

Fourth Quarter 2008 Earnings Teleconference

February 3, 2009





Participants

Tim Solso Chairman and Chief Executive Officer

Pat Ward Chief Financial Officer

Tom Linebarger President and Chief Operating Officer

Dean Cantrell Director – Investor Relations



Disclosure Regarding Adjustments to Preliminary Results Released on February 3, 2009

On February 25, 2009, Cummins Inc. issued a press release regarding its February 3, 2009, release of fourth quarter and full year 2008 results. These adjustments have been incorporated into our fourth-quarter and full year results and will be reflected in our 2008 Form 10-K which will be filed no later than March 2, 2009.

For more information, a copy of the revised financial statements is attached to our 8-K, filed on February 25, 2009.

Certain numbers have been updated accordingly in this presentation.



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 3 of our 2008 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.



Cummins Inc.

Selected Financial Data

Targets
Sales growth: 12%
EBIT margin: 10%

<u>\$ Millions</u>	<u>2008</u>	<u>2007</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	14,342	13,048	1,294	10%
EBIT	1,220	1,227	(7)	(1%)
% of Sales	8.5%	9.4%		

- Thru 3Q '08, sales were up 16% and EBIT % above 10% target.
- Sharp decline in sales and profitability in the fourth quarter.
- Fourth quarter profitability negatively impacted by lower volume, unfavorable currency, restructuring and warranty charges.



Cummins Inc.

Selected Financial Data

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

<u>\$ Millions</u>	<u>Q408</u>	<u>Q407</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	3,288	3,516	(228)	(6%)
EBIT	56	324	(268)	(83%)
% of Sales	1.7%	9.2%		
ROANA (LTM)	27%	29%		
ROE (LTM)	19%	21%		

- Sales drop mainly due to the slow down in construction and truck markets.
- Profitability was affected by rapid decline in volumes, negative currency impact and restructuring and warranty charges.
- ROANA above target and ROE slightly below.



Cummins Inc.

Selected Income Statement Data

	<u>Q408</u>	<u>Q407</u>
Net Earnings (\$M)	43	198
Earnings Per Share	\$0.22	\$1.00
Gross Margin (% of Net Sales)	16.2%	19.4%
SAR (% of Net Sales)	13.5%	12.9%

- Lower effective tax rate due to research credit and higher profits from international locations.
- Gross margins affected by unfavorable volume, currency, warranty charges and commodity costs, partially offset by pricing actions.
- Net charge of \$120 million related to warranty liability associated with the increasing cost of repairs to engines sold in prior periods
- Higher investment in Research & Engineering for the development of future products.



Distribution Segment Selected Financial Data

Targets
Sales growth: 15%
EBIT margin: 11%

<u>\$ Millions</u>	<u>Q408</u>	<u>Q407</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	557	468	89	19%
EBIT	64	56	8	14%
% of Sales	11.5%	12.0%		

- Revenues grew 11% without currency and acquisitions; acquisitions added \$81M to sales.
- Net of currency, sales were up in all 9 geographical regions, led by industrial engines and power generation demand.
- Currency diluted margin improvement from price realization and sales volume.



Power Generation Segment

Selected Financial Data

<u>Targets</u>	
Sales growth:	15%
EBIT margin:	10%

<u>\$ Millions</u>	<u>Q408</u>	<u>Q407</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	887	840	47	6%
EBIT	75	86	(11)	(13%)
% of Sales	8.5%	10.2%		

- Strength in commercial generators and alternators, mainly in China and Western Europe, more than offset the weaker consumer market in North America.
- Higher material costs offset by favorable price realization.
- Q4'08 profitability affected by high volatility in currencies, particularly the Euro and the Pound, and unfavorable sales mix.



Engine Segment

Selected Financial Data

Targets
Sales growth: 13%
EBIT margin: 8.5%

<u>\$ Millions</u>	<u>Q408</u>	<u>Q407</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	1,936	2,155	(219)	(10%)
EBIT	(40)	120	(160)	(133%)
% of Sales	(2.1%)	5.6%		

- Sales declined in all on-highway applications.
- Flat industrial sales; strength in agriculture and marine offset the sharp decline in global construction markets.
- Profitability negatively affected by the rapid decline in volumes, higher material costs, warranty charges, currency and joint venture income.



Engine Segment

Sales by Market - On-highway

<u>\$ Millions</u>	<u>Q408</u>	<u>Q407</u>	<u>Change Amount</u>	<u>Change Percent</u>
Heavy-duty truck	469	531	(62)	(12%)
Medium-duty truck and bus	326	398	(72)	(18%)
Light-duty automotive/RV	<u>154</u>	<u>247</u>	<u>(93)</u>	<u>(38%)</u>
Total on-highway	949	1,176	(227)	(19%)

- Heavy-duty truck engine shipments down 9% as OEM's extended holiday shut downs to reduce inventory.
- Engine shipments to Medium-duty truck down 9% driven by North America and Europe, partially offset by strength of Brazil.
- Bus engine shipments down 25% mainly due to China; lower internal demand as well as exports.
- Light-duty Automotive & RV engine shipments down 39% due to U.S. economic uncertainty affecting pick-up truck and RV markets.



Engine Segment

Sales by Market - Industrial

<u>\$ Millions</u>	<u>Q408</u>	<u>Q407</u>	<u>Change Amount</u>	<u>Change Percent</u>
Total Industrial	704	733	(29)	(4%)

- Construction engine sales down 22% as non-residential construction activity deteriorated globally.
- Ag engine sales up 49% driven by heavy-duty tractors in North America, combines in Latin America and penetration in Eastern Europe/CIS.
- Commercial Marine engine sales up 39% due to timing of projects and favorable mix to larger engines.
- Mining engine sales up 12% supported by backlogs.

