2                  | 1             | 1             | 3                | 2             |
| <b>Manufacturing Entities</b>                      |                    |               |               |                  |               |
| Chongqing Cummins Engine Company, Ltd.             | 17                 | 18            | 19            | 35               | 31            |
| Dongfeng Cummins Engine Company, Ltd.              | 17                 | 16            | 26            | 33               | 49            |
| Cummins Westport, Inc.                             | 4                  | 5             | 3             | 9                | 4             |
| Shanghai Fleetguard Filter Co., Ltd.               | 4                  | 3             | 4             | 7                | 8             |
| Tata Cummins, Ltd.                                 | 3                  | 4             | 3             | 7                | 7             |
| Beijing Foton Cummins Engine Co., Ltd.             | 2                  | (2)           | (1)           | -                | (3)           |
| Valvoline Cummins, Ltd.                            | 2                  | 2             | 2             | 4                | 4             |
| Komatsu manufacturing alliances                    | 1                  | (1)           | (1)           | -                | 1             |
| All other manufacturers                            | (1)                | 1             | 6             | -                | 12            |
| Cummins share of net income                        | \$ 95              | \$ 92         | \$ 103        | \$ 187           | \$ 190        |
| Royalty and interest income                        | 9                  | 12            | 14            | 21               | 23            |
| Equity, royalty and interest income from investees | <u>\$ 104</u>      | <u>\$ 104</u> | <u>\$ 117</u> | <u>\$ 208</u>    | <u>\$ 213</u> |

## NOTE 2. INCOME TAXES

Our effective tax rate for the year is expected to approximate 26 percent, absent any discrete period activity. Our tax rate is generally less than the 35 percent U.S. income tax rate primarily due to lower tax rates on foreign income. The tax rates for the three and six month periods ended July 1, 2012, were 25.1 percent and 26.0 percent, respectively.

The tax rates for the three and six month periods ended June 26, 2011, were 29.5 percent and 29.8 percent, respectively, and included a discrete tax charge of \$4 million related to the enactment of state law changes in Indiana. The decrease in the 2012 effective tax rates versus the comparable periods in 2011 is due primarily to our assertion that income earned after 2011 by our China operations is permanently reinvested, as well as certain tax planning strategies implemented in our U.K. subsidiaries.

### 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 this is a useful measure of our operating performance for the periods presented as it illustrates our operating performance without regard to special items including the gains related to the sale of certain assets and liabilities. This measure is 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 three and six month periods ended July 1, 2012 and June 26, 2011.

| Three months ended |               | Six months ended |               |
|--------------------|---------------|------------------|---------------|
| July 1, 2012       | June 26, 2011 | July 1, 2012     | June 26, 2011 |

| In millions                                                        | Net<br>Income | Diluted<br>EPS | Net<br>Income | Diluted<br>EPS | Net<br>Income | Diluted<br>EPS | Net<br>Income | Diluted<br>EPS |
|--------------------------------------------------------------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|
| Net income attributable to Cummins Inc.                            | \$ 469        | \$ 2.47        | \$ 505        | \$ 2.60        | \$ 924        | \$ 4.85        | \$ 848        | \$ 4.34        |
| Subtract                                                           |               |                |               |                |               |                |               |                |
| Gain on sale of businesses <sup>(1)</sup>                          | 4             | 0.02           | 37            | 0.19           | 4             | 0.02           | 37            | 0.19           |
| Net income attributable to Cummins Inc.<br>excluding special items | <u>\$ 465</u> | <u>\$ 2.45</u> | <u>\$ 468</u> | <u>\$ 2.41</u> | <u>\$ 920</u> | <u>\$ 4.83</u> | <u>\$ 811</u> | <u>\$ 4.15</u> |

(1) The gains have been excluded from operating results as they were not considered in our evaluation of performance for the three and six months ended July 1, 2012 and June 26, 2011.

