

Fourth Quarter 2007 Earnings Teleconference

February 1, 2008





Participants

Tim Solso Chairman and Chief Executive Officer

Jean Blackwell Chief Financial Officer

Joe Loughrey Chief Operating Officer

Tom Linebarger President – Cummins Power Generation

Dean Cantrell Director – Investor Relations



Disclosure Regarding Forward-Looking Statements & non-GAAP Financial Measures

This presentation contains certain forward-looking information. Any forward-looking statement involves risk and uncertainty. The Company's future results may be affected by changes in general economic conditions and by the actions of customers and competitors. Actual outcomes may differ materially from what is expressed in any forward-looking statement. A more complete disclosure about forward-looking statements begins on page 61 of our 2006 Form 10-K, and it applies to this presentation.

This presentation contains certain non-GAAP financial measures such as earnings before interest and taxes (EBIT). Please refer to our website (www.cummins.com) for the reconciliation of those measures to GAAP financial measures.



Key Messages

- 4th straight year of record sales and profits
- Operational improvement beginning in Components
- Acceleration of earnings growth in 2008
- Investing in longer-term global growth story



Cummins Inc. Selected Financial Data

<u>Targets</u>	
Sales growth:	12%
EBIT margin:	10%
ROANA:	25%
ROE:	20%

<u>\$ Millions</u>	<u>Q407</u>	<u>Q406</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	3,516	3,033	483	16%
EBIT	324	303	21	7%
% of Sales	9.2%	10.0%		
ROANA (LTM)	29%	31%		
ROE (LTM)	21%	25%		

- Global customer demand leading to growth in nearly every market
- Gaining market share due to our technology leadership
- Investing in profitable growth opportunities in each operating segment, and in domestic and international markets



Cummins Inc.

Selected Income Statement Data

	<u>Q407</u>	<u>Q406</u>
Net Earnings (\$M)	198	189
Earnings Per Share	\$1.00	\$0.94
Product Coverage (% of Net Sales)	3.4%	2.3%
Gross Margin (% of Net Sales)	19.4%	21.0%
SAR (% of Net Sales)	12.9%	12.5%

- Earnings before interest and taxes (EBIT) at 9.2% of sales
- As expected, lower gross margins due to higher costs associated with the launch of the EPA '07 products, partially offset by higher pricing for new products
- Higher warranty accrual rate during introductory year of EPA '07 products
- Less overhead recovery from significantly lower heavy-duty and pick-up truck volumes



Power Generation Segment

Selected Financial Data

Targets
Sales growth: 15%
EBIT margin: 10%

<u>\$ Millions</u>	<u>Q407</u>	<u>Q406</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	840	658	182	28%
EBIT	86	62	24	39%
% of Sales	10.2%	9.4%		

- Strong sales of commercial generator sets and alternator equipment across the globe
- Consumer growth as portables, commercial mobile, recreational marine, and auxiliary power units offset softness in recreational vehicles
- Strong price realization for commercial generator sets and alternators



Distribution Segment Selected Financial Data

Targets
Sales growth: 15%
EBIT margin: 11%

<u>\$ Millions</u>	<u>Q407</u>	<u>Q406</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	468	386	82	21%
EBIT	56	39	17	44%
% of Sales	12.0%	10.1%		

- Organic growth of 25% excluding the reporting change of a North American distributor, currency and acquisitions
- Global demand for our products remain strong, particularly in Europe, the Middle East, Singapore, and Africa
- Joint venture earnings contributed \$25 million to segment earnings on strength of sales of power generation equipment in North America plus contribution from new joint ventures



Engine Segment Selected Financial Data

Targets
Sales growth: 13%
EBIT margin: 8.5%

<u>\$ Millions</u>	<u>Q407</u>	<u>Q406</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	2,155	1,952	203	10%
EBIT	120	181	(61)	(34%)
% of Sales	5.6%	9.3%		

- Growth in both Industrial and Medium-duty Truck & Bus revenue
- Lower gross margins due to higher costs associated with the launch of the EPA '07 products, partially offset by higher pricing for new products
- Higher warranty accrual rate during introductory year of EPA '07 products
- Investing in new growth opportunities and additional capacity
- Less overhead recovery from significantly lower heavy-duty and pick-up truck volumes



Engine Segment

Sales by Market – On-highway

<u>\$ Millions</u>	<u>Q407</u>	<u>Q406</u>	<u>Change Amount</u>	<u>Change Percent</u>
Heavy-duty truck	531	640	(109)	(17%)
Medium-duty truck and bus	398	256	142	55%
Light-duty automotive/RV	<u>247</u>	<u>322</u>	<u>(75)</u>	<u>(23%)</u>
Total on-highway	1,176	1,218	(42)	(3%)

- North America Heavy-duty Truck engine shipments down 38% - much better than market due to significant market share gains
- Medium-duty Truck shipments up 21% with strength in Brazil and Europe together with market share gains in North America
- Bus shipments up 80% on strength in Europe, China, and North America
- North America Light-duty Automotive shipments down 47% due to US economic uncertainty



Engine Segment

Sales by Market - Industrial

<u>\$ Millions</u>	<u>Q407</u>	<u>Q406</u>	<u>Change Amount</u>	<u>Change Percent</u>
Total Industrial	733	559	174	31%

- Total shipments up 20% with growth in nearly all applications, but primarily in international markets
- Global construction equipment shipments up 17% driven by demand in East Asia, Europe, and Korea
- Worldwide shipments for mining up 16% with growth in China, Russia, Latin America, and Australia
- Commercial marine shipments up 18% with successful launch of our Tier 2 product
- Increasing high-horsepower capacity another 30% by mid 2008



Components Segment Selected Financial Data

Targets
Sales growth: 20%
EBIT margin: 9%

<u>\$ Millions</u>	<u>Q407</u>	<u>Q406</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	777	599	178	30%
EBIT	47	23	24	104%
% of Sales	6.0%	3.8%		

- Growth in all businesses on sales of new products to meet emission standards, particularly Emission Solutions (up \$81M or 167%) and Turbo Technologies (up \$72M or 44%)
- Filtration (up \$19M or 7%) saw strong economic-driven revenue growth in Eastern Europe, Russia, and the Middle East
- New product introduction costs, metal market cost increases, and aggressive production ramp up provided challenges for each of the businesses



Joint Venture Income

<u>\$ Millions</u>	<u>Q407</u>	<u>Q406</u>
Engine	26	16
<i>On-highway</i>	18	10
<i>Off-highway</i>	6	4
<i>Rec. Marine</i>	2	2
Power Generation	5	2
Distribution	25	16
Components	<u>3</u>	<u>1</u>
Total JV Income	59	35

- Engine joint venture income up primarily due to continued strengthening in the Chinese on-highway truck market
- Distribution increased 56% on strength of power generation equipment sales in North America



Cash Flow

	<u>Q407</u>	<u>Q406</u>
Operating Cash Flow (\$M)	287	227
Capital Expenditures (\$M)	171	97
Pension Funding (\$M)	106	112
Share Repurchase (\$M)	125	45
Working Capital (% of Net Sales)	17.3%	16.9%

- Cash flow strategy to maintain a strong balance sheet, including funding our liabilities; investing in profitable growth; and returning value to our shareholders
- Working capital net cash inflow of \$11 million in Q407 compared to net cash outflow of \$10 million in Q406
- Repurchased 2.1 million shares (split-adjusted) during the quarter

