

## To Our Shareholders

2008 was another very good year for Cummins despite the economic challenges late in the year. Cummins' sales were \$14.3 billion with net income of \$755 million, making 2008 the Company's fifth consecutive year of record sales and profits.

Three of the Company's four operating segments reported record sales and operating profit in 2008. The second and third quarters were the two most profitable in Cummins history. The Company's Earnings Before Interest and Taxes (EBIT) was 8.5 percent of sales.

The Engine segment grew its share in most markets in 2008, including heavy-duty truck and medium-duty truck and bus engines. We are ready to launch our 2010 heavy-duty engine, which will meet the most stringent emissions standards in the world and will produce the best fuel economy through the use of Selective Catalytic Reduction (SCR) technology. We also remain on schedule to begin production of a new light-duty diesel engine in Beijing in 2009.

Most of our Power Generation markets remained strong in 2008, particularly in the Middle East, India and Latin America.

The China market started to rebound in 2008 and market share gains were made in Europe, the Middle East, Latin America and the United States.

We continued to grow and strengthen our global distribution system in 2008. We acquired or formed joint ventures with a number of our distributors in North America, and experienced strong organic growth in Europe, Asia and the Middle East.

Our Components segment provides us with technological advantages and is critical to our future success. Components reported significant sales growth in 2008. Cummins Emission Solutions and Cummins Turbo Technologies are leaders in their respective markets. The Company also opened its first fuel systems manufacturing plant outside of North America in Wuhan, China, in 2008.

We increased the dividend for the third successive year and repurchased nearly \$130 million of Cummins stock as part of a program announced in December 2007. Cummins has produced an average annual shareholder return of 34 percent since the end of 2004, despite the market turmoil in the fourth quarter.

The fourth quarter of 2008 was challenging due to the global recession, which significantly affected our markets around the world. Our recent strong performance, in which EBIT averaged almost 10 percent for the four years prior to the fourth quarter of 2008, enabled us to strengthen our balance sheet and reduce our debt. As a result, Cummins is well positioned to withstand the current economic turmoil.

Due to the fourth quarter downturn, Cummins has reduced discretionary spending, lowered capital investment, eliminated overtime and taken shutdown days at manufacturing facilities. We reduced our workforce by approximately 1,500 permanent employees and 1,900 contingent workers in late 2008. We also made

additional reductions early in 2009 as we continue to respond to weaker demand for our products.

### **2009 Will Be Challenging, But Fundamentals Are Strong**

We have a strong balance sheet that includes low debt and healthy cash reserves. In addition, we have a \$1.1 billion revolving credit line, which gives us total liquidity of approximately \$1.8 billion. Our technological leadership has positioned us to remain a market leader, and will allow us to take advantage of profitable growth opportunities as the global economy recovers.

Our sales and profits will be significantly lower than 2008. However, I am confident we will earn respectable profits while positioning ourselves for the recovery.

We will continue to align costs with our lower demand and improve operating efficiencies across the Company. We will also continue to aggressively manage cash and expect to generate positive cash flow in 2009.

### **Living Our Values**

Cummins received significant recognition for its corporate responsibility, diversity and governance work in 2008.

For the fourth consecutive year, Cummins was named to the Dow Jones World Sustainability Index, which recognizes the top 10 percent of the world's largest 2,500 companies in economic, environmental and social leadership. We were one of just 43 companies, out of more than 4,200

researched, to receive a perfect score from Governance Metrics International for corporate governance standards.

Our employees continued to provide leadership in their communities by giving generously of their time, money and talents to help others in need. Cummins employees around the world contributed more than \$500,000 to help their colleagues whose lives and homes were ravaged by floods that devastated parts of Indiana in June. That outpouring of support came just weeks after employees and Cummins businesses raised \$1.3 million to help those affected by a catastrophic earthquake in China.

The Company's Every Employee Every Community volunteer initiative continued for its fourth year in 2008, with nearly 15,000 employees donating 53,000 hours of Company time to assist with community-related projects around the world. Participation in the program has quadrupled since it was launched in 2005 and has proven to be especially strong in areas where Cummins leadership has shown significant support.

In an effort to build on the past success of our employee engagement, philanthropy and other corporate responsibility work, we have recently appointed Executive Vice President Jean Blackwell to lead our corporate responsibility efforts. She has been helping us refocus our efforts and ensure that corporate responsibility is a key element of our business strategies.