Components Segment

Selected Financial Data

<u>Targets</u>	
Sales growth:	20%
EBIT margin:	9%

<u>\$ Millions</u>	<u>Q408</u>	<u>Q407</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	676	777	(101)	(13%)
EBIT	(6)	47	(53)	(113%)
% of Sales	(0.9%)	6.0%		

- Turbo Technologies sales down \$43M or 18%; Fuel Systems sales down \$26M or 25%; Filtration sales down \$25M or 8% (excluding business exited in 2007) and Emission Solutions revenues were flat.
- EBIT deteriorated mainly driven by sudden volume drops in key markets, warranty charges and \$10M income from business divestiture recognized in Q407.



Joint Venture Income

<u>\$ Millions</u>	<u>Q408</u>	<u>Q407</u>
Engine	8	26
<i>On-highway</i>	5	18
<i>Off-highway</i>	6	6
<i>Rec. Marine</i>	(3)	2
Power Generation	6	5
Distribution	33	25
Components	<u>4</u>	<u>3</u>
Total JV Income	51	59

- For on-highway, lower volumes due to economic slow down in China, India and Russia have substantially impacted our JV earnings.
- Recreational Marine was affected by further market weakness and restructuring expenses.
- Distribution JV income includes \$4M from Distributor acquired in North America in early 2008.



Cash Flow

	<u>Q408</u>	<u>Q407</u>
Operating Cash Inflow (\$M)	262	287
Capital Expenditures (\$M)	213	171
Pension Funding (\$M)	8	106
Share Repurchase (\$M)	5	125
Working Capital (% of Net Sales)	19.4%	17.3%

- Consistent operating cash flow generation, although we were not able to reduce inventory as fast as volumes dropped.
- \$433 million charge to equity due to decrease in the market value of our pension funds increased debt-to-capital ratio to 17.8%.
- Liquidity of nearly \$2 billion from cash and recently renewed long-term revolving credit facility.



Guidance for 2009 Consolidated Results

<u>Item</u>	<u>Full Year Guidance</u>
Revenue	Down nearly 20%
Earnings from Joint Ventures	Down 20%
EBIT Margin (%)	6.5%
Effective Tax Rate	31%
Capital Expenditures (\$M)	\$360 to \$400
Global Pension Funding (\$M)	\$125 to \$135



Guidance for 2009 Segment Results

<u>Item</u>	<u>Engine</u>	<u>Components</u>	<u>Power Generation</u>	<u>Distribution</u>
Revenue	Down 20%	Down 25%	Down 10%	Down 10%
EBIT Margins (% of Revenue)	3.8 to 4.3%	2.5 to 3.0%	9.5 to 10.0%	11%

Guidance for 2009 Engine Markets

Revenue by market (including aftermarket):

- Heavy-duty truck down 12 percent on CMI market share gains in 20 percent weaker NAFTA Class 8 heavy-duty truck build.
- Global Medium-duty Truck & Bus drop of 27 percent from weak truck markets and flat bus market in North America.
- Light-duty Automotive & RV decline by 4 percent; stable pick-up truck and weaker RV market.
- Industrial down 28 percent; all markets down significantly for new engines.



Thank You for Your Interest in Cummins

We will now take your questions.

Contact Information:

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Appendix

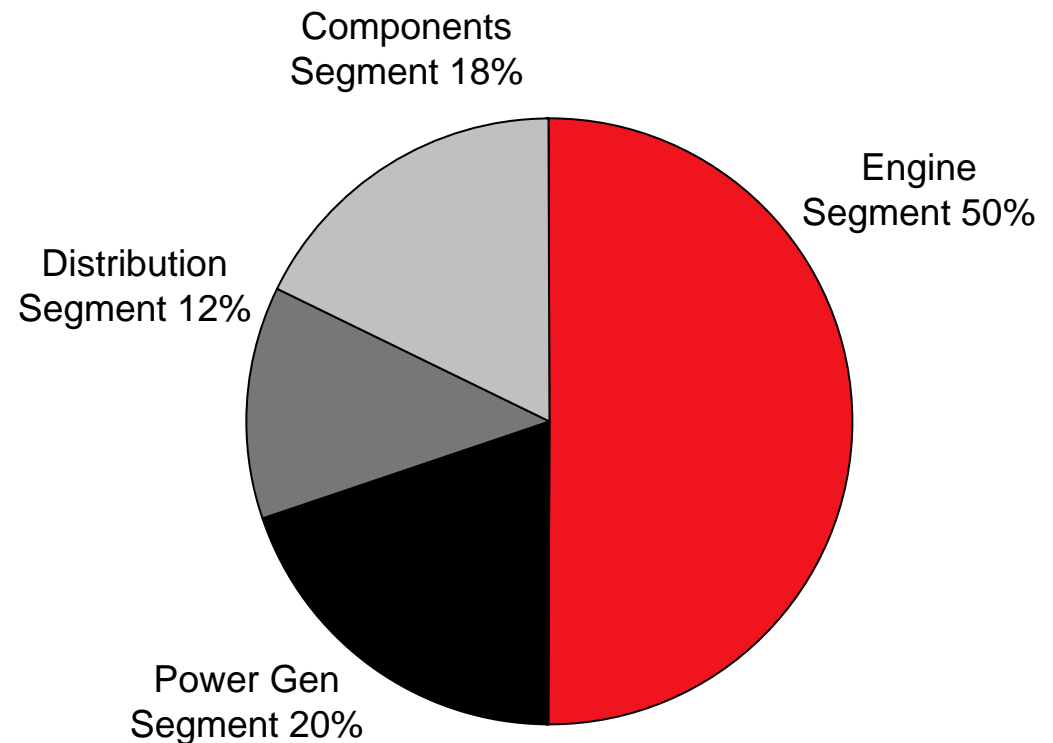




Cummins Inc.

