

February 4, 2016



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

Shares Expectations Regarding 2016 Revenue and Earnings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2015 highlights:

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

companies by the Ethisphere Institute

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

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

Engine Segment

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

Distribution Segment

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

Components Segment

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

Power Generation Segment

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

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

About Cummins

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

Forward-looking disclosure statement

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

Presentation of Non-GAAP Financial Information

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

Webcast information

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

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

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

WEIGHTED AVERAGE SHARES OUTSTANDING

| | | |
|---------|-------|-------|
| Basic | 175.5 | 181.4 |
| Diluted | 175.8 | 181.9 |

\$ 0.975 \$ 0.78

CASH DIVIDENDS DECLARED PER COMMON SHARE

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

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

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

| | | | | |
|---|----|-------|----|-------|
| Diluted | \$ | 7.84 | \$ | 9.02 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | | | |
| Basic | | 178.0 | | 182.7 |
| Diluted | | 178.4 | | 183.1 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | | | | |
| | \$ | 3.51 | \$ | 2.81 |

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

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

| In millions, except par value | December 31, December 31, | |
|---|---------------------------|------------------|
| | 2015 | 2014 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,711 | \$ 2,301 |
| Marketable securities | 100 | 93 |
| Total cash, cash equivalents and marketable securities | 1,811 | 2,394 |
| Accounts and notes receivable, net | 2,820 | 2,946 |
| Inventories | 2,707 | 2,866 |
| Prepaid expenses and other current assets | 609 | 849 |
| Total current assets | <u>7,947</u> | <u>9,055</u> |
| Long-term assets | | |
| Property, plant and equipment, net | 3,745 | 3,686 |
| Investments and advances related to equity method investees | 975 | 981 |
| Goodwill and other intangible assets, net | 810 | 822 |
| Other assets | 1,657 | 1,220 |
| Total assets | <u>\$ 15,134</u> | <u>\$ 15,764</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable (principally trade) | \$ 1,706 | \$ 1,881 |
| Loans payable | 24 | 86 |
| Accrued expenses | 2,073 | 2,054 |
| Total current liabilities | <u>3,803</u> | <u>4,021</u> |

| | | |
|-----------------------|-----------------|-----------------|
| Long-term liabilities | | |
| Long-term debt | 1,576 | 1,577 |
| Other liabilities | 2,005 | 2,073 |
| Total liabilities | <u>\$ 7,384</u> | <u>\$ 7,671</u> |

EQUITY

| | | |
|---|------------------|------------------|
| Cummins Inc. shareholders' equity | | |
| Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.3 shares issued | \$ 2,178 | \$ 2,139 |
| Retained earnings | 10,322 | 9,545 |
| Treasury stock, at cost, 47.2 and 40.1 shares | (3,735) | (2,844) |
| Common stock held by employee benefits trust, at cost, 0.9 and 1.1 shares | (11) | (13) |
| Accumulated other comprehensive loss | (1,348) | (1,078) |
| Total Cummins Inc. shareholders' equity | <u>7,406</u> | <u>7,749</u> |
| Noncontrolling interests | 344 | 344 |
| Total equity | <u>\$ 7,750</u> | <u>\$ 8,093</u> |
| Total liabilities and equity | <u>\$ 15,134</u> | <u>\$ 15,764</u> |

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

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

| In millions | Years ended December 31, | |
|--|--------------------------|-----------------|
| | 2015 | 2014 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 2,059</u> | <u>\$ 2,266</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (744) | (743) |
| | (55) | (55) |
| Investments in internal use software | | |
| Investments in and advances to equity investees | (7) | (60) |
| Acquisitions of businesses, net of cash acquired | (117) | (436) |
| Investments in marketable securities—acquisitions | (282) | (275) |
| Investments in marketable securities—liquidations | 270 | 336 |
| Cash flows from derivatives not designated as hedges | 8 | (14) |
| Other, net | 9 | 13 |
| Net cash used in investing activities | <u>(918)</u> | <u>(1,234)</u> |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | |
|---|------------------------|------------------------|
| Proceeds from borrowings | 44 | 55 |
| Payments on borrowings and capital lease obligations | (76) | (94) |
| Net payments under short-term credit agreements | (41) | (40) |
| Distributions to noncontrolling interests | (49) | (83) |
| Dividend payments on common stock | (622) | (512) |
| Repurchases of common stock | (900) | (670) |
| Other, net | — | 1 |
| Net cash used in financing activities | <u>(1,644)</u> | <u>(1,343)</u> |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (87) | (87) |
| Net decrease in cash and cash equivalents | (590) | (398) |
| Cash and cash equivalents at beginning of year | 2,301 | 2,699 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | <u>\$ 1,711</u> | <u>\$ 2,301</u> |