## **Cummins Celebrates 90th Anniversary**

A highlight in early 2009 was the 90th anniversary of the founding of Cummins, which was February 20, 1919. The Company was the product of two men with a vision – Clessie Cummins, the inventor and promoter, and W. G. Irwin, the Indiana banker who used his family resources to support an entrepreneur's dream.

The Company's journey over the past nine decades has been a remarkable one thanks to the talent and hard work of hundreds of thousands of dedicated Cummins employees. The road has not always been easy, but working our way through the challenges has made us the company we are today.

I take great pride in knowing that the value system that has guided Cummins lives on today in the nearly 40,000 Cummins employees worldwide. Those time-tested principles should provide reassurance to all of us that the Company will continue to succeed in 2009 and beyond.

### **Larry Wilson and Joe Loughrey Retire**

On a personal note, I want to recognize two friends and colleagues who have made an enormous contribution over many years to Cummins and who are leaving the Company.

Larry Wilson, a Cummins Director since 1990 and our Lead Director for the past five years, will retire as of this year's annual meeting. Larry has served the Company in extraordinary fashion over the years. I and fellow Board members have valued Larry's experience, knowledge, judgment and advice, and he will be missed.

Joe Loughrey stepped down as President and Chief Operating Officer on August 1, 2008 and retired as Vice Chairman on April 1, 2009. Joe's contributions to Cummins are too lengthy to list in this space, but he has been instrumental in the Company's success, especially in our turnaround over the last decade. I am extremely thankful for his dedication, wise counsel and friendship over the years. Joe and I have been partners for 35 years and I will miss him.

In closing, I want to express my thanks for the hard work done by our employees around the world in 2008, as well as to our customers, suppliers, joint venture partners and other stakeholders. 2009 promises to be a challenging year but I am confident that, working together, we will succeed and resume our growth once the economic recovery takes hold.

### **Tim Solso**

*Chairman and Chief Executive Officer  
Cummins Inc.*

# Financial Summary

## Selected Financial Highlights

\$ in millions, except per share data	2008	2007	Change
Net sales	\$14,342	\$13,048	10%
Gross margin	2,940	2,556	15%
Investee equity, royalty and other income	253	205	23%
Earnings before interest and taxes (EBIT)	1,220	1,227	-1%
Interest expense	42	58	-28%
Net earnings (loss)	755	739	2%
Net earnings (loss) per share:			
Basic	3.87	3.72	4%
Diluted	3.84	3.70	4%
Dividends declared per share	0.60	0.43	40%

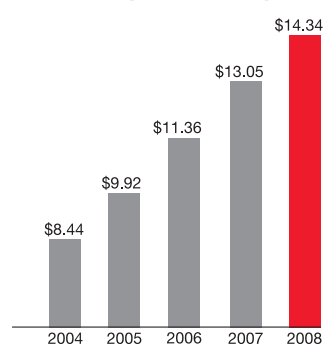
## Balance Sheet Data

Working capital	\$ 2,074	\$ 2,104
Property, plant and equipment, net	1,841	1,645
Total assets	8,519	8,195
Long-term debt	629	555
Shareholders' equity	3,230	3,409

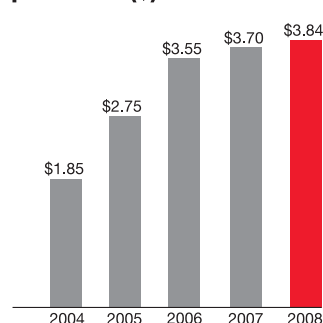
## Other Data

Capital expenditures	\$ 543	\$ 353
Depreciation and amortization	314	290

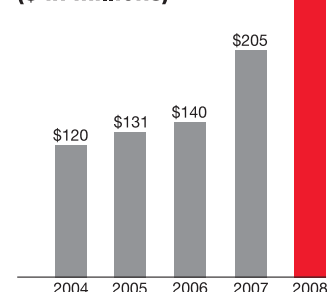
### Net Sales (\$ in billions)



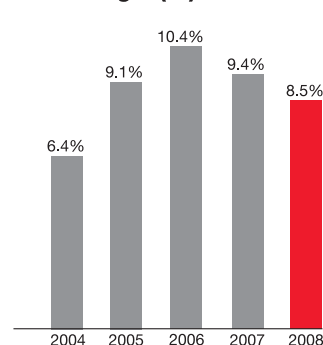
### Diluted Earnings per Share (\$)