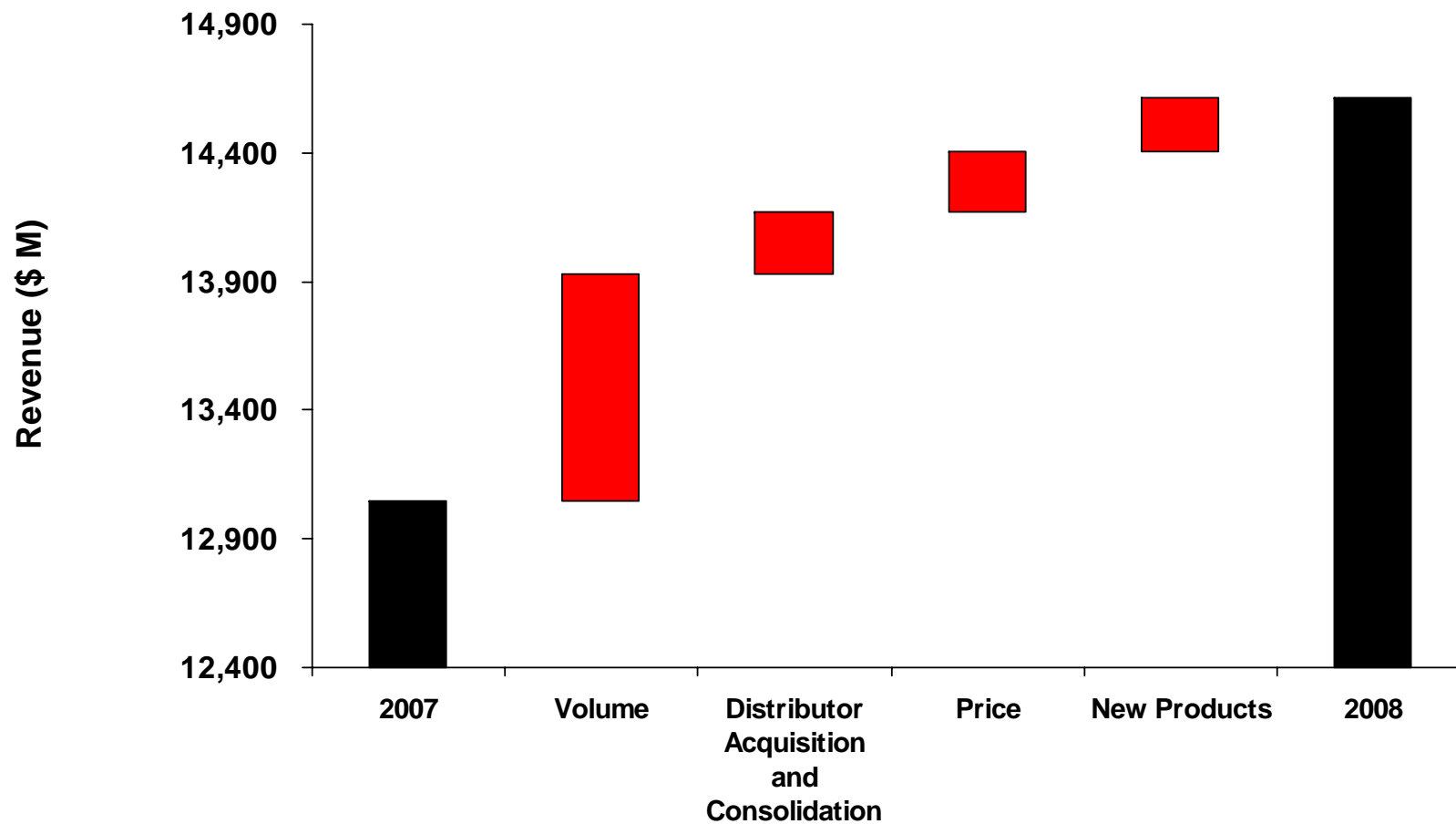


Guidance for 2008 Consolidated Results

<u>Item</u>	<u>Full Year Guidance</u>
Revenue	Up 12%
Earnings from Joint Ventures	Up 5 – 10%
EBIT Margin (%)	10%
Effective Tax Rate	35%
Capital Expenditures (\$M)	\$550 to \$600
Global Pension Funding (\$M)	\$95 to \$105

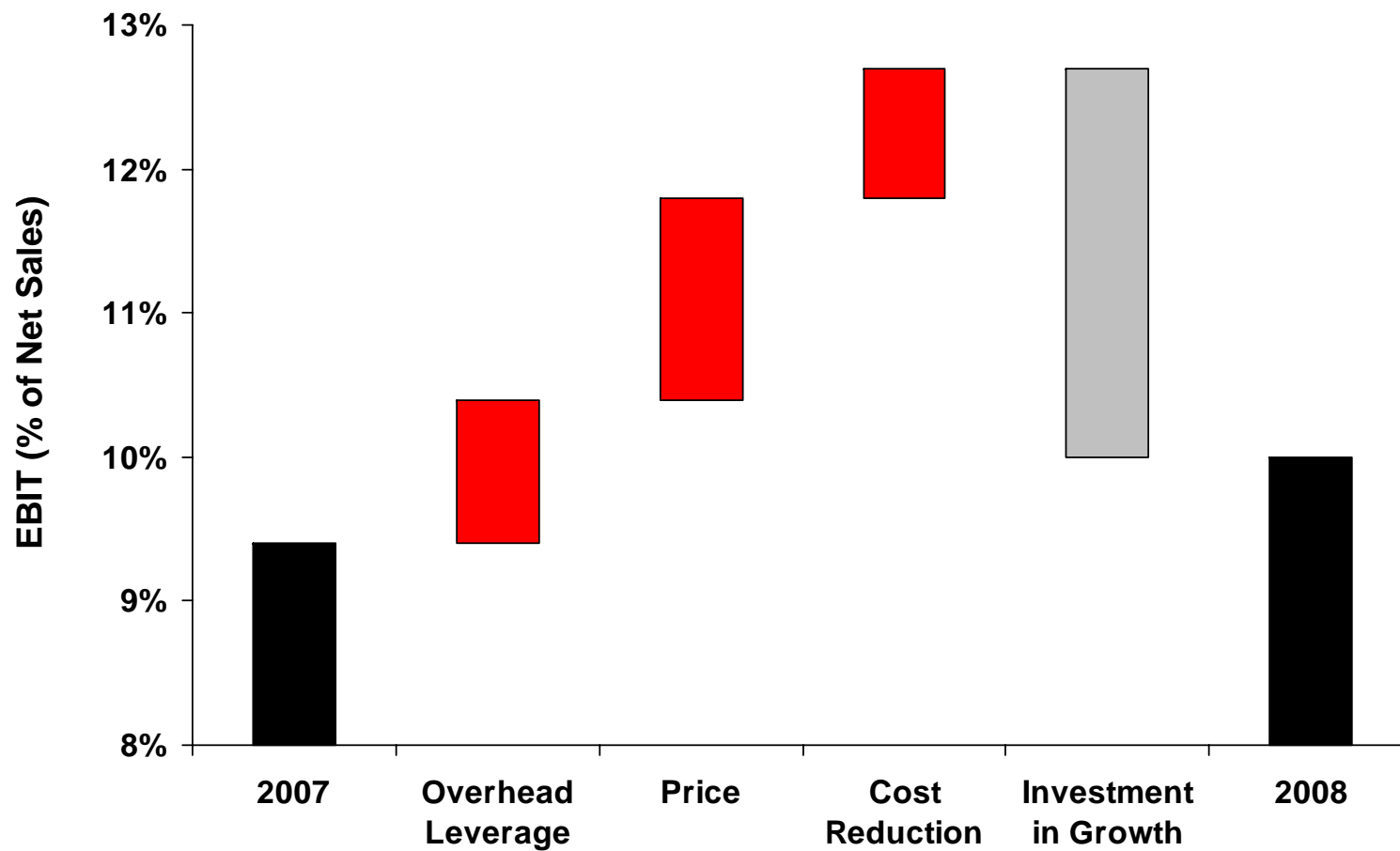


Forecasting 12% Growth in Revenue





10% EBIT Margin Yields Nearly 20% Profit Growth





Guidance for 2008 Segment Results

<u>Item</u>	<u>Engine</u>	<u>Power Generation</u>	<u>Components</u>	<u>Distribution</u>
Revenue	Up 5-10%	Up 10-15%	Up 17-22%	Up 20-25%
EBIT Relative to Target	Slightly Below 8.5% target	Slightly Above 10% target	Between 6-7%	Slightly Below 11% target



Thank You for Your Interest in
Cummins

We will now take your questions.