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

CUMMINS INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)

| In millions | <u>Engine</u> | <u>Distribution</u> | <u>Components</u> | <u>Power Generation</u> | <u>Non-segment Items ⁽¹⁾</u> | <u>Tota</u> |
|--|---------------|---------------------|-------------------|-------------------------|---|--------------|
| Three months ended December 31, 2015 | | | | | | |
| External sales | \$1,793 | \$ 1,699 | \$ 906 | \$ 368 | \$ — | \$4,766 |
| Intersegment sales | 735 | 8 | 330 | 286 | (1,359) | — |
| Total sales | <u>2,528</u> | <u>1,707</u> | <u>1,236</u> | <u>654</u> | <u>(1,359)</u> | <u>4,766</u> |
| Depreciation and amortization ⁽²⁾ | 61 | 27 | 27 | 15 | — | 130 |
| Research, development and engineering expenses | 107 | 2 | 53 | 15 | — | 177 |

| | | | | | | |
|--|-----------------------|------------------------------------|-------------------------------------|--------------------|---------------------|----------------------|
| Equity, royalty and interest income from investees | 44 | 18 | 9 | 4 | — | 75 |
| Interest income | 2 | 1 | 1 | — | — | 4 |
| Segment EBIT (excluding impairment of light-duty diesel assets and restructuring actions and other charges) | \$ 189 | ⁽⁵⁾ \$ 111 | ⁽⁶⁾ \$ 175 | \$ 27 | \$ 29 | \$ 531 |
| Impairment of light-duty diesel assets ⁽³⁾ | 202 | — | 9 | — | — | 211 |
| Restructuring actions and other charges ⁽⁴⁾ | 26 | 23 | 13 | 19 | 9 | 90 |
| Segment EBIT | <u>\$ (39)</u> | <u>⁽⁵⁾ \$ 88</u> | <u>⁽⁶⁾ \$ 153</u> | <u>\$ 8</u> | <u>\$ 20</u> | <u>\$ 230</u> |
| Segment EBIT (excluding impairment of light-duty diesel assets and restructuring actions and other charges) as a percentage of total sales | 7.5 % | 6.5% | 14.2% | 4.1% | | 11.1 |
| Segment EBIT as a percentage of total sales | (1.5)% | 5.2% | 12.4% | 1.2% | | 4.8 |

**Three
months
ended
December
31, 2014**

| | | | | | | |
|--|---------|--------------------|--------|-------------------|---------|---------|
| External sales | \$1,988 | \$ 1,682 | \$ 970 | \$ 450 | \$ — | \$5,090 |
| Intersegment sales | 851 | 12 | 351 | 310 | (1,524) | — |
| Total sales | 2,839 | 1,694 | 1,321 | 760 | (1,524) | 5,090 |
| Depreciation and amortization ⁽²⁾ | 54 | 28 | 27 | 15 | — | 124 |
| Research, development and engineering expenses | 103 | 2 | 60 | 22 | — | 187 |
| Equity, royalty and interest income from investees | 30 | 28 | 9 | 9 | — | 76 |
| Interest income | 3 | 2 | 1 | — | — | 6 |
| Segment EBIT | 315 | 158 ⁽⁶⁾ | 160 | 22 ⁽⁷⁾ | (26) | 629 |
| Segment EBIT as a percentage of total sales | 11.1 % | 9.3% | 12.1% | 2.9% | | 12.4 |

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

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

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

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

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

- (6) Distribution segment EBIT included gains of \$1 million and \$35 million on the fair value adjustments resulting from the acquisition of the controlling interests in North American distributors for the three months ended December 31, 2015 and December 31, 2014, respectively.
- (7) Power Generation segment EBIT for the three months ended December 31, 2014, included actions taken to reduce its future cost structure. Costs associated with these actions were \$32 million and are primarily related to the closure of a plant in Germany.

