Cummins Inc. 2001 Annual Report

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A global power leader, Cummins Inc. is a corporation of complementary business units that design, manufacture, distribute and service electric power generation systems, engines and related products, including fuel systems, controls, air handling, filtration, and emissions solutions.

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Headquartered in Columbus, Indiana (USA), Cummins serves its customers through more than 500 Company-owned and independent distributor locations in 131 countries and territories. With 24,900 employees world-wide, Cummins reported sales of $5.7 billion in 2001. Cummins home page can be found at www.cummins.com.

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Highlights

Engine Business

Leading supplier of diesel- and alternate-fueled engines for heavy-duty trucks, medium-duty trucks, buses, motorhomes, and specialty on-highway vehicles

Exclusive supplier of diesel engines for the Dodge Ram pickup truck

Leading global supplier of diesel engines for the agriculture, construction, government, marine, mining, rail, and oil and gas markets

Products/Services

- **Medium-duty Engines**
  ISB and ISC for light commercial automotive, truck, school, transit and shuttle bus, motorhomes, and specialty vehicles. Automotive applications are available in diesel-fueled versions from 175 to 350 horsepower and in alternate-fueled versions from our Cummins Westport joint venture. For agriculture, construction, and marine applications, the B3.3, B3.9, B5.9, QSB and QSC engines are available from 60 to 340 horsepower
- **Heavy-duty Engines**
  ISL, ISM, N14, ISX and Signature Series for trucking applications from 280 to 600 horsepower. QSM, M11, N14 and QSX for construction, mining, marine, and agriculture applications from 225 to 600 horsepower. For marine applications, the QSM and N14 engines are available from 360 to 635 horsepower
- **High-horsepower Engines**
  QSK19, V903, QST30, K38/50, QSK45, QSK60 and QSK78 for marine, rail, mining, government, and oil and gas applications from 295 to 3500 horsepower

Customers and Markets

- Original Equipment Manufacturers who install Cummins engines in their vehicles and equipment
- Customers who use Cummins-powered equipment in their business endeavors
- Dealers and distributors

Power Generation Business

Global supplier of diesel- and natural gas-powered generator sets and generator set components from 3kW to multi-megawatt installations

Worldwide market leader in auxiliary generator sets for recreational vehicles (RVs) and diesel-powered recreational marine applications

Products/Services

- **Power Systems**
  Diesel- and natural gas-powered generator sets, digital control systems, transfer switches, and paralleling switchgear
- **Mobile Systems**
  Onan gasoline-, liquefied propane-, and diesel-fueled auxiliary generator sets from 3kW to 12.5kW and associated controls
- **Alternators**
  Newage synchronous AC alternators and associated control systems

Customers and Markets

- Public and investor-owned utilities, telecommunications providers, self-generating manufacturers, and any business or public facility with a need for self-generated or standby power
- RV, specialty vehicle, and marine pleasurecraft Original Equipment Manufacturers
- Alternators for industrial, marine, commercial, construction, telecommunications, mining, and other standby or continuous power applications

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Filtration and Other Business

Global leader of advanced integrated filtration systems for heavy-duty equipment, both on- and off-highway

Leading North American supplier of filtration and silencing systems for gas turbine, industrial, small engine, and passenger car applications

Holset, is a global provider and leading technologist of turbochargers for a wide range of applications

Products/Services

- **Heavy-duty Systems**
  Air intake filtration, emission and noise reduction, engine filtration, and mobile hydraulic filtration systems
- **Small Engine Systems**
  Air intake filtration, engine filtration, and exhaust systems
- **Other Systems**
  Air intake and silencing systems for gas turbine applications, in-tank filtration for passenger cars, hydraulic filtration for industrial applications, and aftertreatment systems
- **Turbocharging Systems**
  Holset variable geometry turbocharging, wastegate solutions, and power turbine, high pressure ratio and, multi-stage solutions

Customers and Markets

- Original Equipment Manufacturers, distributors, dealers and end users of heavy-duty on- and off-highway diesel-powered equipment
- Original Equipment Manufacturers of both gasoline- and diesel-powered small engine systems for lawn and garden and recreational equipment
- Original Equipment Manufacturers of gas turbine generators, industrial machinery, passenger cars, and industrial hydraulic equipment
- Cummins joint ventures and selected Original Equipment Manufacturer customers
- Distributors and dealers

International Distributor Business

Retail distributor of Cummins products and provider of related services and broader solutions that enhance the end users' overall experience with Cummins

Network of 17 Company-owned retail distributors and three joint ventures with a total of 111 sites that provide products, services, and solutions to end users in 50 countries and territories

