



Innovation  
Responsibility  
Community  
Integrity  
Results  
Diversity

Global Vision,  
Timeless Values.

Cummins Sustainability Report 2005



## From the Chairman

Early in this decade, Cummins set out to clearly define and articulate its vision, mission and core values so that they might serve as enduring guideposts for the Company in its journey toward sustained excellence in all it does.

In doing so, we were looking to carve out a set of principles that would become the foundation for our actions and behavior in good times and bad, principles that would leave no doubt what Cummins and its people stand for.

We gathered input from our employees around the world and arrived at the statements you will see on the first pages of this report. Cummins 10-word Vision statement is as simple as it is powerful, and everything we do today flows from our commitment to “making people’s lives better by unleashing the power of Cummins.”

Many of the tenets central to our vision, mission and core values are highlighted in this, our third annual Sustainability Report. Among them: Our commitment to social responsibility; our strong belief in the value of being a place where diverse backgrounds and viewpoints are embraced; and our efforts to ensure that everything we do leads to a cleaner and healthier environment.

The past two years have been the most profitable in Cummins history and we expect 2006 to be another outstanding year for the Company. We have worked very hard to create a “New Cummins” that is less cyclical, more diversified and better positioned to be a global leader in all the markets we serve.

Perhaps more importantly, however, we have been able to achieve these results while remaining true to our core values of ethical business behavior and corporate social responsibility. We pride ourselves on operating under a set of values that emphasizes integrity, innovation, delivering superior results, corporate responsibility, diversity and global involvement.

As such, we were very proud to be named the top corporate citizen for 2005 by *Business Ethics* magazine, as well as the best place for Asian-Americans to work by *Diversity Inc.* magazine. Likewise, we were pleased to be included in the Dow Jones World Sustainability Index for 2005 in our first attempt at inclusion in this select group.

Such recognition reinforces our view that being a socially responsible company is not only the right thing to do, but is good business. What is good for the world also is good for Cummins and all our stakeholders.

The concept of sustainability is important to Cummins and the nearly 30,000 employees who work hard every day to deliver on our vision and mission. As such, we welcome this opportunity to engage our stakeholders by providing insight into many aspects of Cummins and its operations in our third Sustainability Report.

**Tim Solso**

Chairman, CEO -- Cummins Inc.  
December 2005



### A New Cummins

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# Integrity

## Powering the Road Ahead



## Vision and Strategy

### Our Vision

*Making people's lives better by unleashing the power of Cummins.*

That simple statement guides Cummins Inc. and its employees worldwide. The Company takes pride in manufacturing high-quality products that serve the needs of our customers. But the power of our Company is not just our products, but the ideas, energy and passion of our employees. That passion fuels their energy and commitment and makes it possible for the Company to maintain a leadership position in the markets it serves.

Cummins also recognizes that with its role as a corporate leader comes the responsibility to make positive contributions in the communities in which employees work and live. Accordingly, Cummins corporate mission and values reflect its desire to return value to its customers, employees, shareholders and communities.

## Mission

- To motivate people to act like owners working together
- To exceed customers' expectations by always being first to market with the best products
- To partner with our customers to ensure their success
- To demand that everything we do leads to a cleaner, healthier, safer environment
- To create wealth for all our stakeholders

## Values

- *Integrity:* We strive to do what is right and what we say we will do.
- *Innovation:* We will apply the creative ingenuity necessary to make us better, faster, first.
- *Delivering Superior Results:* Our goal is to consistently exceed expectations.
- *Corporate Responsibility:* We will serve and improve the communities in which we live.
- *Diversity:* We embrace the diverse perspectives of all people and honor them with both dignity and respect.
- *Global involvement:* We seek a world view and to act without boundaries.

## Strategic Principles

Cummins has five key elements to its business strategy. This strategy has not changed in recent years – what has changed is our improved performance and our continued ability to deliver on commitments.

### **Being a low cost producer in as many of the Company's markets as possible.**

Cummins realizes that in order to successfully compete in the marketplace, it must offer the best

products at the lowest cost. To do that, we leverage our innovative technology, economies of scale, global presence and customer partnerships.

The Six Sigma quality program, launched in January 2000, is an integral part of that strategy. Since the program's inception, Cummins has completed more than 4,400 Six Sigma projects and 3,700 "belts" have been trained in Six Sigma tools. The Company estimates savings of approximately 2 percent of annual revenue per year, while infusing quality into every process. Cummins also has expanded the program to include processes with customers, suppliers and distributors with positive results.

Cummins pursues cost leadership in other ways, such as conducting research and development at the Company's two off-shore technical centers in China and India, sharing development costs with OEM partners and the use of computer modeling in lieu of building expensive prototypes of new products and components.