Contact Information:

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Appendix

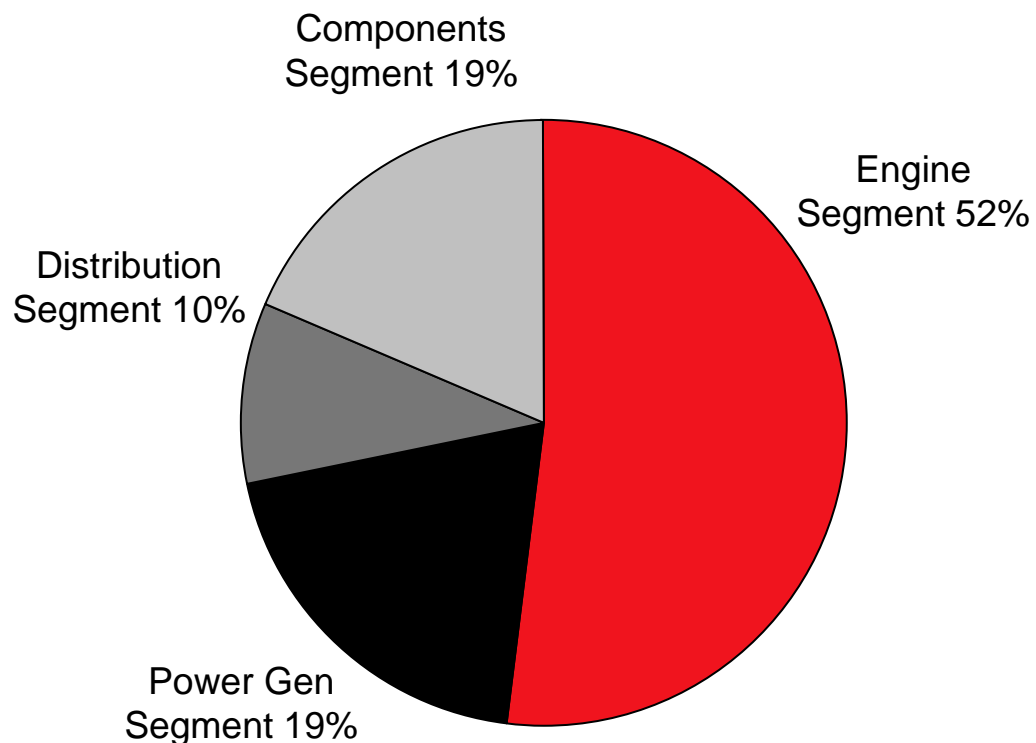




Cummins Inc.

2007 Revenue by Segment

- Macro growth trends play to Cummins' strengths
- Disciplined investment for growth
- Demonstrated technology leadership



FYE 2007 Data

Sales: \$13.0 billion

EBIT: \$1,227 million

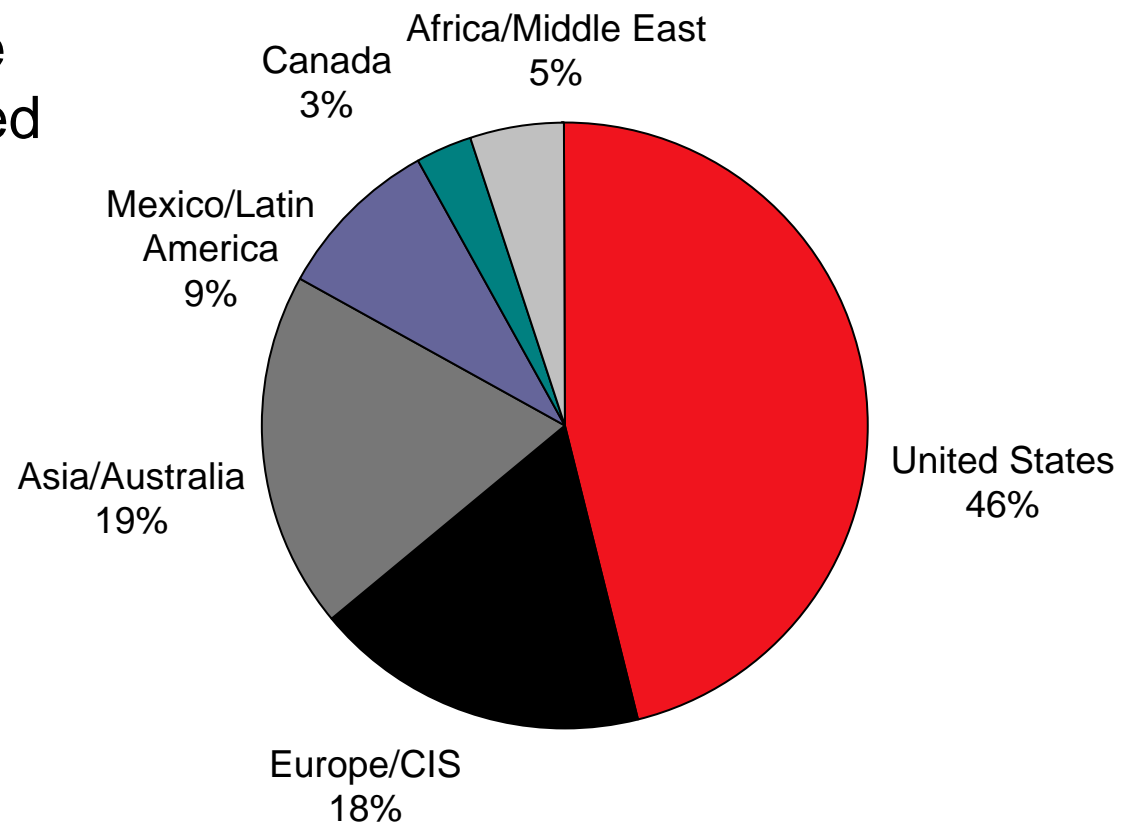
EBIT Margin: 9.4%



Cummins Inc.

2007 Revenue by Marketing Territory

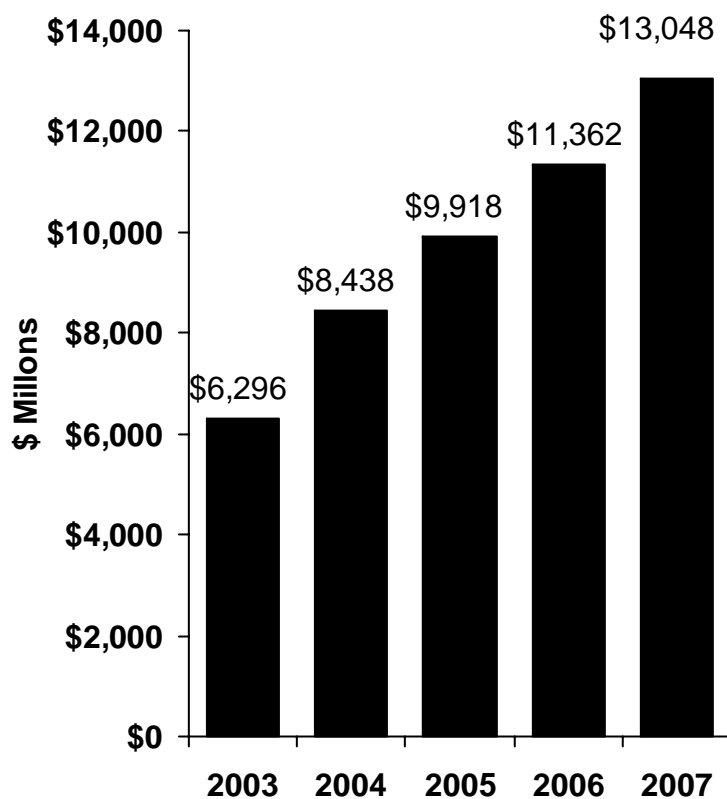
- International revenue is 54% of consolidated revenue in 2007
- Most international areas growing at double digit rate
- Demonstrates our geographic diversity