2008 Revenue by Segment

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



2008 Data

Sales: \$14.3 billion

EBIT: \$1,220 million

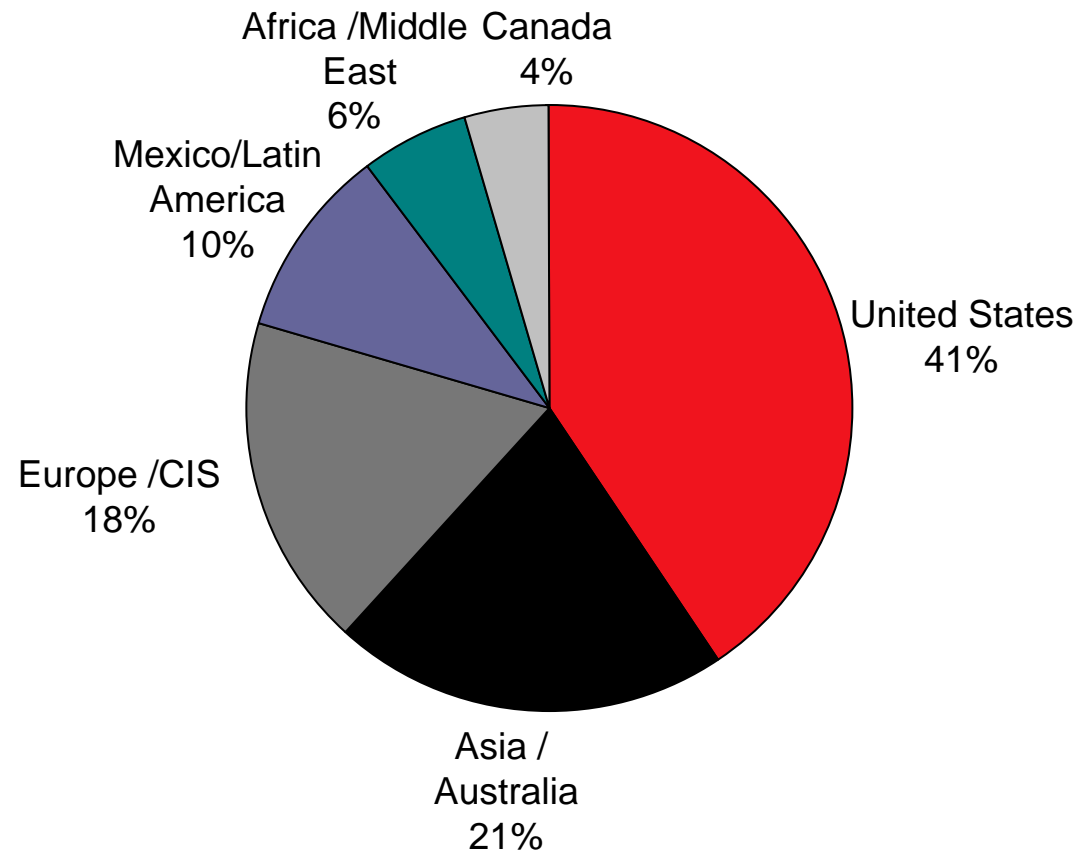
EBIT Margin: 8.5%



Cummins Inc.

2008 Revenue by Marketing Territory

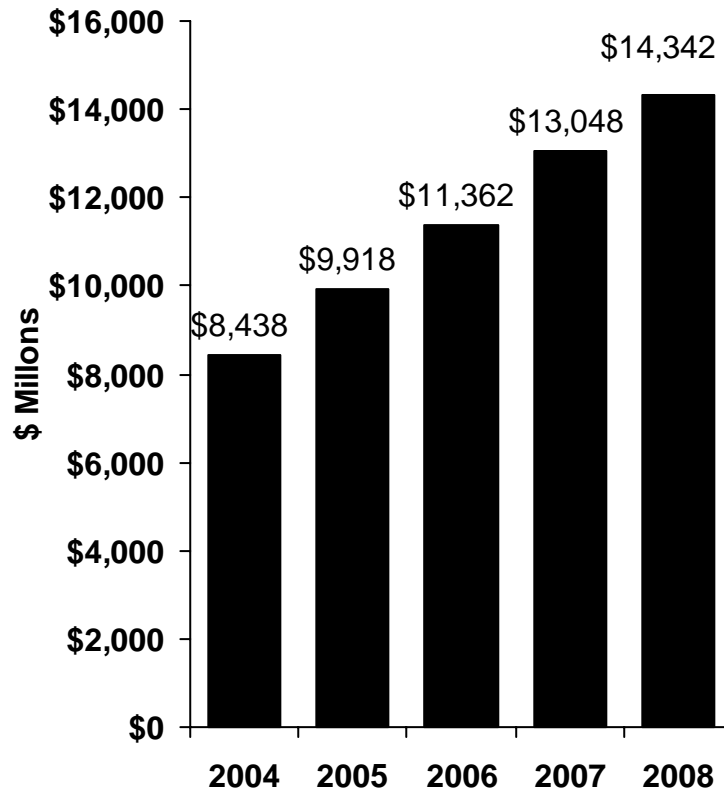
- International revenues grew from 54% of total sales in 2007 to 59% in 2008
- Demonstrates our geographic diversity