### **Expanding into related markets.**

The Company will continue to focus growth initiatives in related businesses where it can use its existing investments in products or technology, leading brand names or market presence to establish a competitive advantage. For example, the Engine Business has pursued engine sales for the growing oil and gas market, and service and maintenance contracts, particularly on its largest engines. Power Generation has focused on sales of standby power, mobile and auxiliary power and alternators. The Company's Distribution Business is growing through the expansion of its parts and service by capitalizing on its global customer base and fast growth markets such as China and India.

### **Growth**

The Company will continue to focus growth initiatives in related businesses where it can use its existing investments in products or technology, leading brand names or market presence to establish a competitive advantage.

### **Creating greater shareholder value.**

Return on investment, specifically return on average net assets (ROANA) and return on equity (ROE), are our primary measures of financial performance. In addition to the ROE and ROANA targets for the company as a whole, each of our business segments uses ROANA targets to measure its performance. Cummins has dramatically improved these return on investment measures in recent years; for example, since 1999 (the last peak in the heavy-duty truck cycle), ROE has increased from 10 percent in 1999 to 21 percent in 2004 and is edging even higher in 2005. Even as the Company has earned higher profits, it has kept its spending in check while making prudent investments in capacity and the right technology for future global emission standards.

### **Leveraging complementary businesses.**

Increasingly, Cummins looks for ways to leverage the synergies among its four business units. These synergies capitalize on shared capabilities including technology, distribution systems, corporate brand, common customers (cross selling), joint venture partners for global growth and cost reduction through the larger scale of shared services.

### **Creating the right environment for success.**

Creating the right environment for success means creating an inclusive working atmosphere while

reinforcing a performance ethic that attracts, develops and retains high-quality talent. We measure our success through skills competency mapping, leadership development outcomes and knowledge management.

## **Profile**

Cummins roots are planted in soil nourished by innovation, persistence and a commitment to community. Founded in Columbus, Ind., in 1919 as the Cummins Engine Company, for its namesake Clessie Lyle Cummins, the fledgling firm was among the first to see the commercial potential of an unproven engine technology invented two decades earlier by Rudolph Diesel.

Today, the Company is a global power leader with approximately \$10 billion in sales. Half of Cummins employees and half the company's sales are currently from outside the United States.

Cummins is a family of four interrelated, yet diversified businesses that create or enhance value as a result of doing business with each other or having those relationships. These four businesses are Engine, Power Generation, Components and Distribution.

Cummins products can be found in nearly every type of vehicle, from the heavy-duty diesel-powered trucks that travel the world's highways, to tractors that till the soil, large trucks that carry natural resources from the mine and vessels that travel the waterways. Cummins-built generators supply both prime and auxiliary power around the globe. Filters and related products help engines run cleaner and more efficiently. A network of distributors provide repair and maintenance service for customers worldwide.

### Engine Business

The Engine Business, which accounts for approximately for 54 percent of the Company's sales, manufactures and markets a complete line of diesel and natural gas-powered engines for on-highway and off-highway use under the Cummins brand. Its markets include heavy- and medium-duty truck, bus, recreational vehicle (RV), light-duty automotive and a number of industrial uses including agricultural, construction, mining, marine, oil and gas and military equipment. The Engine Business also provides a full range of new parts and services and remanufactured parts and engines through an extensive distribution network.

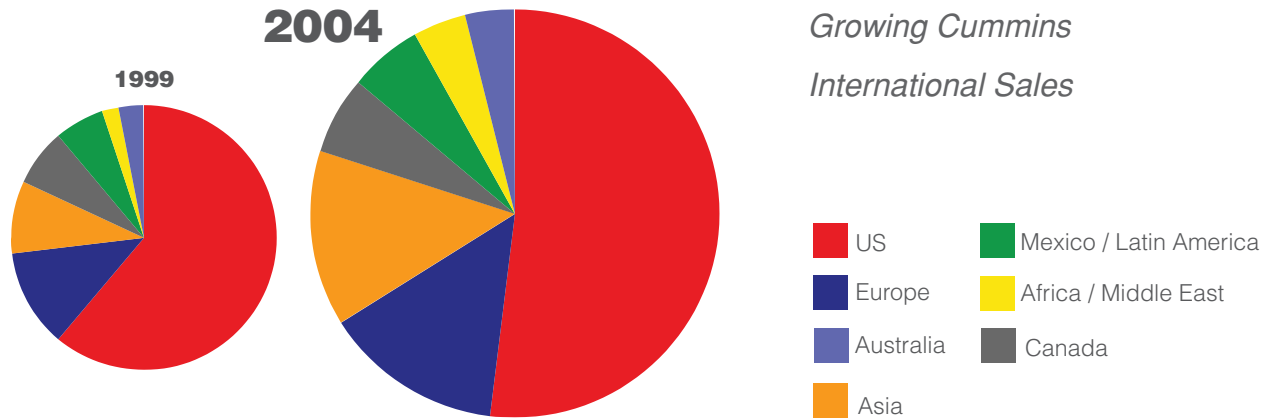
Cummins engines range in size from 31 to 3,500 horsepower and from 1.4 liters to 91 liters. Primary customers include large truck and off-road equipment manufacturers, and Cummins also is the exclusive supplier of diesel engines used by DaimlerChrysler in its Dodge Ram pickup trucks. In 2002, Cummins became the first engine manufacturer to comply with the U.S. Environmental Protection Agency's (EPA) tightened diesel emission standards. The Engine Business is well on its way to meeting the 2007 EPA standards, with end-user truck fleets already running engines with 2007 technology in field tests.