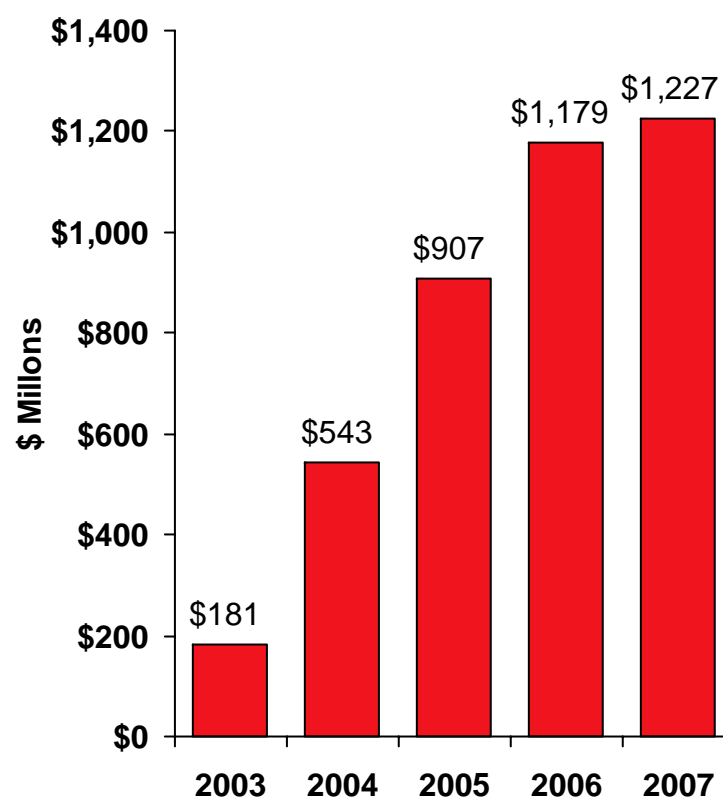


Cummins - Historical Performance

Sales



EBIT

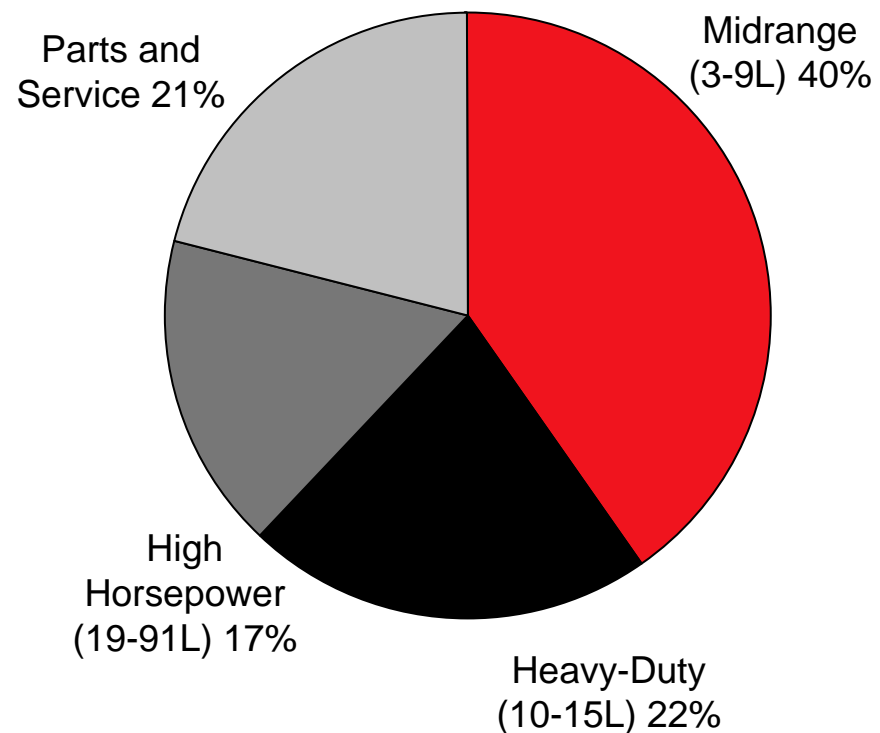




Engine Segment

2007 Revenue by Product

- Emission regulations create opportunities
- Emerging markets
- Strategic OEM partnerships
- New engine platforms
- Aftermarket revenue creates stable earnings



FYE 2007 Data

Sales: \$8.2 billion

EBIT: \$589 million

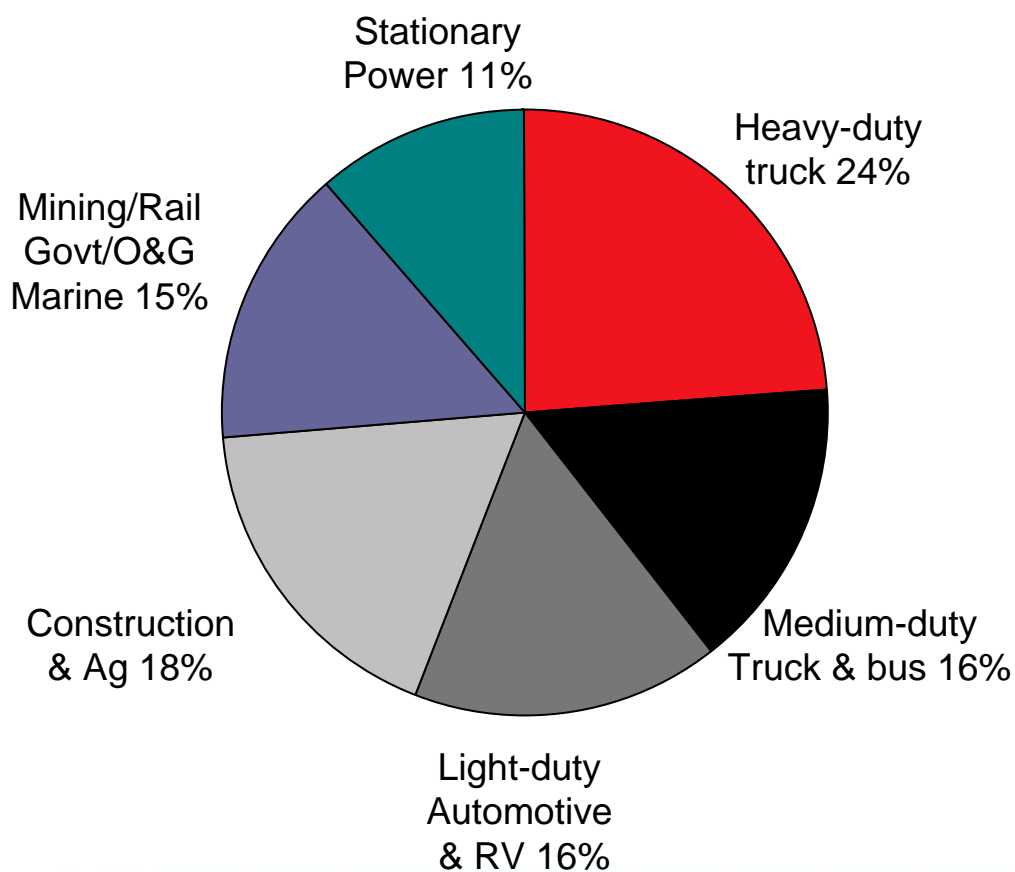
EBIT Margin: 7.2%



Engine Segment

2007 Revenue by Market Application

- Gaining market share in on-highway markets
- Industrial markets supported by non-residential construction and commodity markets
- Expanding capacity to meet growing demand