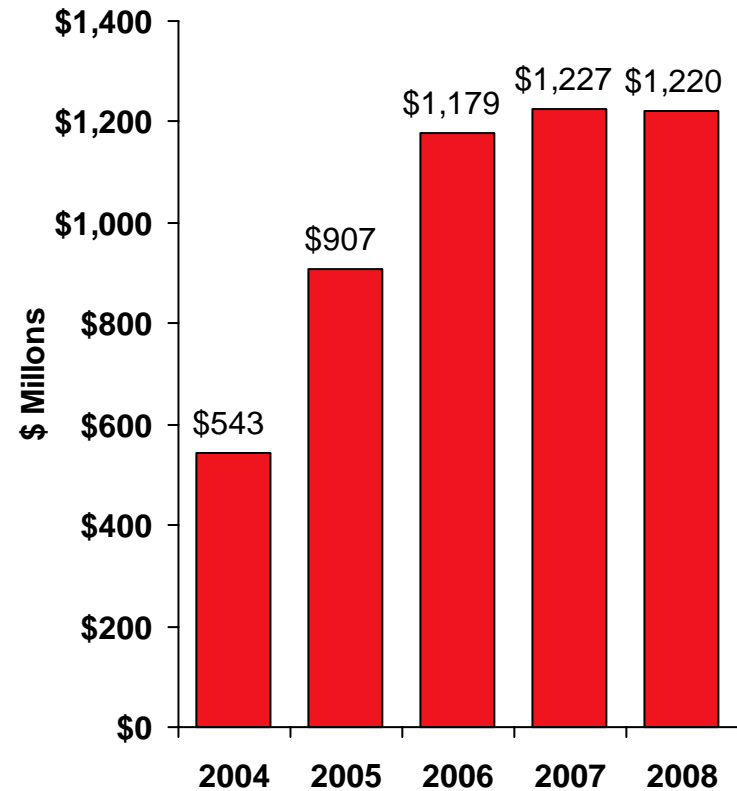


Cummins - Historical Performance

Sales



EBIT



Engine Segment

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

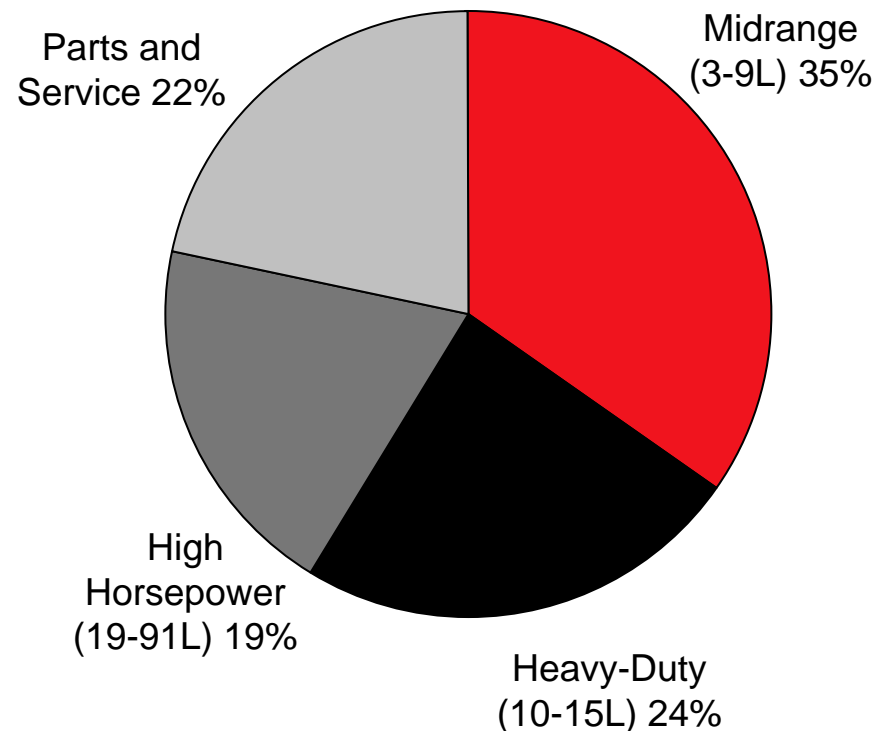
2008 Segment Data

Sales: \$8.8 billion

EBIT: \$535 million

EBIT Margin: 6.1%

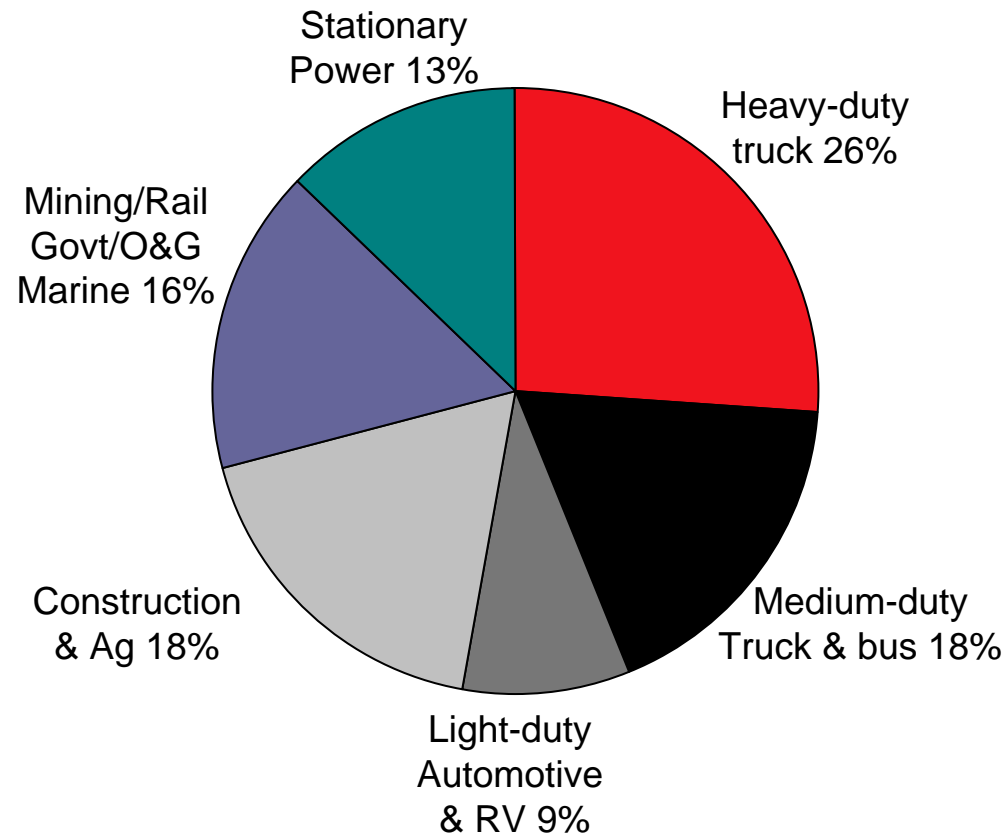
2008 Revenue by Product



Engine Segment

2008 Revenue by Market Application

- Diversified end-market applications - late cycles in some of our Industrial markets
- Leverage share gains in on-highway markets once markets recover
- Technology leadership and new platforms to benefit from tougher emissions and fuel improvement requirements.