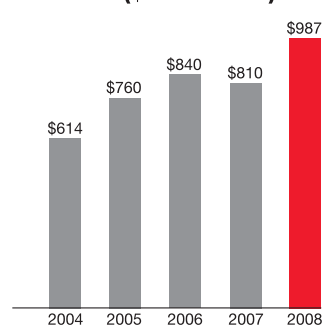
### Investee Equity, Royalty and Other Income (\$ in millions)



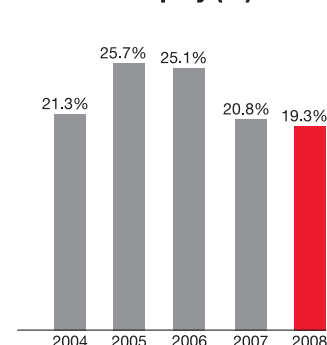
### EBIT Margin (%)



### Cash from Operating Activities (\$ in millions)



### Return on Equity (%)



EBIT is a non-GAAP measure, defined as earnings before interest expense, income taxes and minority interests.

The return on equity calculation is a non-GAAP measure as it excludes pension and other post-retirement benefit amounts in shareholders' equity.

# Shareholder Information

## Shareholder Contacts and Services

*Stock Transfer Agent, Registrar and Dividend Disbursing Agent*

Wells Fargo Shareowner Services is the Company's stock transfer agent and registrar. Wells Fargo maintains the Company's shareholder records, disburses dividend checks and administers the Company's Dividend Reinvestment Program.

General correspondence, address change, name change, notification of lost securities, transfers, inquiries about transfer requirements and correspondence relating to the Dividend Reinvestment Program should be directed to Wells Fargo.

### By Mail

Wells Fargo Shareowner Services  
P. O. Box 64854  
St. Paul, MN 55164-0854

### By Hand or Overnight

Wells Fargo Shareowner Services  
161 North Concord Exchange  
South St. Paul, MN 55075

### By Phone

800-468-9716  
651-450-4064

### By Fax

651-450-4033

### By Email

Contact Wells Fargo through a secure website: [www.wellsfargo.com/com/shareowner\\_services](http://www.wellsfargo.com/com/shareowner_services). Click on 'registered shareholders,' then click on 'contact us.'

## Dividends

Common stock dividends are payable quarterly upon authorization of the Board of Directors on or about the 1st of March, June, September and December to shareholders of record on or about the 15th day of the previous month.

### Dividend Reinvestment

As an added service to shareholders, Cummins has a Dividend Reinvestment Plan administered by Wells Fargo Shareowner Services. This plan gives shareholders of record the option of having their cash dividends and optional cash payments applied toward the purchase of additional shares. Shareholders desiring information about this plan may contact Wells Fargo Shareowner Services (see left), or request information from Cummins through our website, [www.cummins.com](http://www.cummins.com).

### Direct Deposit of Dividends

Automatic direct deposit of quarterly dividends is offered to our shareholders, at no charge, and provides secure and timely access to their funds. For further information, please call 800-468-9716.

### Direct Registration

To provide our shareholders with a more convenient, safe and cost-effective means of share ownership, early in 2006 Cummins made arrangements to permit direct registration issuance and holding of its common stock by the Company's registrar in "book entry" form. Shareholders are able to convert stock certificates to direct registration at any time. Future transfer or issuances of shares will be issued in direct form, unless the shareholder requests a stock certificate. For further information, please call 800-468-9716.

### Additional Information

The common stock of Cummins is traded on the New York Stock Exchange under the symbol CMI.

### Annual Meeting

The 2009 Annual Meeting of Shareholders will be held at 11 a.m. (EDT) on Tuesday, May 12, 2009, at the Columbus Engine Plant in Columbus, Indiana.

Shareholders wishing to vote their shares should refer to the instructions found on the notice and access letter or proxy card they received.

### Financial Information

Through the Cummins website, [www.cummins.com](http://www.cummins.com), shareholders may access Webcasts of Company events including management presentations, quarterly earnings teleconferences and the Annual Meeting. Shareholders may also access SEC filings, press releases, stock quotes and other information, as well as request printed copies of reports and email alerts of Company events.

### Analyst and Investor Contacts

Analysts and investors seeking information about Cummins should contact:

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[Investor\\_relations@cummins.com](mailto:Investor_relations@cummins.com)

### Quarterly Earnings Reporting

For 2009, Cummins quarterly earnings are anticipated to be announced the latter part of April, July, October and the early part of February 2010.