
EXECUTIVE SUMMARY

Remanufacturing plants like this one in Juárez, Mexico, use innovative techniques to keep parts and engines in service and out of landfills. Learn more inside about innovation at Cummins.
Company launches campaign to maintain innovation leadership

Innovation has deep roots at Cummins, going back more than 90 years to when founder Clessie Cummins first tinkered with an engine in Columbus, Ind.

Maintaining something so important to the Company’s sustainability can’t be left to chance. That’s why in 2013 Cummins launched a campaign across the Company to promote innovation, asking employees to See the Future First and Beat the Competition to It!™

Cummins’ campaign for innovation comes at a critical time for the Company’s technical function. For the past two decades, the biggest driver of technical innovation has been increasingly stringent emissions regulations, from pickup truck engines to power generation systems.

With emissions levels approaching near zero in most mature markets, Cummins technical leaders are thinking a lot about what will drive innovation over the next 20 or 30 years.

Cummins Vice President and Chief Technical Officer Dr. John Wall believes it will be critical for the Company to stay connected to its customers to remain the innovation leader in its industry.

“We need to know our markets and individual customers better than anyone else,” he said. “We need to know our technologies better than anyone else and we need to be able to combine those so we can continue to differentiate our products in the eyes of our customers.”

Wall has asked Joan Wills, Director – Technology Planning, to work with business units and their leaders within Cummins to create the processes, capability and culture necessary to drive innovation in the future. She is stressing the importance of listening to customers, devoting personnel and resources to research and development, and investing in new technology.

The good news: Cummins has a rich history of innovation to draw on and has consistently invested in research and development to keep moving forward. In 2012, for example, despite a drop in sales, the Company invested a record $728 million in research and development, up 16 percent from 2011.
Cummins has achieved many advances in Variable Geometry Turbochargers (VGT) to improve engine performance and reduce harmful emissions. Turbochargers are fan-like devices first used to force air into engine cylinders to boost power and efficiency. Cummins’ Variable Geometry Turbochargers have the ability to control air flow independently of engine speed and power to balance exhaust pressure against intake pressure for better emissions control.

Engines with VGTs can achieve peak efficiency over a broader operating range, contributing to better fuel economy and cleaner emissions. VGTs also help produce heat for chemical reactions critical to some exhaust aftertreatment systems.

Cummins’ patented VGT design is known for its simplicity, making it more durable. As a result, Cummins has more than 90 percent of the heavy-duty VGT market.

The Company’s XPI Fuel System was a significant breakthrough in heavy-duty fuel systems. Heavy-duty engines had been fueled by “unit injectors” – individual fuel injectors for each engine cylinder. Alternative “common rail” fuel systems were more flexible because they were powered independently by a separate fuel pump. But they were inefficient for heavy-duty applications, where good fuel economy is a priority.

Cummins designers retained the common rail flexibility but made it much more efficient and greatly increased injection pressure. The increase was so far above competitors’ capabilities it was named XPI, short for eXtreme high Pressure Injection.

XPI allows for a small fuel injection into the combustion chamber slightly before the main injection to reduce noise and prepare the chamber for lower emissions. Another injection later can optimize aftertreatment temperatures.

Cummins is the only company that produces all the critical subsystems required to build an engine or genset in-house. The Company’s experience with making components work in harmony has established Cummins as the industry leader in systems integration.

Unlike its competitors, Cummins can design components in an integrated way, with no proprietary boundaries. Subsystem designers work hand-in-hand with system integrators to ensure customer needs are communicated and met. Controls are critical to operate subsystem functions efficiently and to integrate Cummins’ engines and gensets into vehicles, equipment, buildings and power systems.

They also deliver information and take input from operators, service systems and equipment manufacturers.
Cummins works to shrink footprint

Cummins continued its focus on responsible water, waste and energy management in 2012, while reducing the environmental impact of its engines, gensets and related products.

The Company met stricter U.S. Environmental Protection Agency (EPA) standards for its stationary generators three years early. Cummins’ ISX15 heavy-duty diesel engine was the first to receive EPA certification for new greenhouse gas and fuel efficiency rules that take effect in 2014.