2008 Segment Data

Sales: \$8.8 billion

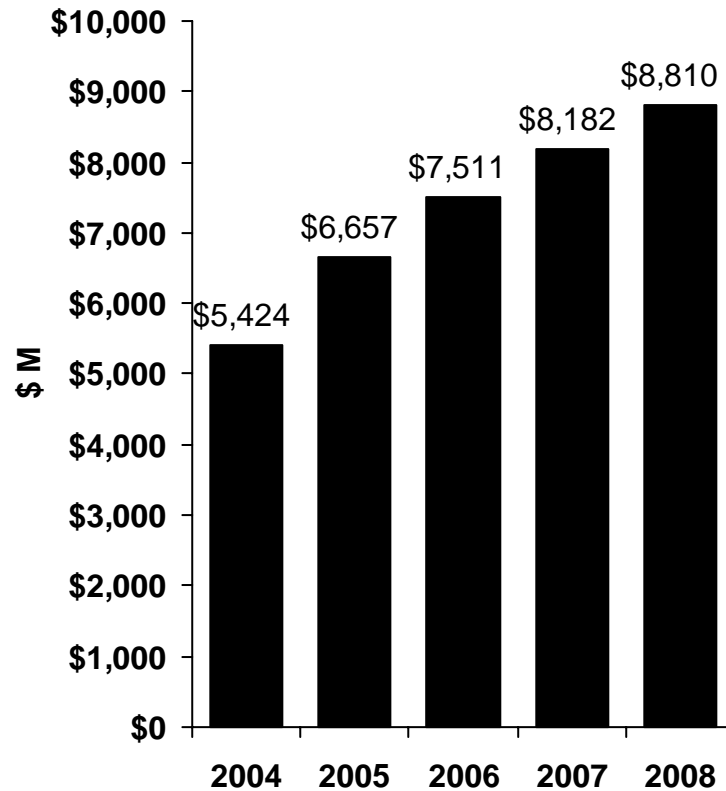
EBIT: \$535 million

EBIT Margin: 6.1%



Engines – Historical Performance

Sales



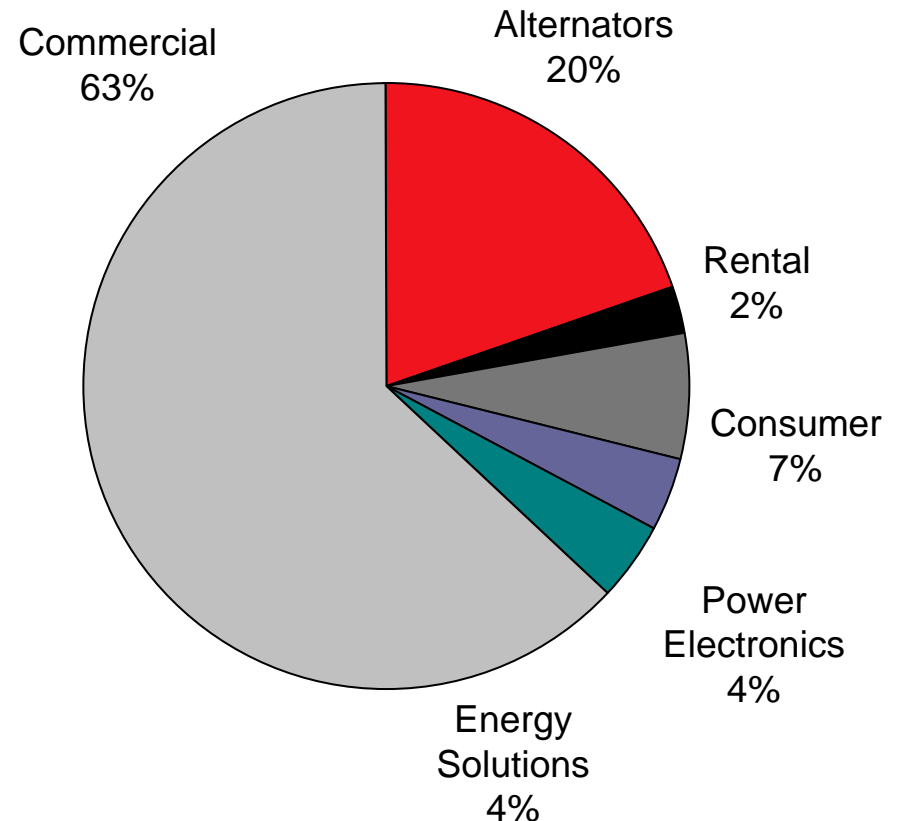
Segment EBIT



Power Generation Segment

2008 Revenue by Product

- Leverage existing market leadership
- Establish leadership in all major markets
- Expand into new and adjacent markets

