

## To Cummins shareholders:

In 2013, Cummins employees around the world helped deliver our Company's vision of "making people's lives better by unleashing the Power of Cummins." Even in the face of difficult global economic conditions last year, we generated a record \$2.1 billion in cash from operations, continued to invest in new technology, launched new products and partnered with our customers to help them succeed and expand in markets across the globe. Our work in 2013 has positioned our Company for future profitable growth to benefit all stakeholders.

### **2013 financial performance**

Last year's sales of \$17.3 billion were flat with 2012, reflecting continued weak global economic conditions in many major geographies and end markets. Revenues in North America increased 3 percent but were offset by a 4 percent decline in international sales. Earnings before interest and taxes (EBIT), excluding special items, were \$2.16 billion, or 12.5 percent of sales, compared to \$2.35 billion, or 13.6 percent of sales, in 2012. Our profits were particularly impacted by weaker demand in high-horsepower engine markets, such as mining, power generation and oil and gas, and from lower heavy-duty truck orders in North America.

Net income attributable to Cummins Inc. was \$1.48 billion, compared to \$1.65 billion in 2012. Cash from operations was a record \$2.1 billion, compared to \$1.5 billion in 2012.

### **Providing shareholder value**

In line with our mission of "creating wealth for all stakeholders," we continued to focus on providing shareholder value. The most important way we can provide long-term value to our stakeholders is to invest in products and projects that drive profitable growth and strong returns on investment.

In 2013, we and our unconsolidated joint ventures invested \$1 billion in capital expenditure projects. We also spent \$0.7 billion in research and development which will help secure our long-term growth and sustainability.

In addition to investing in new products and our distribution network, we also increased cash returned to shareholders in 2013. We raised our dividend by 25 percent and repurchased 3.3 million shares of Cummins stock, returning to shareholders a total of \$801 million, representing nearly 40 percent of our operating cash flow.

In April 2013, Moody's Investors Service, Inc. raised our rating to 'A3' and changed our outlook to stable. Standard & Poor's Rating Services, Fitch Ratings and Moody's Investors Service, Inc. confirmed our credit ratings as 'A,' 'A' and 'A3,' respectively, subsequent to the third quarter issuance of \$1 billion in debt.

## **Partnering with our customers to help them succeed**

At Cummins, we care about our customers' success and strive to demonstrate that caring every time we interact with our customers. In 2013, for example, we helped our customers succeed by providing them with new products and leading technology that gave them a competitive advantage in their markets. We also helped our customers grow by increasing our global footprint, building capable support networks across the globe. Below are just a few examples of new products, partnerships and global expansions that we launched in 2013.

- We opened a new joint venture plant in China and began production of the new L9.3 engine to help our customers grow in the construction market in China and other parts of the world;
- We entered into a new partnership in North America with a customer who will use the Cummins 5.0 L V8 Turbo diesel engine, which increased the customer's product offerings and market presence. Additional customer announcements are expected in 2014;
- We announced the SmartAdvantage powertrain integration of our Cummins ISX 15 engine with a key partner's transmission to deliver improved fuel economy to meet our customers' needs;

- We launched two new cost-effective generators in our Power Generation business to give our customers more power options in the residential and light commercial markets; and
- We announced plans to acquire the remaining equity in our North America distributors to leverage their expertise and provide our customers the best customer support.

## **Living our core values**

At Cummins, we care not only about what we achieve, but how we achieve it. Our core values guide us in everything we do in both good times and in challenging times. In 2013, Cummins employees set a new record for our Every Employee Every Community volunteer program, investing more than 300,000 hours of their time in community improvement activities all over the world.

Through our Company's Environmental Challenge, where employees use their skills and knowledge to make a positive impact on the environment, we reduced a record amount of greenhouse gas (GHG) emissions. More than 11,000 employees invested more than 60,000 hours in 2013, reducing 19,000 tons of GHGs. The GHG reduction is equivalent to taking nearly 4,000 vehicles off the road for a year and conserving two million gallons of gasoline.

For the sixth consecutive year, Cummins was named one of the world's most ethical companies by The Ethisphere Institute. We were also named one of the Top 50 companies for diversity by *DiversityInc* for the seventh consecutive year.

### **The path ahead**

Looking ahead, we believe that global economic conditions will remain challenging in 2014. However, we remain confident that our core markets will continue to provide strong long-term opportunities for future profitable growth. These markets are being driven by several key macroeconomic and industry trends that will drive sustained growth opportunities for Cummins, including:

- Implementation of new emission standards around the world;
- Increasing fuel costs driving customers to focus on fuel economy;
- Rising electricity needs growing faster than supply;
- Further globalization where our partners look for continued growth outside their home markets; and
- Increasing infrastructure needs and investments in developing countries.

These trends, combined with Cummins leading technology, unmatched global presence and strong partnerships with the world's leading and fastest growing Original Equipment Manufacturers (OEMs), will allow us to capture and maintain strong market positions and ultimately grow our business profitably and sustainably to benefit all Cummins stakeholders.

All of this is only possible because of the commitment and hard work of the talented employees who make up Cummins' operations all over the world. It is a privilege to work with our employees and to witness their efforts to make people's lives better every day. I also want to thank our customers, shareholders and other partners who place their trust in Cummins.



**Tom Linebarger**

CEO and Chairman

*Cummins Inc.*