FYE 2007 Data

Sales: \$8.2 billion

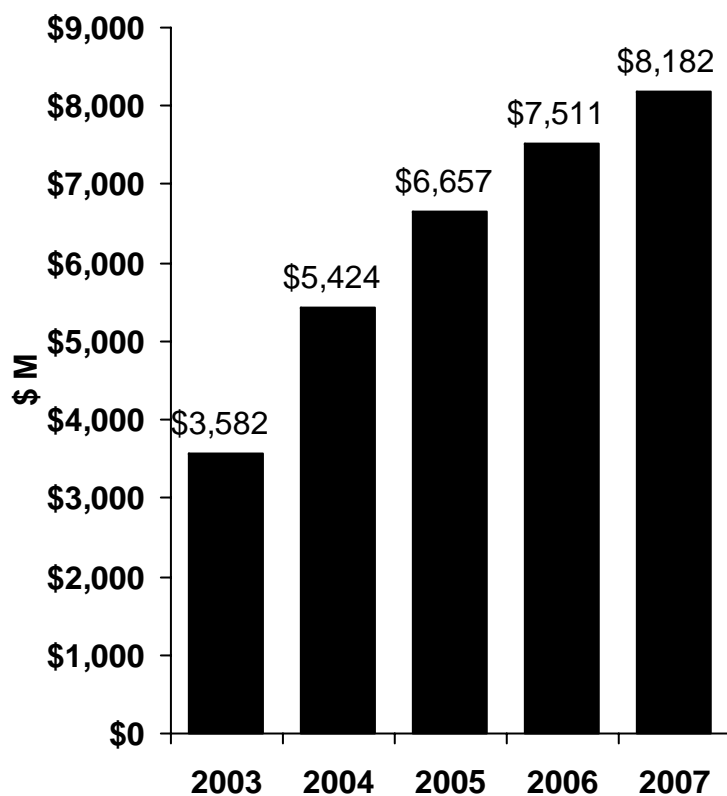
EBIT: \$589 million

EBIT Margin: 7.2%

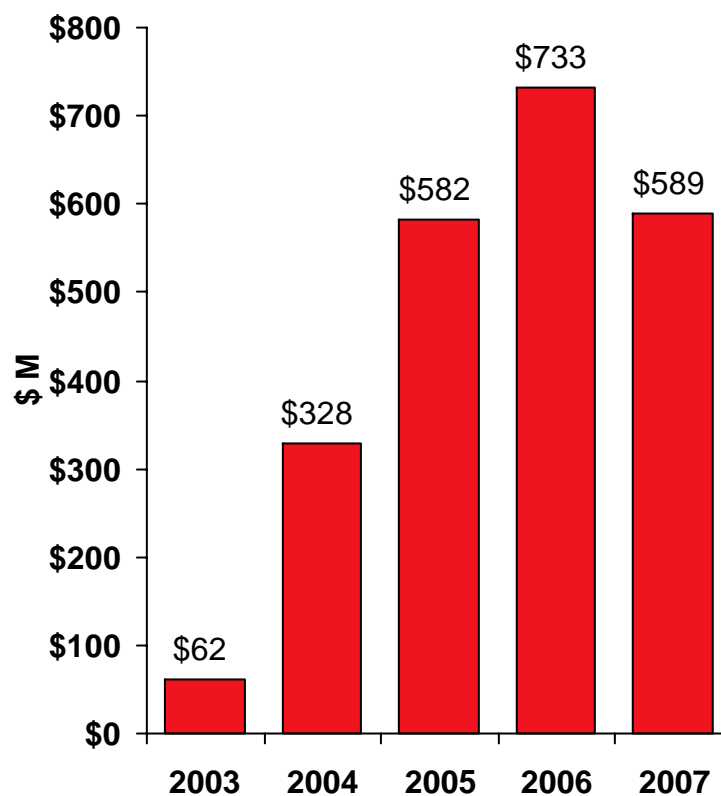


Engines – Historical Performance

Sales



Segment EBIT

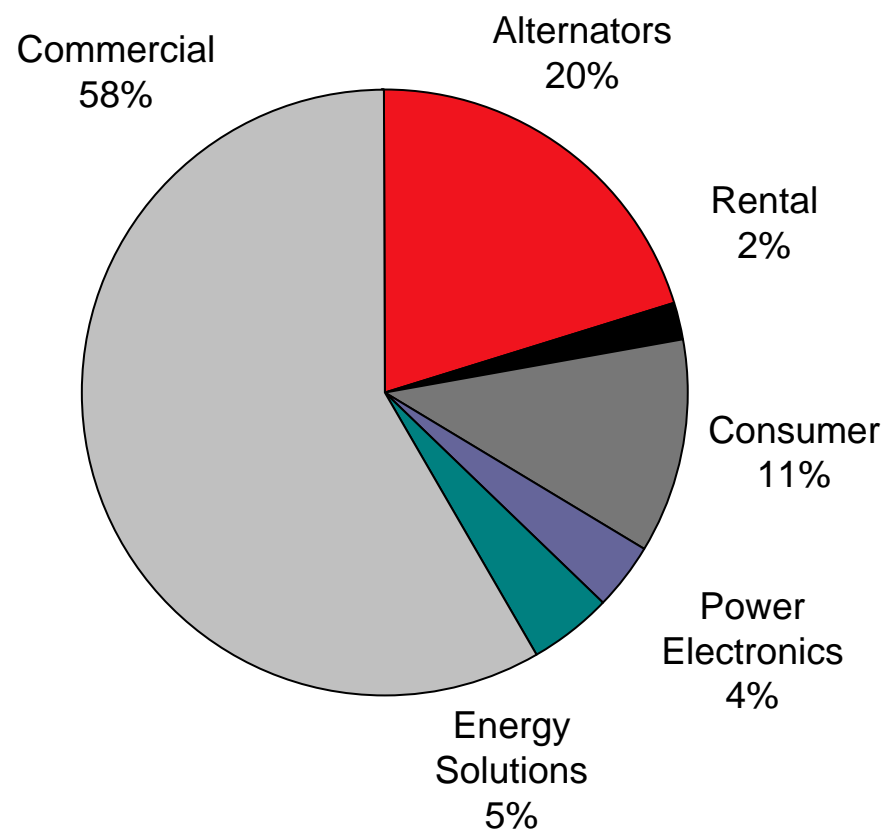




Power Generation Segment

2007 Revenue by Product

- Capitalize on industry growth
- Leverage existing market leadership
- Establish leadership in all major markets
- Expand into new and adjacent markets