### Cummins Named Top Corporate Citizen

Cummins commitment to financial – and social – performance was rewarded this spring when *Business Ethics* magazine named the Company its top corporate citizen for 2005. Cummins was chosen from among the companies on the Russell 1000 index and is one of just a handful of companies to make the “top citizens” list each of the six years it has been compiled.

In compiling its list, *Business Ethics* enlists the help of an independent research company that scores each company across several performance measures: total return to stockholders, community involvement, governance, diversity, treatment of employees, environment stewardship and human rights.

“I take real satisfaction in knowing that our recent financial success has not come at the expense of our core values of ethical behavior and superior performance on behalf of all our stakeholders,” said Cummins Chief Executive Officer Tim Solso. “We are proud to be among the small group of companies to make the list each of the past six years, and especially honored to have been recognized as *Business Ethics*' top corporate citizen for 2005.”



### Power Generation Business

Power Generation is Cummins second largest business segment, representing approximately 18 percent of total sales, and is one of the most integrated providers of power solutions in the world. With the Engine Business, it designs or manufactures all the components that make up power generation systems, including engines, controls, alternators, transfer switches and switchgear. It is also a key player in the distributed generation market.

Products marketed under the Cummins Power Generation brand include diesel and alternative fuel electrical generator sets for commercial, institutional and consumer applications, such as office buildings, hospitals, factories, municipalities, utilities, universities, RVs, boats and homes.

Power Generation is the worldwide leader in auxiliary generator sets for RVs, commercial vehicles and marine applications. It also provides full service power solutions for customers, including generating equipment, long-term maintenance contracts and turn-key power solutions. The power rental business offers temporary equipment for both standby and prime power purposes.

Newage is a leader in the alternator industry and supplies its products internally as well as to other generator set assemblers under the Stamford, AVK and Markon brands.

### Components Business

Cummins Components Business is made up of four separate businesses: Fleetguard, Emission Solutions, Holset Turbochargers and Fuel Systems.

Fleetguard is a leading designer and manufacturer of filters, filtration and exhaust systems for on- and off-highway applications ranging from diesel-powered equipment to small, gasoline engine applications. Fleetguard makes filters for the industrial filtration, emissions and noise silencing markets. Its products are found on heavy-, medium- and light-duty trucks as well as industrial equipment for construction, mining, agriculture and marine and power generation applications. Fleetguard products are produced and sold in global markets, including North America, South America, Europe, India, China, South Africa, Australia and the Far East.

Emission Solutions develops systems to help customers meet increasingly stringent emission standards. Emission Solutions provides an array of

state-of-the-art technologies designed to provide cleaner air by removing nitrogen oxides (NOx), particulate matter (PM), hydrocarbons (HC) and carbon monoxide (CO) from diesel engine emissions. Formed in 2002, the business operates in both retrofit and first-fit markets.

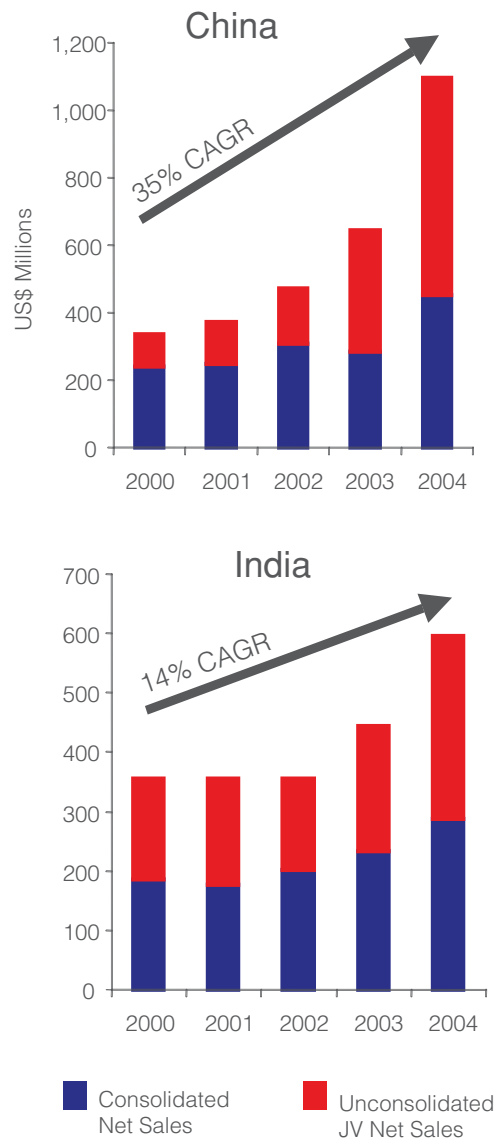
Holset designs, manufactures and distributes turbochargers on a global scale. Holset turbochargers, including variable geometry turbochargers, provide critical technology for engines to meet worldwide emission standards. Holset is the market leader in turbochargers for heavy-duty equipment. The business' latest generation of products also can deliver engine braking, Exhaust Gas Recirculation (EGR) and provide intake and exhaust noise reduction. EGR technology is a very effective NOx control and is the foundation for most of Cummins 2002 products and nearly all products through the 2010 emission standards. EGR reduces or regulates the in-cylinder combustion temperatures, which, in turn, reduces NOx production. This allows the engine to be tuned for the best fuel economy and performance at lower NOx levels.