**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. Below is a reconciliation of EBIT, a non-GAAP financial measure, to "Net income attributable to Cummins Inc.," for each of the applicable periods:

| In millions                                                                                          | Three months ended |               |               | Six months ended |                 |
|------------------------------------------------------------------------------------------------------|--------------------|---------------|---------------|------------------|-----------------|
|                                                                                                      | July 1, 2012       | April 1, 2012 | June 26, 2011 | July 1, 2012     | June 26, 2011   |
| Earnings before interest expense, income taxes and special items                                     | \$ 663             | \$ 658        | \$ 707        | \$ 1,321         | \$ 1,239        |
| <i>Earnings before interest expense, income taxes and special items as a percentage of net sales</i> | <i>14.9%</i>       | <i>14.7%</i>  | <i>15.2%</i>  | <i>14.8%</i>     | <i>14.6%</i>    |
| Add                                                                                                  |                    |               |               |                  |                 |
| Gain on sale of businesses                                                                           | 6                  | -             | 68            | 6                | 68              |
| Earnings before interest expense and income taxes                                                    | <u>\$ 669</u>      | <u>\$ 658</u> | <u>\$ 775</u> | <u>\$ 1,327</u>  | <u>\$ 1,307</u> |
| <i>EBIT as a percentage of net sales</i>                                                             | <i>15.0%</i>       | <i>14.7%</i>  | <i>16.7%</i>  | <i>14.9%</i>     | <i>15.4%</i>    |
| Less                                                                                                 |                    |               |               |                  |                 |
| Interest expense                                                                                     | 8                  | 8             | 13            | 16               | 23              |
| Income tax expense                                                                                   | 166                | 175           | 225           | 341              | 382             |
| Consolidated net income                                                                              | <u>495</u>         | <u>475</u>    | <u>537</u>    | <u>970</u>       | <u>902</u>      |
| Less                                                                                                 |                    |               |               |                  |                 |
| Net income attributable to noncontrolling interests                                                  | 26                 | 20            | 32            | 46               | 54              |
| Net income attributable to Cummins Inc.                                                              | <u>\$ 469</u>      | <u>\$ 455</u> | <u>\$ 505</u> | <u>\$ 924</u>    | <u>\$ 848</u>   |
| <i>Net income attributable to Cummins Inc. as a percentage of net sales</i>                          | <i>10.5%</i>       | <i>10.2%</i>  | <i>10.9%</i>  | <i>10.4%</i>     | <i>10.0%</i>    |

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

Engine segment net sales by market

**2012**

| In millions      | Q1     | Q2     | Q3   | Q4   | YTD      |
|------------------|--------|--------|------|------|----------|
| Heavy-duty truck | \$ 892 | \$ 807 | \$ - | \$ - | \$ 1,699 |

Medium-duty bus and truck

|                              |                 |                 |             |             |                 |
|------------------------------|-----------------|-----------------|-------------|-------------|-----------------|
|                              | 526             | <b>512</b>      | -           | -           | 1,038           |
| Light-duty automotive and RV | 286             | <b>297</b>      | -           | -           | 583             |
| Industrial                   | 861             | <b>859</b>      | -           | -           | 1,720           |
| Stationary power             | 294             | <b>366</b>      | -           | -           | 660             |
| Total sales                  | <u>\$ 2,859</u> | <u>\$ 2,841</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,700</u> |

**2011**

| In millions                  | Q1              | Q2              | Q3              | Q4              | YTD              |
|------------------------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Heavy-duty truck             | \$ 485          | \$ 693          | \$ 748          | \$ 865          | \$ 2,791         |
| Medium-duty bus and truck    | 474             | 608             | 640             | 598             | 2,320            |
| Light-duty automotive and RV | 296             | 310             | 271             | 299             | 1,176            |
| Industrial                   | 855             | 988             | 977             | 1,030           | 3,850            |
| Stationary power             | 281             | 301             | 319             | 269             | 1,170            |
| Total sales                  | <u>\$ 2,391</u> | <u>\$ 2,900</u> | <u>\$ 2,955</u> | <u>\$ 3,061</u> | <u>\$ 11,307</u> |

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

**2012**

| Units           | Q1             | Q2                    | Q3       | Q4       | YTD            |
|-----------------|----------------|-----------------------|----------|----------|----------------|
| Midrange        | 109,000        | <b>110,000</b>        | -        | -        | 219,000        |
| Heavy-duty      | 36,000         | <b>33,000</b>         | -        | -        | 69,000         |
| High horsepower | 5,500          | <b>5,800</b>          | -        | -        | 11,300         |
| Total units     | <u>150,500</u> | <u><b>148,800</b></u> | <u>-</u> | <u>-</u> | <u>299,300</u> |

**2011**

| Units           | Q1             | Q2             | Q3             | Q4             | YTD            |
|-----------------|----------------|----------------|----------------|----------------|----------------|
| Midrange        | 109,400        | 131,300        | 130,600        | 138,100        | 509,400        |
| Heavy-duty      | 20,000         | 29,900         | 31,100         | 35,300         | 116,300        |
| High horsepower | 4,900          | 5,700          | 5,600          | 5,400          | 21,600         |
| Total units     | <u>134,300</u> | <u>166,900</u> | <u>167,300</u> | <u>178,800</u> | <u>647,300</u> |