Products/Services

- **Product Distribution**
  Retail distribution of Cummins power generation, engine, filtration, turbocharging, and related consumable products
- **Service**
  Product repair and overhaul, maintenance, and repair contracts
- **Integrated Packages**
  Locally integrated packages of engines or generator sets plus related components and services engineered into a single package, includes fire pump packages, wind machines, repower packages for used equipment, flood and irrigation pump packages, small powerhouses that supply standby electricity for a factory or industrial zone, and auxiliary lighting equipment
- **Solutions**
  Comprehensive business solutions that manage portions of end user businesses using engine-powered equipment, including rental, operation and maintenance of small independent power plants, and service of end user equipment

Customers and Markets

- Customers who use Cummins-powered equipment in their business endeavors
- Dealers
- Local and regional Original Equipment Manufacturers producing in lower volumes

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Fellow Shareholders

As it was for almost everyone, 2001 was a difficult and demanding year for Cummins.

Despite the worst market conditions in the Company's 82-year history, Cummins delivered an operating profit in each of the final three quarters of 2001, due to an aggressive and ongoing cost reduction program. These results reflect Cummins commitment to producing solid financial results for our shareholders in tough times as well as good times.

In 2001, the Company's name changed to Cummins Inc., highlighting Cummins successful efforts to diversify the business. Cummins is a global power leader. Our strength comes from the synergies and relationships in the businesses that make up Cummins: the Engine Business, the Power Generation Business, the Filtration and Other Business, and the newly formed International Distributor Business.

Cummins brings unique value to meet customer power needs across the globe by leveraging our brands, our leadership position in the markets we serve, our innovative technology, and our global presence.

Focus on Continued Cost Reduction, Cash Management

Our focus in 2001 remained on cost reduction and cash management. The cornerstone of our cost reduction effort is Six Sigma, a quality improvement program that uses statistical tools and a disciplined approach to drive rapid process improvement. Since the program began in 2000, more than 700 Cummins employees trained as "belts" have delivered $100 million of savings with substantial improvements in product and service quality. A comprehensive material cost reduction program initiated in 2000 has saved over $275 million. In 2001, selling, administrative and research spending was reduced by $72 million. Restructuring activities and lower product coverage also improved operating costs.

Similarly, a corporate initiative on cash management resulted in significant reductions in working capital and capital spending while enabling Cummins to fund important projects that will enhance our future technological leadership and competitiveness.

Business Highlights

In 2002, the International Distributor Business becomes the fourth business unit. This collection of Company-owned distributors will enable us to grow profitability with only a modest capital investment.

In our Engine Business, we made unprecedented decisions over the course of the past year, including a significant strategy shift in our heavy-duty engine business. The Engine Business implemented long-term supply agreements with three North American Original Equipment Manufacturers that establish the framework to fundamentally change the way Cummins operates in the heavy-duty truck market.

Cummins was the first engine manufacturer to announce that we would have an engine ready to meet the Environmental Protection Agency's emissions standards for 2002. Cummins leadership in engine technology addresses customer needs while meeting emissions requirements and Cummins longstanding commitment to clean air.

Filtration's emission solutions business will provide new growth opportunities in meeting customer needs for exhaust aftertreatment solutions.

Cummins Power Generation's strategic expansion into areas such as power electronics, the result of an alliance with AvK/SEG, will provide opportunities to offer customers fully integrated solutions for more reliable power.

2002 and Beyond

We believe that our business will be as challenging in 2002 as it was in 2001. However, Cummins has never been better positioned to take advantage of the economic rebound when it does occur. Cummins is a recognized global power leader, with market leadership in our major markets. Our growing portfolio of businesses will enable us to meet customer demands and create value for our shareholders.

We are pleased to welcome a new Board member, the Honorable Alexis Herman, former Secretary of Labor under President Clinton. We have already begun to benefit from Secretary Herman's perspective and contributions. Jim Johnson, a Board member since 1999, has informed the Board that he will not stand for re-election in 2002. We appreciate his contributions and service to Cummins. I would also like to extend our warmest wishes to Hanna Gray upon her retirement from the Board. We will miss her wisdom, experience and counsel and want to thank her for 25 years of dedicated service to Cummins.

Tim Solso
Chairman and Chief Executive Officer
Cummins Inc.
February 28, 2002

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Members of the Policy Committee
Front row: Tim Solso, Jean Blackwell, John Wall
Second Row: Joe Loughrey, Tom Linebarger,
Jack Edwards, Steve Chapman, Rick Mills

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