The Fuel Systems business designs, manufactures and remanufactures fuel systems for use on Cummins engines and other companies' engines. These fuel systems incorporate the latest technology that allow engines to meet stricter emission regulations while still leading markets in fuel economy. Cummins makes fuel systems for the full range of diesels from mid-range to high-horsepower engines.

**Distribution Business**

The Distribution Business, reorganized in mid-2005, combines the management of Company-

**Emerging Markets Growth**



owned international distributors with the management of Cummins North American distributor joint ventures to drive a comprehensive global distribution strategy and channel management. The Distribution Business expands the scope of what was formerly the International Distribution Business, which was created in 2002 as a response to the growing size and importance of the Company's retail distribution business, particularly internationally.



The business consists of nine distributor joint ventures in North America and 17 wholly-owned distributors and one joint venture worldwide, covering 89 countries and territories through 220 locations. Through this network, trained personnel sell and distribute Cummins branded products, related services and broader solutions such as maintenance contracts, engineering services and customized integrated products. Our customers include end users, equipment owners, dealers and local or regional OEMs.

The business serves a highly diverse customer base consisting of various end-users in the specific geographic markets in which distributors are located. Each distributor in a particular geographic region competes with other distributors and dealers of other engine manufacturers that offer similar products within that region.

The Company-owned distributors are located in key geographic markets such as China, India, Russia, Japan, Korea, South East Asia, Australia, Europe, Africa, the Middle East and Latin America.

### Joint Ventures

Managing joint venture partnerships has become a core competency for Cummins. The Company currently has 35 joint ventures (JVs) of which it owns 50 percent or less (known as unconsolidated JVs). Income and cash from these JVs has contributed substantially to the Company's bottom line. For example, in the last five years, income from joint ventures grew from a \$27 million loss in 1999 to a \$111 million gain in 2004. Joint ventures offer many advantages to Cummins – they help share development costs and capital investment, increase scale, expand our products into new geographic markets and expand on our service capability, particularly in distribution.



New York Sen. Hillary Clinton, with plant manager Dana Vogt (right), adds her signature to the 750,000th engine produced at the Jamestown Engine Plant.

### Joint Ventures

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## Commitment to Stakeholders

Cummins recognizes that its duty goes beyond the bottom line. While Cummins must deliver value to shareholders, it also strives to responsibly and effectively serve all stakeholders – customers, employees, business partners and the communities in which it operates.

The Company actively engages stakeholders, seeking feedback and doing its best to keep them informed of Cummins actions and performance. The Company's policies reflect a commitment to financial excellence, environmental stewardship, workplace equity, social responsibility and fair competition.

### Customers

Cummins is dedicated to exceeding the expectations of its customers, making products and providing support that give customers a competitive advantage in the marketplace.

Cummins works with key customers during the development and production of products to ensure that they are manufactured to the customers' satisfaction and to meet end-user requirements. For example, Cummins and Chrysler collaborated to ensure the new Dodge Ram MegaCab pick-up

truck, introduced in mid-2005, delivered the same performance and reliability the Ram TurboDiesel owner has come to expect, with more features designed to appeal to an even greater customer base. Cummins shipments to Chrysler have grown 24 percent compounded annually since the relationship began in 1988.

Cummins has an active and growing Six Sigma program that extends to working with customers. For example, when customer Penske Leasing identified a problem diagnosing problems with Cummins-equipped products, Cummins assigned one of its black belts to tackle the problem. The result was a savings of several hundred thousand dollars in costs for Penske and a strengthened relationship between the two companies.