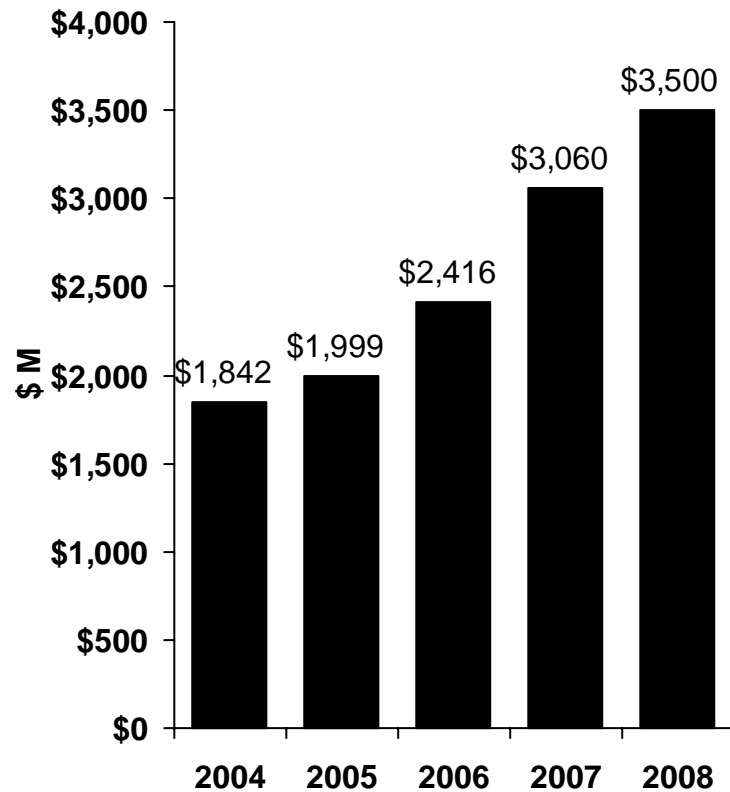


2008 Segment Data
Sales: \$3.5 billion
EBIT: \$376 million
EBIT Margin: 10.7%

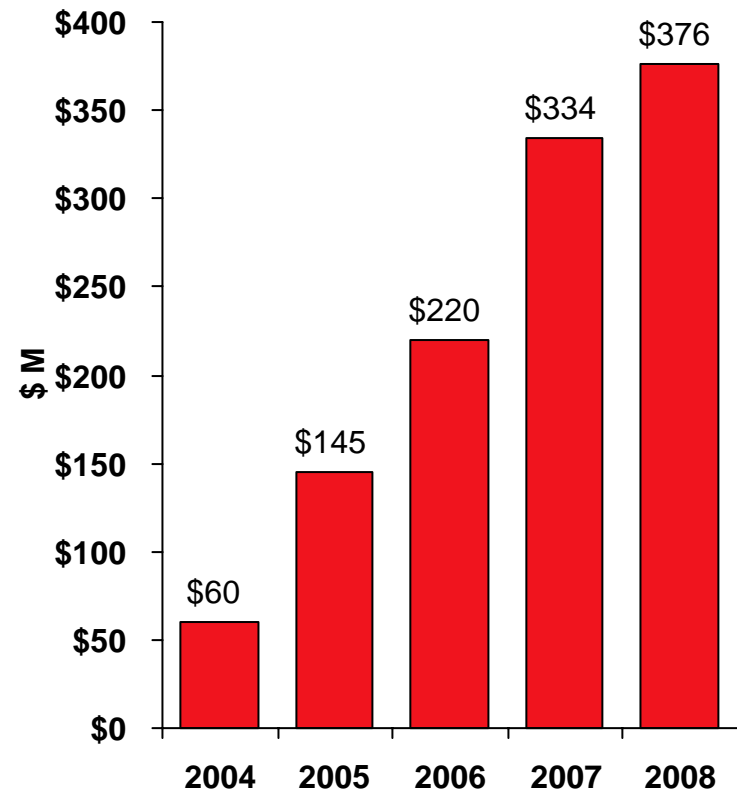


Power Generation – Historical Performance

Sales



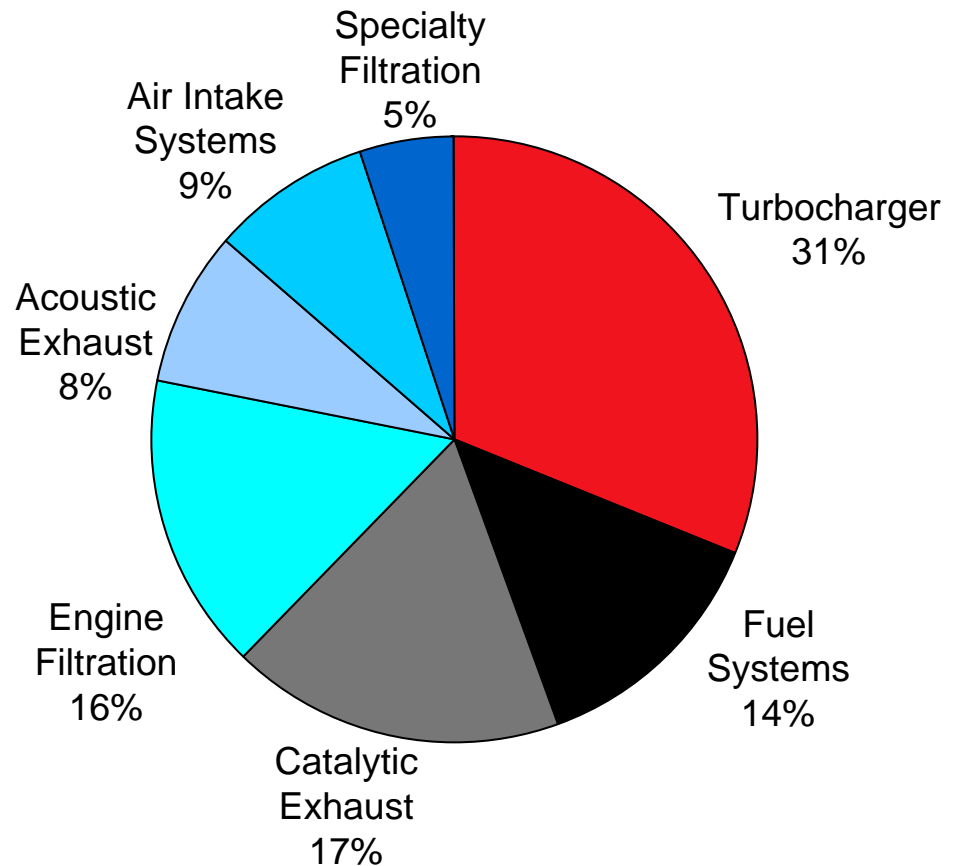
Segment EBIT



Components Segment

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

2008 Revenue by Product



2008 Segment Data