“SuperTruck,” the concept truck featuring a higher-efficiency engine and an aerodynamic tractor-trailer developed by Cummins and Peterbilt Motors Company, delivered a 54 percent increase in fuel economy during test runs in the fall of 2012.

Meanwhile, the industry-leading Fleetguard®, Filter Recycling Management Program, Filtering Change™, recycled 670 tons of filters in 2012, including 546 tons of steel.

Work is underway to integrate the Company’s many independent environmental efforts into one comprehensive initiative.

“The result will be a global plan for environmental sustainability with specific company-wide goals,” said Brian C. Mormino, Executive Director – Environmental Strategy and Compliance. “Environmental work is embraced by many functions at Cummins, but there is much more that can and should be done.”

The global plan will build upon the significant progress that has already been made. Over the past five years, Cummins has reduced water consumption by 47 percent and waste disposal by 21 percent adjusted for total hours worked. The Company recycles about 90 percent of the waste it produces.

Cummins has committed to a 25 percent energy efficiency intensity reduction from 2005 to 2015, which equates to a 27 percent greenhouse gas (GHG) reduction. To date, Cummins has cut GHG emissions by about 35 percent.

The Company has launched pilot projects to meet ISO 50001 International energy standards at three sites globally (a fourth is planned in 2014), with a North Carolina plant piloting the U.S. Department of Energy’s Superior Energy Performance program.

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Record year for building communities

Cummins employees invested a record number of hours building stronger communities around the world in 2012, living the Company’s Corporate Responsibility Value to “serve and improve the communities in which we live.”

Almost 28,000 Cummins employees worked on community service projects in 2012, a more than 65 percent increase over the 16,472 employees who participated in 2011.

Employees worked more than 221,000 hours on community involvement activities in 2012, an increase of about 90,000 hours over the 130,000 hours logged building stronger communities in 2011. That was about a 70 percent increase over the year before.

CUMMINS TACKLES CLEANER COOK STOVES

cummins.com/sustainability

Gwen Langley, Director – Global Community Engagement at Cummins.

“Cummins has long been committed to strengthening our communities,” said Gwen Langley, Director – Global Community Engagement at Cummins. “It’s extremely gratifying to see our employees living this core value in such a meaningful way around the world.”

For more than 50 years, Cummins has believed building stronger communities helps build stronger markets for the Company’s products, dating back to Cummins’ visionary CEO J. Irwin Miller. But seldom has there been a year like 2012, not just in terms of the hours invested by Cummins employees, but also in the breadth and depth of the community projects they worked on. Here are just a few:

» In India, employees celebrated Cummins’ 50th anniversary in the country by launching an environmental education campaign designed to reach 75,000 school children.

» Employees in China achieved a major milestone when their multi-year campaign to donate books to rural Chinese libraries reached 80,000 books distributed to more than 90 libraries around the country.

» In Southern Indiana, around 600 employees participated in a week-long Habitat for Humanity “building blitz” to build 10 homes for families displaced by massive tornadoes earlier in the year.

Employees improve environment through Challenge

Cummins’ 4th Environmental Challenge produced impressive results in 2012 as employees put their skills to work reducing traffic, increasing recycling, planting trees and much more.

Under the Challenge, the Company’s more than 200 Community Involvement Teams (CITs) compete to develop one of the 15 best environmental projects of the year. More than 100 entries were submitted from 19 countries in 2012.

Employee participation grew 20 percent over 2011 to 12,000 employees. The projects in the 2012 Challenge also collectively reduced greenhouse gas (GHG) emissions by an estimated 4,300 tons – a new record.

Each of the 15 winning CITs received a $10,000 grant from The Cummins Foundation for the charitable partner of their choice. Three projects received special recognition:

» Cummins India employees won Best Technical Project and Best Environmental Entry for improving traffic flow along a 1.3 kilometer stretch of Karve Road in Pune. The team took videos at different times of the week to create data points that could then be analyzed. The team next worked with local officials to adjust traffic signals so cars could pass through more easily, reducing fuel consumption and emissions. Officials are looking at replicating the project in other parts of India.