FYE 2007 Segment Data

Sales: \$3.1 billion

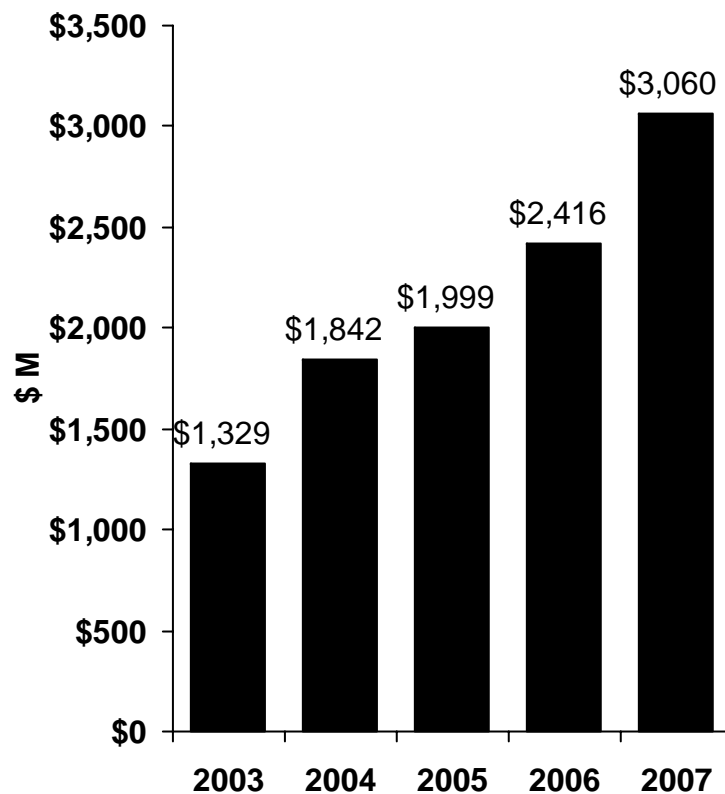
EBIT: \$334 million

EBIT Margin: 10.9%

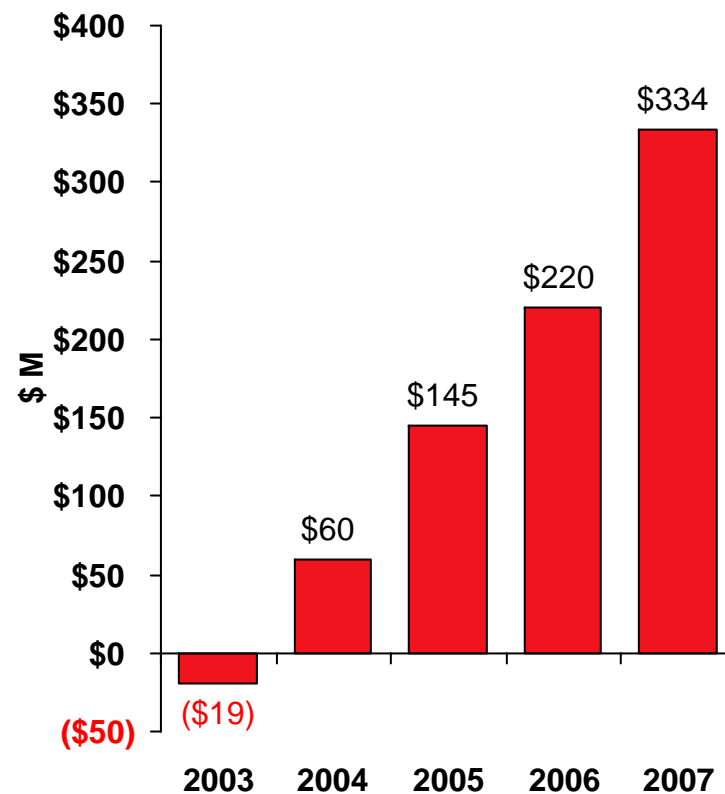


Power Generation - Historical Performance

Sales



Segment EBIT

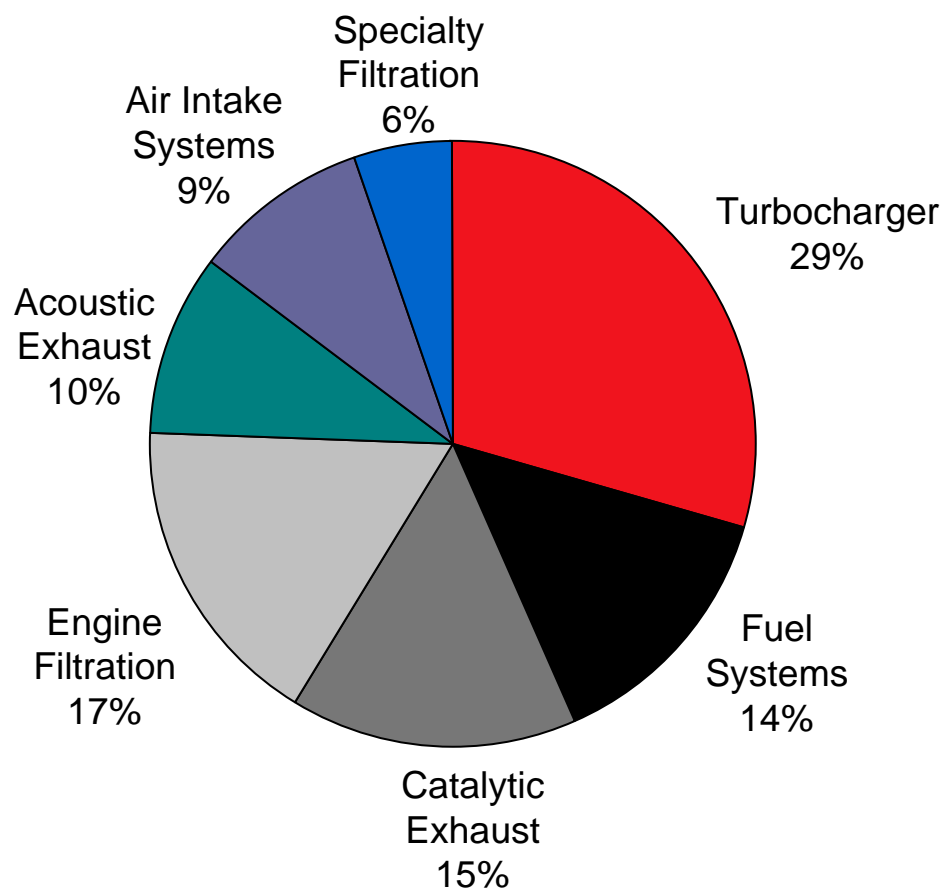




Components Segment

2007 Revenue by Product

- New products launched
- Industry leading technology
- Capacity expansion
- Grow with CMI and non-CMI engine volumes
- Leverage global distribution to grow aftermarket



FYE 2007 Segment Data

Sales: \$2.9 billion

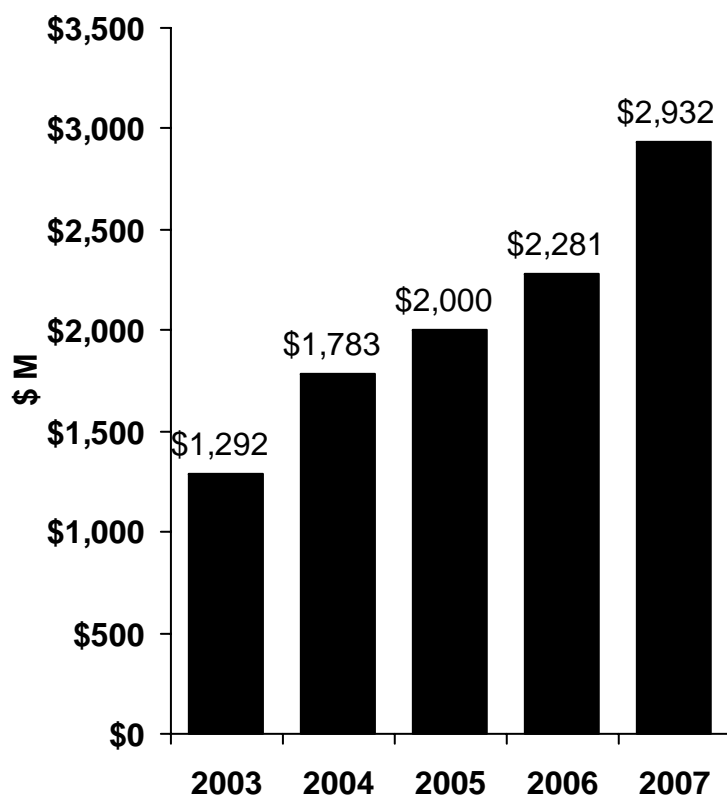
EBIT: \$153 million

EBIT Margin: 5.2%

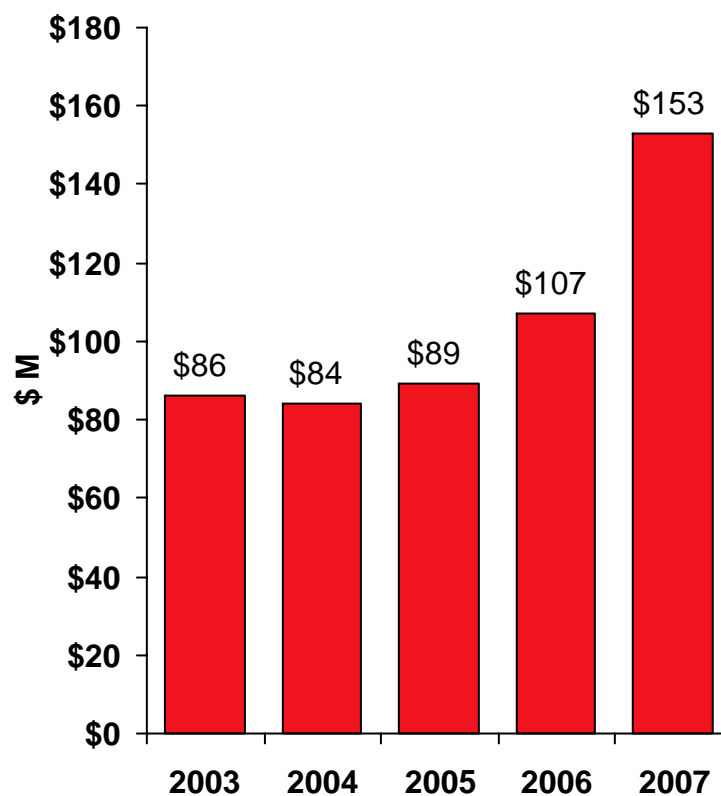


Components - Historical Performance

Sales



Segment EBIT





Distribution Segment

2007 Revenue by Product

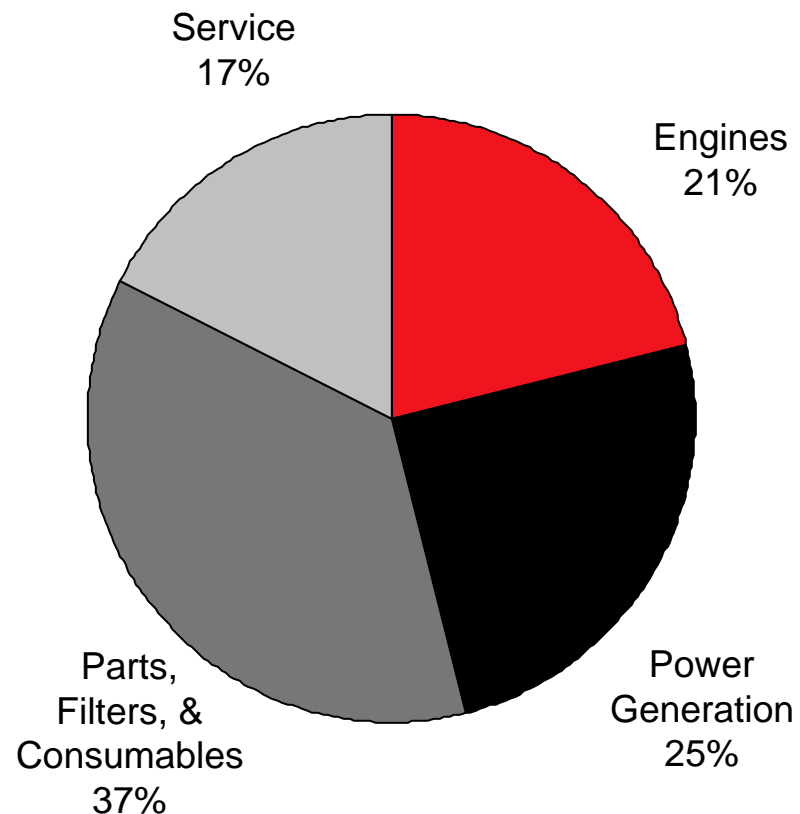
- Continue acquisitions, consolidations and integrations
- Leverage Cummins equipment growth
- World-class customer support
- Build capabilities – invest in growing regions