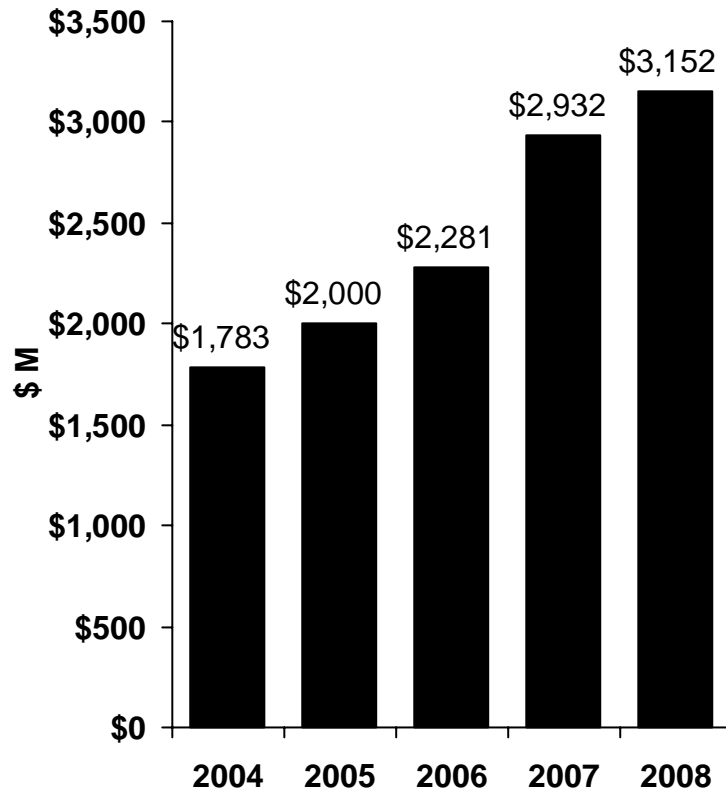
Sales: \$3.2 billion

EBIT: \$169 million

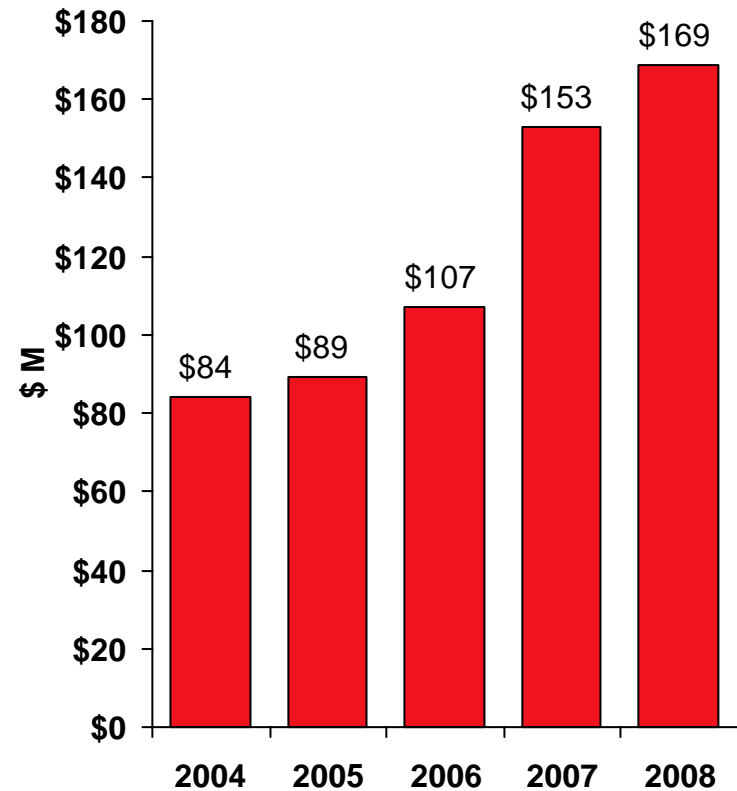
EBIT Margin: 5.4%

Components - Historical Performance

Sales



Segment EBIT

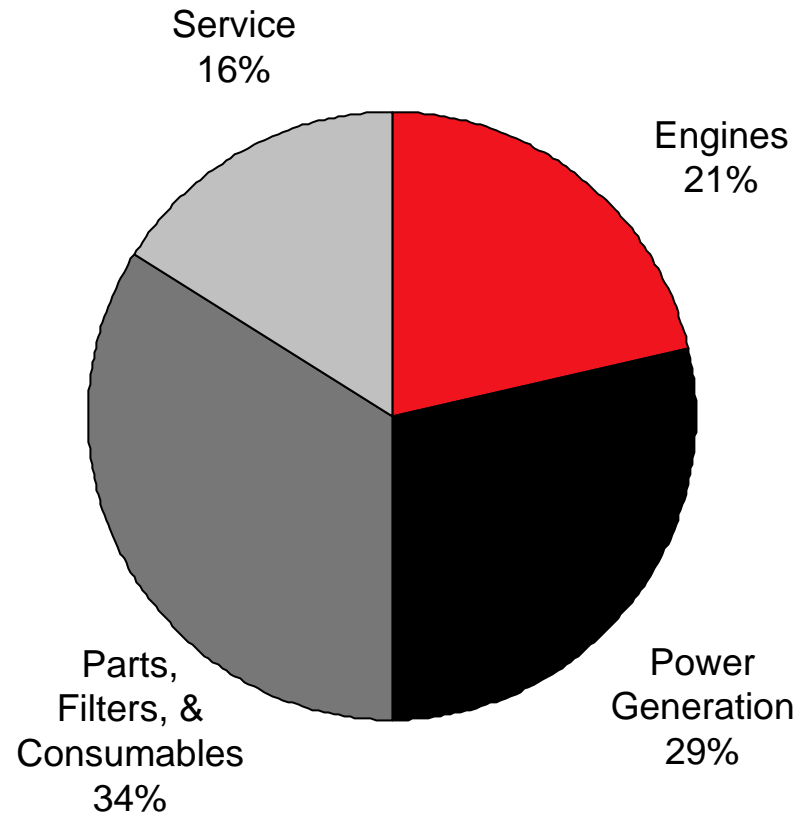


Distribution Segment

- Continue acquisitions, consolidations and integrations
- Leverage aftermarket with Cummins equipment growth
- World-class customer support
- Build capabilities