CUMMINS INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)

| In millions | <u>Engine</u> | <u>Distribution</u> | <u>Components</u> | <u>Power Generation</u> | <u>Non-segment Items ⁽¹⁾</u> | <u>Total</u> |
|---|----------------|---------------------|-------------------|-----------------------------|---|-----------------|
| Year ended December 31, 2015 | | | | | | |
| External sales | \$7,540 | \$ 6,198 | \$ 3,745 | \$ 1,627 | \$ — | \$19,110 |
| Intersegment sales | 2,909 | 31 | 1,427 | 1,113 | (5,480) | — |
| Total sales | 10,449 | 6,229 | 5,172 | 2,740 | (5,480) | 19,110 |
| Depreciation and amortization ⁽²⁾ | 239 | 105 | 109 | 58 | — | 511 |
| Research, development and engineering expenses | 428 | 10 | 236 | 61 | — | 735 |
| Equity, royalty and interest income from investees | 171 | 78 | 35 | 31 | — | 315 |
| Interest income | 13 | 4 | 4 | 3 | — | 24 |

| | | | | | | |
|---|---------------|------------------------------|------------------------------|---------------|----------------|-----------------|
| Segment EBIT (excluding impairment of light-duty diesel assets and restructuring actions and other charges) | \$1,035 | ⁽⁵⁾ \$ 435 | ⁽⁶⁾ \$ 749 | \$ 175 | \$ (3) | \$ 2,391 |
| Impairment of light-duty diesel assets ⁽³⁾ | 202 | — | 9 | — | — | 211 |
| Restructuring actions and other charges ⁽⁴⁾ | 26 | 23 | 13 | 19 | 9 | 90 |
| Segment EBIT | <u>\$ 807</u> | <u>⁽⁵⁾ \$ 412</u> | <u>⁽⁶⁾ \$ 727</u> | <u>\$ 156</u> | <u>\$ (12)</u> | <u>\$ 2,090</u> |

| | | | | | | |
|--|------|------|-------|------|--|------|
| Segment EBIT (excluding impairment of light-duty diesel assets and restructuring actions and other charges) as a percentage of total sales | 9.9% | 7.0% | 14.5% | 6.4% | | 12.5 |
| Segment EBIT as a percentage of total sales | 7.7% | 6.6% | 14.1% | 5.7% | | 10.9 |

Year ended December 31, 2014

| | | | | | | |
|--------------------|---------------|--------------|--------------|--------------|----------------|---------------|
| External sales | \$8,437 | \$ 5,135 | \$ 3,791 | \$ 1,858 | \$ — | \$19,221 |
| Intersegment sales | 2,525 | 39 | 1,327 | 1,038 | (4,929) | — |
| Total sales | <u>10,962</u> | <u>5,174</u> | <u>5,118</u> | <u>2,896</u> | <u>(4,929)</u> | <u>19,221</u> |

| | | | | | | |
|--|-------|--------------------|-------|--------------------|------|-------|
| Depreciation and amortization ⁽²⁾ | 207 | 86 | 106 | 53 | — | 452 |
| Research, development and engineering expenses | 438 | 9 | 230 | 77 | — | 754 |
| Equity, royalty and interest income from investees | 147 | 148 | 36 | 39 | — | 370 |
| Interest income | 12 | 4 | 4 | 3 | — | 23 |
| Segment EBIT | 1,225 | 491 ⁽⁶⁾ | 684 | 168 ⁽⁷⁾ | (70) | 2,498 |
| Segment EBIT as a percentage of total sales | 11.2% | 9.5% | 13.4% | 5.8% | | 13.0 |

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

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

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

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

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

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

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

**CUMMINS INC. AND SUBSIDIARIES
RECONCILIATION OF SEGMENT INFORMATION**

(Unaudited)