### Employees

Cummins has a long history of being an employer of choice. That reputation continues to this day and is reinforced by the Company's competitive salary and benefits offerings, training and career development opportunities and positive work environment.

Cummins employees enjoy a full slate of benefits, including innovative and competitively priced health-care coverage; pension and retirement programs; generous tuition reimbursement benefits

for continuing education; access to world-class child development centers and more. These benefits also were made available to non-spousal domestic partners in 2000.

Cummins places a premium on its workers treating one another with respect and dignity. Treatment of others at work is a key component of the Company's Code of Business Conduct and is the subject of mandatory training for all new hires. Training and career development opportunities also play a crucial role in Cummins success and in the Company's efforts to attract and retain a talented workforce. All new hires must attend mandatory training courses covering such topics as the treatment of others and diversity.

In addition, the Company's Powertrain program offers on-line training on a variety of subjects, ranging from business software applications to project management skills to interpersonal and communications skills to presentation and leadership skills.

Employees' performance and development plans are reviewed through the Cummins Performance Management System (CPMS). Through CPMS, employees work with their supervisors to create challenging work plans that align with the goals of the Company and its individual performance cells. Employees receive quarterly formal feedback from supervisors and peers, in addition to a comprehensive annual evaluation.

Cummins also offers its employees myriad challenges and opportunities for growth within the Company as their skills and interests dictate. Cummins has a strong history of "growing its own" leaders, and employees regularly move freely from one part of the Company to another.

## **Business partners**

Cummins has working relationships with suppliers across the world. Cummins recognizes suppliers for their leadership in making improvements to quality, technical application and delivery as well as their ability to use improvement programs such as Statistical Process Control, Six Sigma and Problem Solving Techniques. One such recognized supplier in 2004 was Michigan-based Behr Group, which received a Cummins Continuous Improvement Award for redesigning its EGR-cooler production line to increase capacity at the company's Pforzheim factory in Germany.

## **Shareholders**

Returning value, in the terms of profits, stock price appreciation and dividends, is the primary measure of a company's commitment to its shareholders. Cummins stock price has more than doubled since mid-2003 while the Company has maintained a very competitive dividend.

Beyond returning financial value, Cummins believes strongly that it owes investors a transparent window into its financial reporting. Cummins goes to great lengths to keep the investing community up-to-date on the Company's performance and future outlook. Top executives hold quarterly teleconferences with industry analysts to discuss financial results. Company representatives also attend a number of investor conferences during the year, and meet or talk directly with individual analysts and investors on nearly a daily basis.

Cummins has devoted significant resources to meeting the letter and spirit of the Sarbanes-Oxley regulations. Cummins views the regulations as an

### **Cleaner Environments**

One of Cummins core corporate values is to ensure that the work we do contributes to a cleaner, healthier, safer environment.

important improvement tool in ensuring transparency in its financial reporting.

More details on Cummins commitment to delivering shareholder value are in the “Economic Performance” section of this report.

### **Communities**

Cummins and its employees are actively engaged in improving people’s lives in the communities in which the Company operates.

The Company encourages volunteer efforts among its employees, a key supplement to Cummins corporate giving program, which makes funds available to worthwhile social causes – with an emphasis on education, employment, health issues and the environment. In addition, one of Cummins core corporate values is to ensure that the work we do contributes to a cleaner, healthier, safer environment.

Those efforts are detailed in the “Social Responsibility” and “Environmental” sections of this report.

## **Economic Performance**

Over the last several years, the Company has launched new businesses, built partnerships and expanded its global reach. In the face of troubling times, the Company made a commitment to focus on becoming the lowest cost producer, pursue efficiency and process improvements and rethink its go-to-market strategies. At the same time, Cummins has introduced quality products that have been well received by customers and has continued to fund important development efforts, even as it has tightened capital spending and worked to control costs.

As a result, Cummins financial performance in 2004 was the best in its history. Net earnings, net sales, earnings before interest and taxes (EBIT) and net cash provided by operating and investing activities were all records for the Company. Earnings in 2005 are expected to exceed \$10 per diluted share.

Cummins economic performance and outlook remain solid. Cummins clearly has benefited from strong demand across a number of our more cyclical markets and our focus on execution has delivered excellent bottom-line results. We are seeing margin expansion and profitable market share growth with disciplined pricing, focus on cost reduction and superior product performance



Cummins has benefited from strong demand across a number of our more cyclical markets, such as diesel engines.

in existing and emerging markets. And we are building a core base of stable, diversified earnings that will continue to provide increased stability in our financial performance.

In 2005, Cummins credit ratings were upgraded by two rating agencies – with one rating agency returning Cummins to investment grade status, which has been a major goal of Cummins for the past few years. The agencies cited improved operating performance and strengthened financial profile as rationale for the upgrades.