FYE 2007 Segment Data

Sales: \$1.5 billion

EBIT: \$187 million

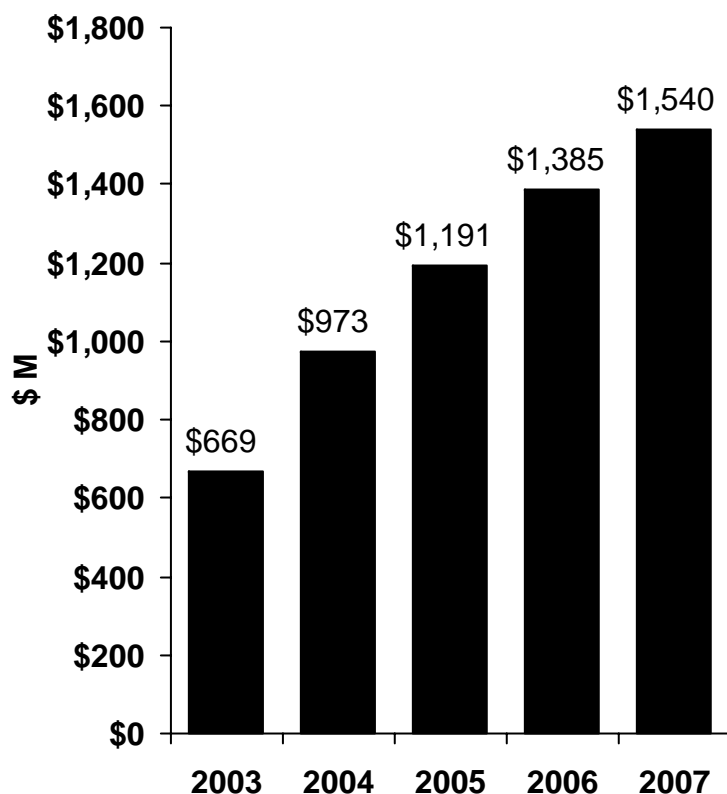
EBIT Margin: 12.1%



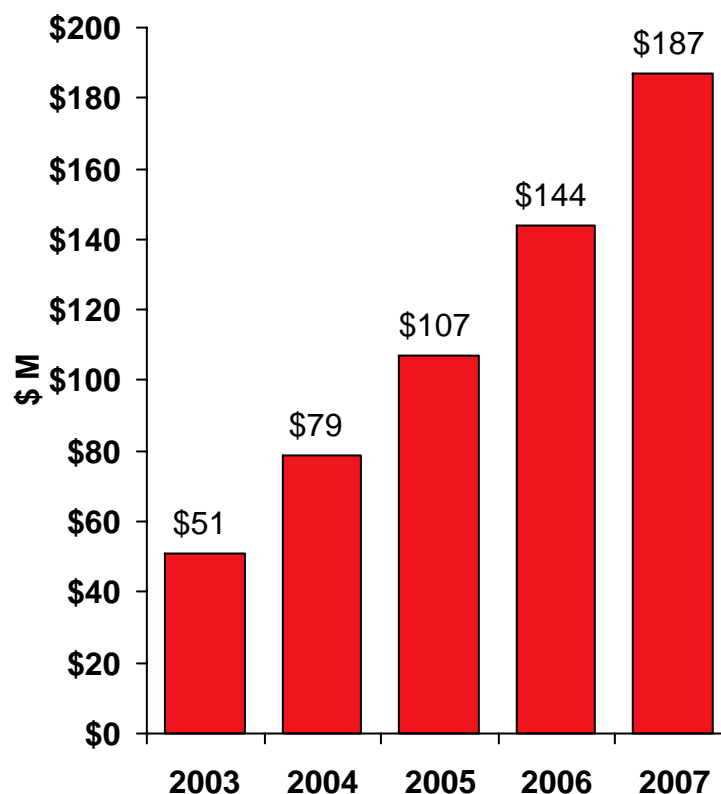


Distribution - Historical Performance

Sales



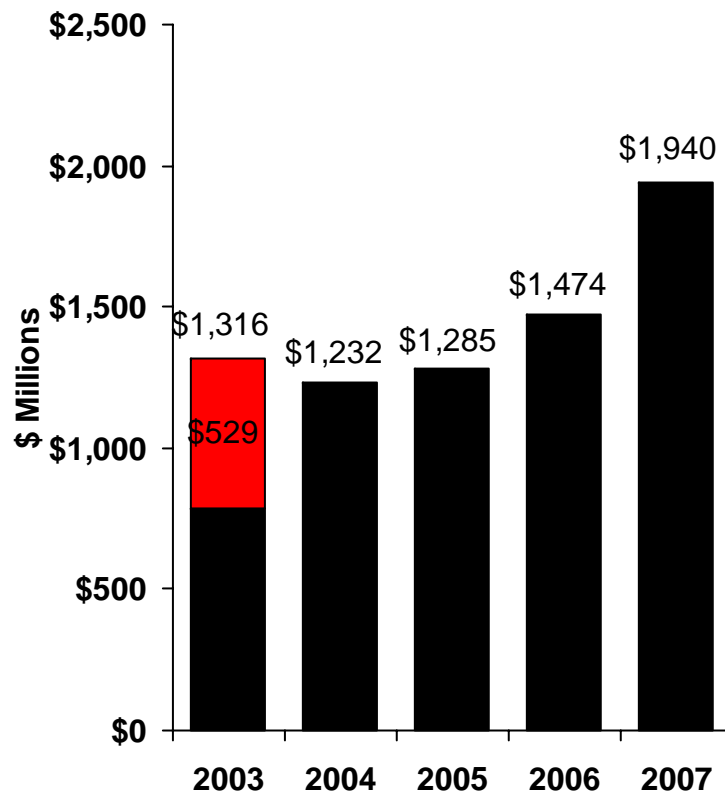
Segment EBIT



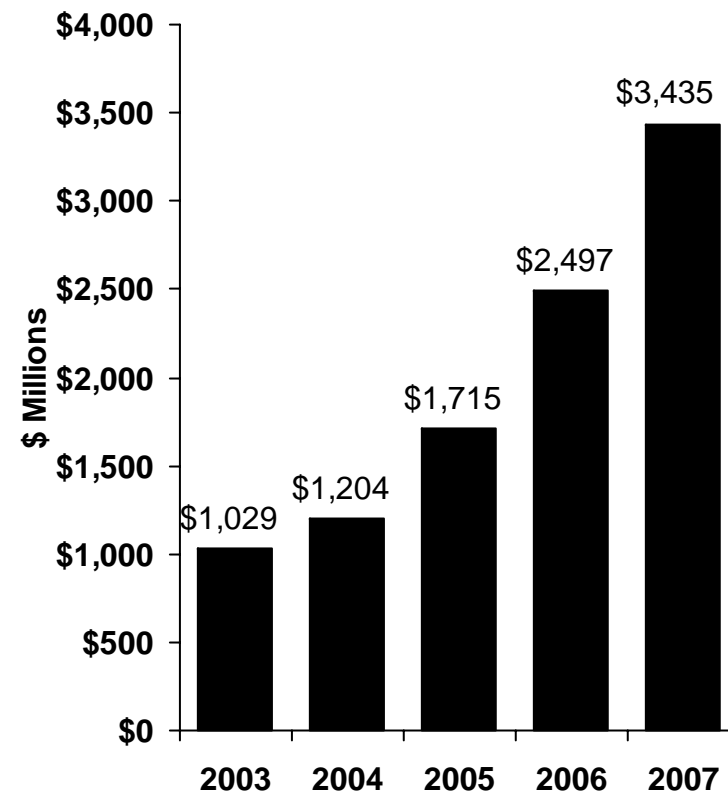


Joint Venture Sales Unconsolidated

Engines



Distribution

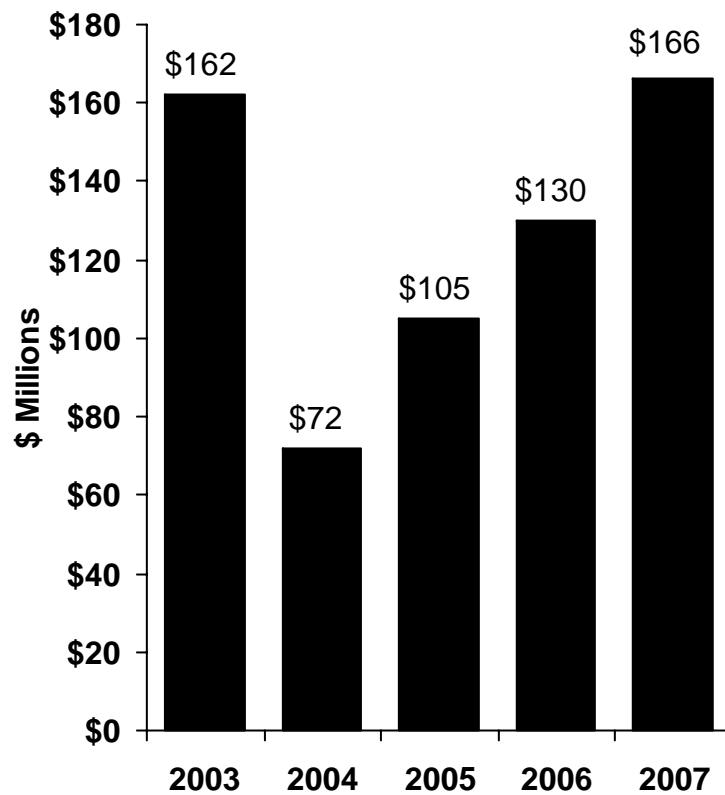


In 2003, sales from certain JVs (colored red above) were treated as unconsolidated; adoption of FIN 46R in 2004 required the company to consolidate the results of certain JVs.

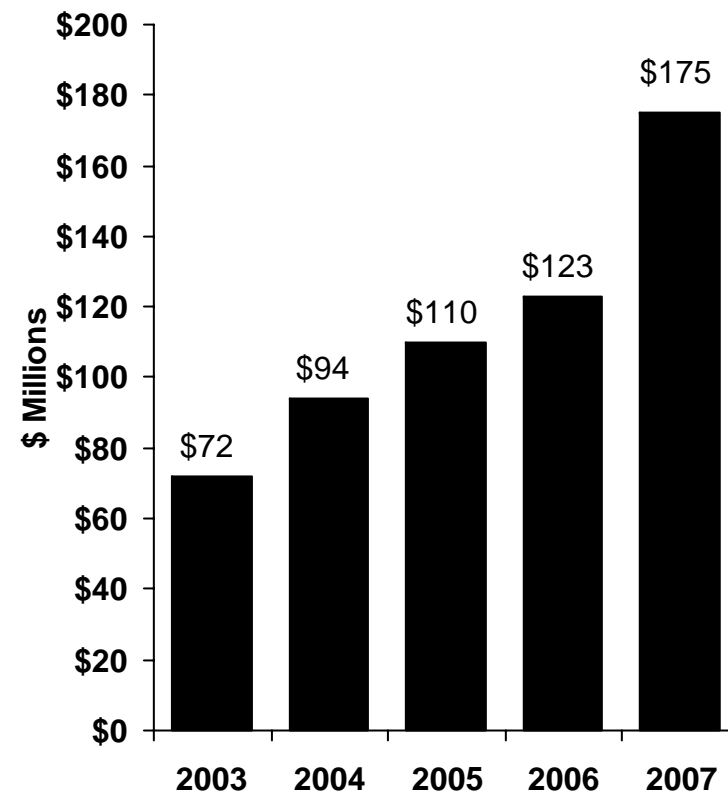


Joint Venture Sales Unconsolidated

Power Generation



Components



Non-GAAP Reconciliations





Non-GAAP Reconciliation - EBIT

Millions	<u>Three Months Ended</u>		
	December 31, 2007	December 31, 2006	September 30, 2007
Segment EBIT	\$ 324	\$ 303	\$ 306
Less: Interest Expense	<u>\$ 14</u>	<u>\$ 20</u>	<u>\$ 14</u>
Earnings before income taxes and minority interests	\$ 310	\$ 283	\$ 292

We define EBIT as earnings before interest expense, provision for income taxes and minority interests in earnings of consolidated subsidiaries. We use EBIT to assess and measure the performance of our operating segments and also as a component in measuring our variable compensation programs. The table above reconciles EBIT, a non-GAAP financial measure, to our consolidated earnings before income taxes and minority interests, for each of the applicable periods.

We believe EBIT is a useful measure of our operating performance for the periods presented as it illustrates our operating performance without regard to financing methods, capital structure or income taxes. This measure is 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.



Non-GAAP Reconciliation - EBIT

Millions	<u>Years Ended</u>	
	December 31, 2007	December 31, 2006
Segment EBIT	\$ 1,227	\$ 1,179
Less: Interest Expense	<u>\$ 58</u>	<u>\$ 96</u>
Earnings before income taxes and minority interests	\$ 1,169	\$ 1,083

We define EBIT as earnings before interest expense, provision for income taxes and minority interests in earnings of consolidated subsidiaries. We use EBIT to assess and measure the performance of our operating segments and also as a component in measuring our variable compensation programs. The table above reconciles EBIT, a non-GAAP financial measure, to our consolidated earnings before income taxes and minority interests, for each of the applicable periods.

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Non-GAAP Reconciliation - EBITDA

Three Months Ended

Millions	December 31, 2007	December 31, 2006	September 30, 2007
Segment EBIT	\$ 324	\$ 303	\$ 306
Add back: Depreciation & Amortization	<u>\$ 75</u>	<u>\$ 74</u>	<u>\$ 73</u>
EBITDA	\$ 399	\$ 377	\$ 379