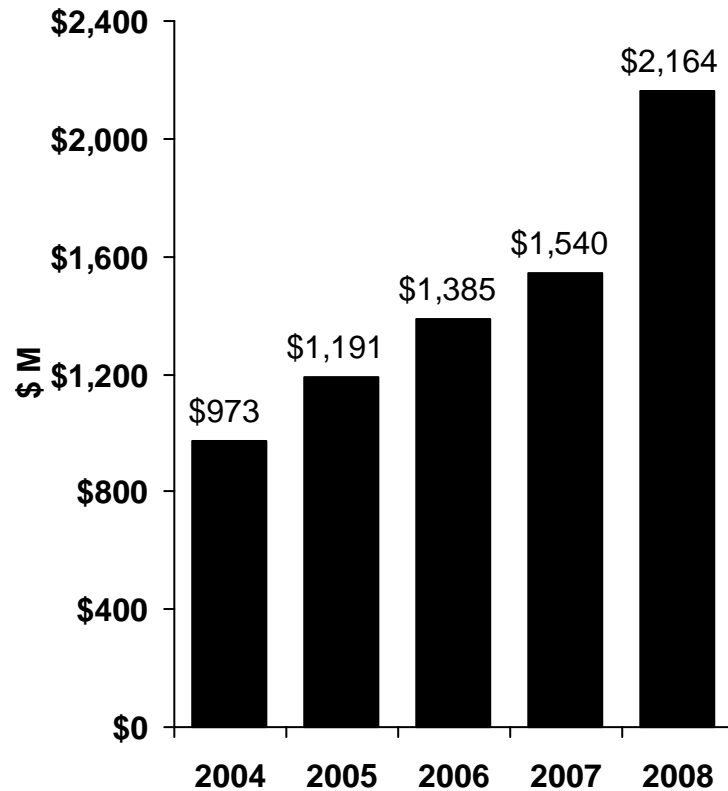
2008 Segment Data
Sales: \$2.2 billion
EBIT: \$242 million
EBIT Margin: 11.2%

2008 Revenue by Product

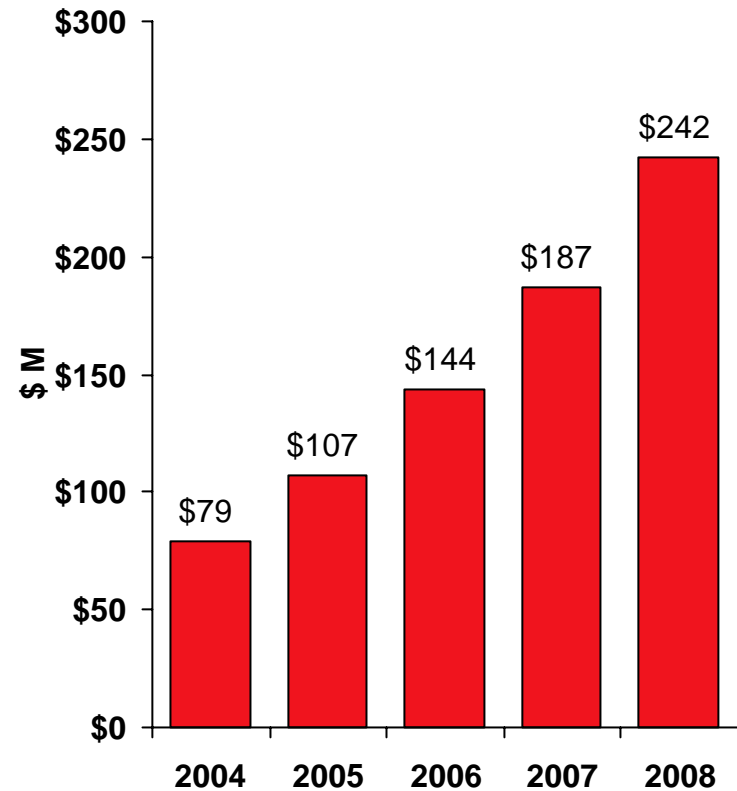


Distribution – Historical Performance

Sales



Segment EBIT



Non-GAAP Reconciliations





Non-GAAP Reconciliation – EBIT

Millions	<u>Three Months Ended</u>		
	December 31, 2008	September 30, 2008	December 31, 2007
Segment EBIT	\$ 56	\$ 380	\$ 324
Less: Interest Expense	<u>\$ 9</u>	<u>\$ 10</u>	<u>\$ 14</u>
Earnings before income taxes and minority interests	\$ 47	\$ 370	\$ 310

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, 2008	December 31, 2007
Segment EBIT	\$ 1,220	\$ 1,227
Less: Interest Expense	<u>\$ 42</u>	<u>\$ 58</u>
Earnings before income taxes and minority interests	\$ 1,178	\$ 1,169

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

Millions	<u>Three Months Ended</u>		
	December 31, 2008	September 30, 2008	December 31, 2007
Segment EBIT	\$ 56	\$ 380	\$ 324
Add back: Depreciation & Amortization	<u>\$ 81</u>	<u>\$ 75</u>	<u>\$ 75</u>
EBITDA	\$ 137	\$ 455	\$ 399

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, 2008	December 31, 2007
Segment EBIT	\$ 1,220	\$ 1,227
Add back: Depreciation & Amortization	\$ 314	\$ 290
EBITDA	\$ 1,534	\$ 1,517

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 – Net Assets

Millions	December 31, 2008	December 31, 2007
Net assets for operating segments	\$ 4,620	\$ 4,434
Liabilities deducted in computing net assets	4,186	3,759
Pension and other postretirement liabilities	(1,150)	(570)
Deferred tax assets not allocated to segments	838	546
Debt-related costs not allocated to segments	25	26
Total assets	\$ 8,519	\$ 8,195

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, 2008	December 31, 2007
Equity used for return on equity calculation	\$ 4,028	\$ 3,787
less Defined other postretirement benefits	8	-
less Minimum Pension Liability	(806)	-
less Defined benefit pension plans	-	(378)
Total shareholder's equity	\$ 3,230	\$ 3,409

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.