The Company has been very clear about its operational cash priorities: reducing debt, investing wisely in the business and returning value to shareholders. For example, Cummins has reduced its debt by nearly \$275 million in 2005 and has committed to a similar reduction in 2006.

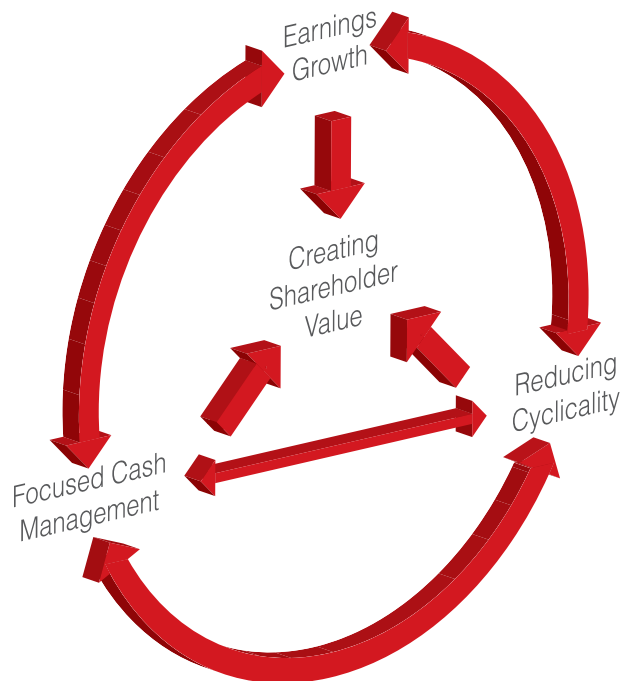
The strength of Cummins recent performance has given the company confidence to update several of its financial targets, specifically earnings before

interest and taxes, net earnings as a percentage of average net assets, net earnings as a percentage of equity and the ratio of debt to capital. These new targets could translate by 2010 into sales of up to \$15 billion and earnings before interest and taxes of \$1.5 billion, while keeping financial leverage in a very conservative range.

The Company continues to spend its capital wisely while still funding all important development initiatives. Capital spending levels in 2004 and 2005 were below the average spending level in the mid to late 1990s. In 2005, the Company took advantage of previous investments in engine platforms so that capital could be used for smaller projects that have either removed constraints in our global manufacturing or funded new product initiatives.

Cummins commitment to being a low-cost producer has not wavered, either. In addition to the Six Sigma efforts detailed as part of our vision and strategy, global sourcing, lean manufacturing, and

## Financial Platform



Investor Information section of the Company web site, [www.cummins.com](http://www.cummins.com). The Company's fact book, also at this web site, is a brief summary of the company and contains income statement and balance sheet trends for the past 10 years.

technical productivity through analysis-led design have also helped to lower manufacturing costs by increasing the use of models in lieu of test cell time.

Investors have recognized the Company's improved performance with an increase in the stock price. Total return to shareholders (stock price appreciation plus the compounding effect of the dividend) averaged 77.4 percent in the two-year period during 2003 and 2004 – greatly exceeding its peer group and the market in general. Yet the Company understands that it must continue to deliver value to its stakeholders, by reducing the impact on earnings of the cyclicity in our end-user markets, by focusing on positive cash flow and by investing in the right technologies for the future.

Detailed financial information can be found in the Company's filings with the U. S. Securities and Exchange Commission, which are available on the

### **Compliance**

Staying up-to-date on a growing number of laws and regulations on a wide variety of topics is important to ensure that employees maintain the highest level of ethics and legal compliance. To that end, Cummins has worked with a leader in ethics training to design and deliver updated and customized compliance courses.

# **Social and Corporate Responsibility**

## **Thinking Globally**

### **Governance Structure and Management Systems**

Cummins is governed by a nine-member Board of Directors. Among the directors, only Cummins Chief Executive Officer Theodore (Tim) M. Solso and Cummins President F. Joseph (Joe) Loughrey are current employees of the Company. Board members are:

#### **Theodore (Tim) M. Solso**

Elected Chief Executive Officer and Chairman of the Board in 2000 after serving as Company President since 1995. He joined Cummins in 1971 after earning his MBA degree from Harvard University. He is a director of Ball Corp. Inc., Irwin Financial Corp. and Ashland Inc. and is a member of the Board of Trustees of DePauw University.

#### **Robert J. Darnall**

Retired Chairman and Chief Executive Officer of Inland Steel Industries and a Cummins director since 1989. Darnall is a Director of Household International Inc., Pactiv Corp., Sunoco Inc. and United States Steel Corp. He also serves as the Director of both the Glenwood School and Junior Achievement of Chicago.