We define EBITDA as earnings before interest expense, provision for income taxes, minority interests in earnings of consolidated subsidiaries and depreciation and amortization expense. We believe EBIT is a useful measure of our operating performance for the periods presented as it illustrates our operating performance without regard to financing methods, capital structure, income taxes or depreciation methods. This measure is 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.



Non-GAAP Reconciliation – EBITDA

Millions	<u>Years Ended</u>	
	December 31, 2007	December 31, 2006
Segment EBIT	\$ 1,227	\$ 1,179
Add back: Depreciation & Amortization	\$ 290	\$ 296
EBITDA	\$ 1,517	\$ 1,475

We define EBITDA as earnings before interest expense, provision for income taxes, minority interests in earnings of consolidated subsidiaries and depreciation and amortization expense. We believe EBIT is a useful measure of our operating performance for the periods presented as it illustrates our operating performance without regard to financing methods, capital structure, income taxes or depreciation methods. This measure is 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.



Non-GAAP Reconciliation – Cash From Operations Excluding Pension Contributions

Millions	<u>Years Ended</u>	
	December 31, 2007	December 31, 2006
Cash provided by operations	\$ 810	\$ 840
Add back: pension contributions	<u>\$ 250</u>	<u>\$ 266</u>
Cash provided by operations excluding pension contributions	\$ 1,060	\$ 1,106

We believe cash provided by operations excluding pension contributions is a useful measure of our operating performance for the periods presented as it illustrates our operating performance without regard to funding decisions. 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.



Non-GAAP Reconciliation – Net Assets

Millions	December 31, 2007	December 31, 2006
Net assets for operating segments	\$ 4,434	\$ 4,056
Liabilities deducted in computing net assets	3,759	3,510
Minimum pension liability excluded from net assets	-	(837)
Pension and other postretirement liabilities	(570)	-
Deferred tax assets not allocated to segments	546	710
Debt-related costs not allocated to segments	26	26
Total assets	\$ 8,195	\$ 7,465

A reconciliation of net assets for operating segments to total assets in our Consolidated Financial Statements is shown in the table above.



Non-GAAP Reconciliation – Equity Used for Return on Equity Calculation

Millions	December 31, 2007	December 31, 2006
Equity used for return on equity calculation	\$ 3,409	\$ 2,802
less Defined other postretirement benefits	-	3
less Defined benefit pension plans	378	508
less Minimum pension liability adjustment	-	-
Total shareholder's equity	\$ 3,787	\$ 3,313

A reconciliation of equity used for return on equity calculation to total shareholder's equity in our Consolidated Financial Statements is shown in the table above.