

To Cummins shareholders:

In 2016, we continued to encounter weak conditions in most of our important markets around the globe. In the face of these challenges, we executed our restructuring plan initiated in 2015 to reduce our operating costs and continued to identify additional opportunities to better position our business for future profitable growth. In the second quarter of 2016, we reorganized two of our operating segments, combining our High-Horsepower engine and Power Generation businesses to form the Power Systems Segment. By combining these two businesses we improved how we develop, manufacture and support the products we provide to our customers around the world. We are confident that improvements we are making and the efficiencies gained will position the company to improve profitability when markets recover.

2016 financial performance

Revenues for the full year 2016 were \$17.5 billion, 8 percent lower than 2015. Revenues in North America decreased 12 percent and international sales decreased 2 percent, mainly due to foreign currency movements. Excluding the impact of the currency movements, international revenues increased 2 percent with growth in China and India being offset by weaker demand in Latin America, the Middle East and Africa.

Earnings Before Interest and Taxes (EBIT) for the year were \$2.0 billion or 11.4 percent of sales. This compares to \$2.4 billion or 12.5 percent of sales in 2015, excluding impairments and restructuring charges.

Net income attributable to Cummins for the full year was \$1.39 billion (\$8.23 per diluted share), compared to \$1.4 billion (\$7.84 per diluted share) in 2015, and lower than the \$1.59 billion (\$8.93 per diluted share) excluding impairment and restructuring charges.

We generated operating cash flow of more than \$1.9 billion in 2016, compared to \$2.1 billion from the previous year.

Delivering shareholder value

Despite challenging market conditions, Cummins delivered Return on Equity of 20 percent over the 5 and 10 year periods ending December 31, 2016. We returned \$1.45 billion – or 75 percent of Operating Cash Flow – to shareholders in the form of dividends and repurchased 7.3 million shares in 2016. Overall, total shareholder return for Cummins in 2016 was 61 percent, compared to a 12 percent increase for the S&P 500 index and an average 21 percent increase for our peer group.

We were able to preserve profitability and cash flow by managing our company in a disciplined way through the prolonged downturn, delivering on our cost reduction initiatives, improving quality, investing in new technologies, completing the acquisition and integration of our North America distributors, and successfully launching and improving dozens of leading products.

For example, we updated our North American on-highway engine lineup, including the B6.7, L9 and X15, and will soon introduce a new engine in North America, the X12, based on the development we undertook for the Chinese truck market with our ISG engine platform. We also launched our remote monitoring system, Connected Diagnostics, which, like our engines, continues to improve our customers' uptime and efficiency.

We expect diesel engines to continue to be the technology of choice in many of our markets for years to come, and we will continue to excel at our core strengths, providing innovative and dependable products across the globe that enable our customers' success. At the same time, we recognize that future decades will look much different than today. Increasing customer demands, emerging product and information technologies, and global environmental challenges will transform many of our markets.

These developments are changing the landscape for companies like Cummins, and we must invest in new technologies and adopt new thinking and approaches to ensure our future success and long-term sustainability. For example, Cummins is partnering on a project awarded \$4.5 million by the U.S. Department of Energy to develop a Class 6, commercial plug-in hybrid electric vehicle that can reduce fuel consumption by at least 50 percent over conventional Class 6 vehicles. We have projects like this in a number of important technology areas and will be increasing our investment and focus on these new technologies in the coming years.

We welcome these advancements and opportunities, and are ready to capitalize on them to deliver advantage to our customers and profitable growth to our shareholders.

Living our values

Last year, our employees continued to live our core values and give back to their communities around the world. I'm incredibly proud of the fact that 81 percent of our employees participated in the Every Employee Every Community program, and contributed nearly 410,000 hours of service to improving their communities.

We do this work because it is part of the fabric of our company, and we believe that stronger communities are good for business and attract the kind of employees who want to make a difference both in their communities and on the job. Our efforts have been recognized by external organizations, and for the 12th straight year, Cummins was awarded a perfect score in the 2017 Corporate Equality Index (CEI) for the Human Rights Campaign. Ethisphere Institute also named Cummins to their list of the World's Most Ethical Companies for the 10th consecutive year.

We are also focused on creating positive work environments that are motivating, collaborative, safe and secure for our employees. We recently celebrated the opening of our new Distribution Business Headquarters in Indianapolis, Indiana (USA), and are excited about the positive impact this new facility will have on our employees and the surrounding community.

Healthy communities also depend on clean air and water, and Cummins' business model depends on sound environmental standards in every place we operate. This is far more critical to business in the long run than relaxing standards for short-term financial gain, and we remain committed to working with governments around the world to

ensure that environmental standards are technically feasible, clear and enforceable.

Looking ahead

We are confident that the improvements we have made in our products, people, and the structure of our business will help us to improve our profitability and outgrow our end markets when demand improves. While we cannot be certain of the timing and extent of a recovery in demand, we believe many of our key markets have reached bottom and are hopeful these markets will return to growth soon.

Ultimately, we will continue to succeed by investing in the development and advancement of our people, and through our collective capabilities to benefit all of our stakeholders. I am grateful for these efforts and for our customers and stakeholders around the globe that place their trust in this company every day. I look forward to continued success in 2017.

A handwritten signature in black ink, appearing to read 'Tom'.

Tom Linebarger

Chairman and Chief Executive Officer
Cummins Inc.