#### **John M. Deutch**

Institute Professor at the Massachusetts Institute of Technology since 1990 and a Cummins director since 1997. While on leave from MIT, he served as U.S. Director of Central Intelligence in 1995-96, U. S. Deputy Secretary of Defense in 1994-95 and as an Undersecretary of Defense in 1993-94. He is a director of Citicorp, CMS Energy, Raytheon Corp. and Schlumberger and is also a Trustee of Resources for the Future, the Urban Institute and Overseer of the Museum of Fine Arts, Boston.

**Alexis M. Herman**

Chairman and Chief Executive Officer of New Ventures and a director since 2001. She served as U.S. Secretary of Labor from 1997-2001. She currently serves on the Board of Trustees of Xavier University of Louisiana, is Chairwoman of The Coca-Cola Co.'s Human Resources Task Force and Chair of Toyota's Diversity Advisory Board. She is a director at MGM/Mirage Inc., Presidential Life Insurance Corp. and Entergy Corporation. She is also a Trustee of the National Urban League, George Meany National Labor College and USA Football.

**F. Joseph (Joe) Loughrey**

Elected President in May 2005 and to the Board in July 2005, after serving as Executive Vice President and President – Engine Business for more than five years. Loughrey joined Cummins in 1974 and has held a number of leadership roles in the Company during his tenure. He is a member of the board of the Cummins Foundation, the National Association of Manufacturers, Tower Automotive Inc., Sauer-Danfoss Inc. and the Columbus Learning Center Management Corp. He also serves on the Advisory Council for the College of Arts & Letters at the University of Notre Dame.

**Georgia R. Nelson**

President and CEO of PTI Resources, LLC, after retiring as President of Midwest Generation EME, LLC, an Edison International Company, in October 2004. She joined the Cummins Board in 2004. She serves as a director of Tower Automotive. She has been appointed by the Secretary of Energy in the last two administrations to serve on the Executive Committee of the National Coal Council. She is a trustee of the Peggy Notebaert Nature Museum.

**William I. Miller**

Chairman and CEO of Irwin Financial Corp. and a director since 1989. Prior to moving into his current position, he was President of Irwin Management Co. from 1984-1990 and continues to serve on that company's Board of Directors. Miller also is Chairman of Tipton Lakes Co., a real estate development firm in Columbus, Ind. He is a Trustee of the Taft School in Watertown, Conn., and the National Building Museum in Washington, D.C. and The John D. and Catherine T. MacArthur Foundation, Chicago, Ill.

**Carl Ware**

Retired Executive Vice President, Public Affairs and Administration for the Coca-Cola Co. He was named a director in 2004. He is a former member of the Atlanta City Council and served as its President from 1976 to 1979. He oversaw the merger of Clark College and Atlanta University in 1988, and has since served as Chair of the Clark Atlanta University Board of Trustees. He serves as a director of ChevronTexaco, Georgia Power, Coca-Cola Bottlers Consolidated, PGA Tour Golf Course Properties and the Atlanta Falcons.

**J. Lawrence Wilson**

Retired Chairman and Chief Executive Officer of Rohm and Haas Co. and a director since 1990. He is board member at Vanderbilt University and a director of the Vanguard Group, MeadWestvaco Corp. and AmerisourceBergen Corp.

**Corporate Governance Principles for the Board**

The primary mission of the Board of Directors is to represent and protect the interests of the Company's stakeholders. In so doing, the Board has the legal responsibility for overseeing the affairs of the Company, and has certain specified



powers and authorities with respect to corporate action provided by Indiana statutes. The Board's oversight function is exercised through the election and appointment of competent officers. The Board relies on the integrity, expertise and competency of these officers in carrying out its oversight function.

The Board's responsibilities include the following:

- Adopt corporate governance principles consistent with the Company's Vision, Mission and Values.
- Exercise sound and independent business judgment with respect to significant strategic and operational issues, including major capital expenditures, diversifications, acquisitions, divestitures and new ventures.
- Advise senior management.
- Monitor:
  - The performance of the Company
  - The performance of senior management
  - The effectiveness of internal controls and risk management practices
  - Compliance with all applicable laws and regulations
  - Communications and relationships with stakeholders

In discharging its fiduciary duties to act in the best interests of the Company, the Board considers the effect of its actions on shareholders, employees, suppliers, customers, communities and the interests of society as represented by our regulators. The Corporate Governance Principles can be found at [www.cummins.com](http://www.cummins.com)

Cummins corporate governance practices are rated semi-annually and given a Corporate Governance Quotient (CGQ) by Institutional

Shareholder Services, Inc., the world's leading provider of proxy voting and corporate governance services. Cummins most recent rating in October 2005 indicates that the Company's corporate governance practices have outperformed 76 percent of companies in the S&P 500 Index and 96 percent of the companies in its Capital Goods peer group.