» A project by Cummins employees in South Africa introduced barn owls to help control the rat population in a struggling township near the Company’s headquarters. Employees worked to both promote recycling at a school in the township and demonstrate an environmentally friendly side of the owls, which are considered bad luck by some people in Africa. The project was named Best New Entry.

» Finally, a project by Cummins employees in Guarulhos, Brazil, near São Paulo’s International Airport, was named Best Continuation of a Project. Over the past three years, nearly 800 Cummins employees have planted some 5,000 trees in the highly urbanized area to beautify the city and provide other environmental benefits.
Living a commitment to safety

Building on its record setting performance in 2011, Cummins improved on several key safety metrics in 2012 while rolling out new initiatives that should enhance safety at the Company in the future.

“I’m very proud of the way so many of our employees made a personal commitment to safety in 2012,” said Michelle Garner-Janna, Director – Corporate Health and Safety.

The Company enjoyed a record year for safety in 2011, meeting all of its targets for key safety metrics for the first time ever.

In response, Cummins raised its goals in 2012, but nevertheless managed to meet most of them and record improvements in several key areas, including:

- A 24 percent reduction in the Severity Case Rate in 2012.
- A 12 percent drop in the Incidence Rate compared to 2011.
- A 6 percent improvement in 2012 in the Severity Lost Work Day Rate.

The Company’s commitment to keeping employees healthy and safe can be seen in the steady reduction in the Incidence Rate and Severity Case Rate at Cummins over the past 10 years.

Despite the Company’s significant growth around the world, the Incidence Rate, based on recordable injuries and illnesses, dropped 72 percent over that time period. The Severity Case Rate, based on lost-time cases, decreased more than 80 percent since 2003.

In 2012, a Company-wide ergonomics competition drew more than 70 entries that collectively saved an estimated $1.7 million. Meanwhile, the Company’s Engine Business Unit developed a web-based reporting tool that employees can use to report safety problems they have identified and fixed.

Diversity moves forward at Cummins

Cummins’ Global Diversity Department will be focusing on inclusion over the next year, working with various business units to embed diversity into their business strategies.

“Embracing diversity in the workplace means treating each other with dignity and respect when expressing or receiving different perspectives,” said Andre Goodlett, Diversity Relations Director at Cummins. “It’s in competing ideas that we truly see the power of diversity.”

The Global Diversity staff supports more than 100 employee resource groups charged with helping to uphold and enhance the Company’s diversity-related initiatives.

Local Diversity Councils oversee the diversity environment at their particular sites. Affinity Groups, meanwhile, are usually organized around specific demographic traits under-represented at the Company such as women, African-Americans and lesbian, gay, bisexual and transgender (LGBT) employees.

A few, however, are organized around a common interest or shared experience such as the Special Needs and Abilities Affinity Group and the Worldwide Veterans and Supporters Affinity Group.

The chartering of employee resource groups has been growing by almost 10 percent per year since 2010, especially outside the United States as business units there have embraced Cummins’ Diversity Value.
New code guides ethical behavior

Cummins renewed its commitment to good governance and ethical behavior in 2013 by releasing an updated Cummins Code of Business Conduct.

The updated Code addresses issues ranging from our commitment to diversity and how we treat each other to how we compete fairly for business around the world,” Cummins Chairman and CEO Tom Linebarger said in a note to all employees announcing the update.

“it also reminds us of our key and unchanging responsibility as Cummins employees to behave ethically at all times and to report behavior that doesn’t live up to our standards,” he added.

The update includes new guidance on everything from using social media responsibly to protecting intellectual property at a global company. The update also includes numerous reminders that there are multiple ways to report a potential problem or get advice to avoid problems.

Cummins periodically updates its Code to reflect societal and business changes. The Code was last updated in 2009. The update was one of the first tasks completed by the Company’s new Ethics and Compliance staff in 2012.

The document was reviewed by Company leaders and Cummins Board of Directors, as well as employees around the world to ensure it was relevant across borders and cultures.

The updated Code was translated and posted on the Company’s Intranet site in 16 languages.