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

Component segment sales by business

**2012**

| In millions        | Q1              | Q2                     | Q3          | Q4          | YTD             |
|--------------------|-----------------|------------------------|-------------|-------------|-----------------|
| Emission solutions | \$ 404          | \$ <b>349</b>          | \$ -        | \$ -        | \$ 753          |
| Turbo technologies | 298             | <b>297</b>             | -           | -           | 595             |
| Filtration         | 270             | <b>266</b>             | -           | -           | 536             |
| Fuel systems       | 127             | <b>124</b>             | -           | -           | 251             |
| Total sales        | <u>\$ 1,099</u> | <u>\$ <b>1,036</b></u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,135</u> |

**2011**

| In millions        | Q1            | Q2              | Q3              | Q4              | YTD             |
|--------------------|---------------|-----------------|-----------------|-----------------|-----------------|
| Emission solutions | \$ 273        | \$ 311          | \$ 306          | \$ 372          | \$ 1,262        |
| Turbo technologies | 297           | 314             | 298             | 314             | 1,223           |
| Filtration         | 255           | 287             | 288             | 283             | 1,113           |
| Fuel systems       | 99            | 120             | 123             | 123             | 465             |
| Total sales        | <u>\$ 924</u> | <u>\$ 1,032</u> | <u>\$ 1,015</u> | <u>\$ 1,092</u> | <u>\$ 4,063</u> |

In the first quarter of 2012, our Power Generation segment reorganized its reporting structure to include the following businesses: power products, power systems, generator technologies and power solutions. Sales for our Power Generation segment by business (including 2011 and 2010 reorganized

balances) were as follows:

## 2012

| In millions            | Q1            | Q2            | Q3          | Q4          | YTD             |
|------------------------|---------------|---------------|-------------|-------------|-----------------|
| Power products         | \$ 375        | \$ 459        | \$ -        | \$ -        | \$ 834          |
| Power systems          | 188           | 217           | -           | -           | 405             |
| Generator technologies | 141           | 160           | -           | -           | 301             |
| Power solutions        | 76            | 73            | -           | -           | 149             |
| Total sales            | <u>\$ 780</u> | <u>\$ 909</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,689</u> |

## 2011

| In millions            | Q1            | Q2            | Q3            | Q4            | YTD             |
|------------------------|---------------|---------------|---------------|---------------|-----------------|
| Power products         | \$ 377        | \$ 415        | \$ 433        | \$ 411        | \$ 1,636        |
| Power systems          | 189           | 210           | 188           | 228           | 815             |
| Generator technologies | 154           | 189           | 166           | 164           | 673             |
| Power solutions        | 75            | 95            | 87            | 117           | 374             |
| Total sales            | <u>\$ 795</u> | <u>\$ 909</u> | <u>\$ 874</u> | <u>\$ 920</u> | <u>\$ 3,498</u> |

## 2010

| In millions            | YTD             |
|------------------------|-----------------|
| Power products         | \$ 1,465        |
| Power systems          | 616             |
| Generator technologies | 550             |
| Power solutions        | 288             |
| Total sales            | <u>\$ 2,919</u> |

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

Distribution segment sales by product

## 2012

| In millions          | Q1           | Q2           | Q3          | Q4          | YTD            |
|----------------------|--------------|--------------|-------------|-------------|----------------|
| Parts and filtration | \$288        | \$302        | \$ -        | \$ -        | \$ 590         |
| Power generation     | 186          | 201          | -           | -           | 387            |
| Engines              | 166          | 147          | -           | -           | 313            |
| Service              | 135          | 144          | -           | -           | 279            |
| Total sales          | <u>\$775</u> | <u>\$794</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$1,569</u> |

## 2011

| In millions          | Q1           | Q2           | Q3           | Q4           | YTD            |
|----------------------|--------------|--------------|--------------|--------------|----------------|
| Parts and filtration | \$235        | \$271        | \$283        | \$296        | \$1,085        |
| Power generation     | 145          | 195          | 191          | 191          | 722            |
| Engines              | 140          | 186          | 171          | 206          | 703            |
| Service              | 122          | 133          | 138          | 141          | 534            |
| Total sales          | <u>\$642</u> | <u>\$785</u> | <u>\$783</u> | <u>\$834</u> | <u>\$3,044</u> |

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