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

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

**CUMMINS INC. AND SUBSIDIARIES
SELECTED FOOTNOTE DATA
(Unaudited)**

NOTE 1. EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEEES

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

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

NOTE 2. IMPAIRMENT OF LIGHT-DUTY DIESEL ASSETS

We began development of a new North American light-duty diesel engine (LDD) platform in July of 2006 for use in a variety of on- and off-highway applications. Since that time, and as of December 31, 2015, we capitalized investments of approximately \$279 million, with a net book value prior to the impairment of \$246 million (\$235 million of which is in our Engine segment and \$11 million of which is in our Components segment). Market uncertainty due to the global recession in 2008/2009 resulted in some customers delaying or canceling their vehicle programs, while others remained active. We announced an agreement with Nissan Motor Co. Ltd. in 2013 to supply our light-duty diesel engine and began commercial shipment in 2015. In the fourth quarter of 2015, we learned that we were not successful in our bid to supply this product for an additional customer. In addition, the recent deterioration in global economic conditions and excess manufacturing capacity in other markets make it unlikely that we will manufacture additional products on the LDD line to utilize its excess capacity during the asset recovery period. As a result, we concluded that the combination of these events presented a triggering event requiring an assessment of the recoverability of these assets in the fourth quarter of 2015. The assessment indicated that the projected undiscounted cash flows related to this asset group were not sufficient to recover its carrying value. Consequently, we were required to write down the LDD asset group to fair value. Our fourth quarter results included an impairment charge of \$211 million (\$133 million after-tax), of which \$202 million is in the Engine segment and \$9 million is in the Components segment, to reflect the assets at fair value. We remain committed to servicing existing contracts and are not exiting this product line.

NOTE 3. RESTRUCTURING ACTIONS AND OTHER CHARGES

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

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

NOTE 4. LOSS CONTINGENCY

Engines systems sold in the United States must be certified to comply with the Environmental Protection Agency (EPA) and California Air Resources Board (CARB) emission standards. EPA and CARB regulations require that in-use testing be performed on vehicles by the emission certificate holder and reported to the EPA and CARB in order to ensure ongoing compliance with these emission standards. We are the holder of this

emission certificate for our engines, including engines installed in certain vehicles with one customer on which we did not also manufacture or sell the emission after treatment system. During 2015, a wash coat quality issue in certain of these third party after treatment systems caused some of our inter-related engines to fail in-use emission testing. In the fourth quarter, the vehicle manufacturer made a request that we assist in the design and bear the financial cost of a field campaign (Campaign) to address the technical issue purportedly causing some vehicles to fail the in-use testing.

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

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

NOTE 5. INCOME TAXES

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

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

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

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

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

Three months ended

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

Years ended

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

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

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

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

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

“Net income attributable to Cummins Inc.” for each of the applicable periods:

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

**CUMMINS INC. AND SUBSIDIARIES
BUSINESS UNIT SALES DATA**

(Unaudited)

Engine Segment Sales by Market and Unit Shipments by Engine Classification

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

2015

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

2014

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

2013

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

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

2015

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|--------------|-----------|-----------|-----------|-----------|------------|
| Mid-range | 112,400 | 120,000 | 107,400 | 116,600 | 456,400 |
| Heavy-duty | 28,700 | 32,800 | 28,600 | 24,300 | 114,400 |

| | | | | | |
|-----------------|----------------|----------------|----------------|-----------------------|----------------|
| | 3,500 | 3,700 | 3,200 | 3,400 | 13,800 |
| High-horsepower | | | | | |
| Total units | <u>144,600</u> | <u>156,500</u> | <u>139,200</u> | <u>144,300</u> | <u>584,600</u> |

2014

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

Distribution Segment Sales by Business

2015

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

2014

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

Component Segment Sales by Business

2015

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

2014

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|--------------------|--------|--------|--------|--------|---------|
| Emission solutions | \$ 543 | \$ 582 | \$ 598 | \$ 620 | \$2,343 |

| | | | | | |
|--------------------|----------------|----------------|----------------|----------------|----------------|
| Turbo technologies | 313 | 307 | 297 | 305 | 1,222 |
| Filtration | 265 | 275 | 268 | 267 | 1,075 |
| Fuel systems | 109 | 116 | 124 | 129 | 478 |
| Total sales | <u>\$1,230</u> | <u>\$1,280</u> | <u>\$1,287</u> | <u>\$1,321</u> | <u>\$5,118</u> |

Power Generation Segment Sales by Business

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

2015

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

2014

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

2013

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

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