CUMMINS’ ETHICAL PRINCIPLES

The Code of Business Conduct is built around Cummins’ 10 Ethical Principles:

1. We will follow the law – everywhere.
2. We will embrace diverse perspectives and backgrounds and treat all people with dignity and respect.
3. We will compete fairly and honestly.
4. We will avoid conflicts of interest.
5. We will demand that everything we do leads to a cleaner, healthier and safer environment.
6. We will protect our technology, our information and our intellectual property.
7. We will demand that our financial records and processes are clear and understandable.
8. We will strive to improve our communities.
9. We will communicate with honesty and integrity.
10. We will create a culture where all employees take responsibility for ethical behavior.

Global slowdown slows Cummins

After a record start, revenue slowed considerably for Cummins in the second half of 2012 amid a global economic slowdown.

Revenues were $17.3 billion compared to $18 billion in 2011. Despite the drop, it was the second best revenue year in Company history. Revenue for 2012 represented a 31 percent increase over 2010 and a 61 percent increase over 2009.

The Company increased its dividend by 25 percent in the third quarter of 2012 and Fitch Rating Services raised its Long-term Issuer Default Rating and long-term debt ratings for Cummins from A- to A despite the challenging economy.

“After a strong start to the year, demand declined across most geographies and end markets in the second half of 2012 as the global economy slowed,” said Tom Linebarger, Cummins Chairman and CEO.

Fourth quarter revenue of $4.3 billion in 2012 was a 13 percent decrease from the same quarter in 2011, reflecting weakness in most major markets and geographies.

The decrease year-over-year was driven by weaker demand in heavy-duty truck, construction, and oil and gas markets in North America were up 9 percent but were offset by international sales which dropped by about 15 percent, with the most significant declines in Brazil, China and Europe.

EBIT (Earnings Before Interest and Taxes) for the year, excluding special items, was $2.35 billion or 13.6 percent of sales compared to $2.6 billion or 14.2 percent of sales in 2011.

The Company took a number of actions during 2012 to lower expenses in response to the difficult economic conditions, including reducing the size of its workforce by about 1,300 people – about equally split between exempt and non-exempt employees.

FINANCIAL PERFORMANCE AT A GLANCE

Here’s a summary of Cummins’ performance since 2008.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Net income attributable to Cummins</th>
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<tbody>
<tr>
<td>2008</td>
<td>$14.3 billion</td>
<td>$755 million</td>
</tr>
<tr>
<td>2009</td>
<td>$10.8 billion</td>
<td>$428 million</td>
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<tr>
<td>2010</td>
<td>$13.2 billion</td>
<td>$1.04 billion</td>
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<tr>
<td>2011</td>
<td>$18 billion</td>
<td>$1.85 billion</td>
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<tr>
<td>2012</td>
<td>$17.3 billion</td>
<td>$1.65 billion</td>
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The Company was named to the Dow Jones Sustainability Index in 2012 for an eighth consecutive year. The index represents the top 10 percent of the world's most sustainable companies rated by Dow Jones over a range of economic, environmental and social responsibility factors.

Cummins was named one of the Top 50 Companies for Diversity by DiversityInc magazine for a seventh consecutive year in 2013. Cummins ranked 15th on the list, up from 18th in 2012.

For the eighth consecutive year, Cummins was awarded a perfect score in the 2013 Corporate Equality Index by the Human Rights Campaign (HRC), the largest U.S. civil rights organization for lesbian, gay, bisexual and transgender (LGBT) employees.

Cummins was named one of 145 “Most Honored” companies by Institutional Investor magazine in 2012. The list is compiled by buy-side and sell-side analysts participating in a survey.

Cummins was included on Fortune magazine’s 2013 list of the most admired companies, finishing fourth in the Industrial and Farm Equipment sector. Fortune asked business people to vote for the companies they most admired from any industry.

Cummins was one of the World’s Most Ethical Companies by the Ethisphere Institute in 2013. The Institute evaluates companies’ commitment to ethical leadership, compliance practices and corporate responsibility. This was the sixth consecutive year Cummins was named to the list.

Cummins was named to the Civic 50, a list of companies that “best use their time, talent and resources to improve the quality of life in their local communities and beyond” in 2012. The list is compiled by Bloomberg, the National Conference on Citizenship and the Points of Light Foundation.

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