### **Committees of the Board**

The Board has seven standing committees: Executive Committee, Audit Committee, Compensation Committee, Governance and Nominating Committee, Finance Committee, Technology and Environment Committee and Proxy Committee. The responsibilities of the Audit, Compensation, Governance and Nominating, Finance and Technology and Environment committees are set forth in written committee charters approved by the Board. The Committee Charters can be found at [www.cummins.com](http://www.cummins.com).

The Company complies with all NYSE and regulatory requirements concerning the membership of certain committees, including the requirements with respect to independence and financial expertise. The Governance and Nominating Committee reviews the committee structures of the Board and the membership of the various committees annually, and makes recommendations for any changes to the Board.

### **Code of Business Conduct**

Cummins Code of Business Conduct serves as the blueprint for the Company's commitment to act with integrity, to do what is right and what we say we will do. This driving principle is reflected in all of the Company's dealings with customers,



Cummins Board members and senior management toured the Dongfeng Cummins Engine Co. plant in Xiangfan as part of a week-long trip in October to visit the Company's operations in China.

suppliers, shareholders, employees and the countries and communities in which it does business.

The Code addresses a number of issues, including:

- Providing safe and innovative products that meet or exceed appropriate emissions standards
- Competing vigorously, but with integrity
- Complying with all applicable governmental regulations and laws
- Conflicts and potential conflicts of interest with suppliers and customers
- Proper treatment of others at work
- The value of diversity in the workplace
- Promoting a safe workplace
- Valuing the environment
- Contributing to the communities in which employees work and live
- Ensuring accuracy and openness in financial reporting
- Maintaining the confidentiality of persons who report violations of Company policies, procedures and rules of conduct, including sexual harassment and other improper conduct

The Code includes a section that deals with expectations regarding employees' treatment of suppliers and other business partners. The policies specifically address issues of conflict of interest, exchange of gifts and the need to conduct business with integrity at all times. The Code of Conduct can be found at [www.cummins.com](http://www.cummins.com).

### Supplier Code of Conduct

Cummins suppliers are an integral part of the safety, performance and reliability of Cummins products. This relationship has led Cummins to begin the process of creating a code of conduct written specifically for suppliers, with implementation targeted for 2006. While Cummins recognizes there are different legal and cultural environments in which suppliers operate throughout the world, the proposed code sets forth the basic requirements that suppliers must meet in order to do business with Cummins. The code also provides the foundation for Cummins ongoing evaluation or audit of a supplier. The proposed code will cover topics such as applicable environmental laws, discrimination, diversity, child labor and general legal compliance.

### Online Compliance Training

Cummins has a well-deserved reputation as a leader in business ethics. In today's business environment, companies are required to comply with a growing number of laws and regulations on a wide variety of topics. Staying up-to-date on these laws and regulations is important to ensure that employees maintain the highest level of ethics and legal compliance. To that end, Cummins has worked with a leader in ethics training to design and deliver updated and customized compliance courses. The first course available in 2005 was on the Code of Business Conduct. The interactive online course provides a practical application of the code and reinforces training employees receive at the time they are hired.

In conjunction with the code of conduct training, Cummins has worked to enhance its Ethics Help Line by improving our global process and adding commonality to the process worldwide. We wanted to provide one simple system for our employees to report any kind of violation of our code of conduct. The new system allows employees to report violations in the language of their country via toll-free telephone service or the web. It also provides a database that allows Cummins to better track reports and analyze results.

### Crisis Communications

Making sure that Cummins is prepared if a crisis occurs is a key company responsibility. To assist facility managers and others involved in emergency planning, Cummins routinely updates its Crisis Communications Plan, most recently in 2005. The plan includes vital information for facilities on how to communicate effectively during

a crisis. It also includes templates and forms to assist employees in gathering and updating information. Cummins is also in the process of developing business continuity plans by each business unit or critical function within the business unit.

### The Cummins Operating System

The Cummins Operating System (COS) helps develop common practices and approaches designed to improve customer satisfaction and profitability. This structured, measurable approach ensures that Cummins values and mission are faithfully executed across all departments and business units.

The COS consists of 10 operating practices that are common across the Company. It is supported by 10 common functions, each with a Functional Excellence framework. The Functional Excellence framework at Cummins provides standards, measures, skills required and an individual development plan so each function at the Company can provide service or support at world class levels. Employees are trained on the COS and Functional Excellence approaches and their importance to Cummins future success.

A key aspect of the Functional Excellence approach at Cummins involves promoting leadership across all business units and groups. Leaders at Cummins are measured on their ability to:

- Drive the organization toward the Vision by accomplishing the Mission
- Live and foster the Cummins core values of integrity, innovation, delivering superior results, diversity, global involvement and corporate responsibility

### Caring

Cummins and its employees donated more than \$3.5 million in cash and product to help the victims of hurricane Katrina in the United States and the tsunami in the Asia-Pacific.

- Focus on customer success and deliver results
- Create an environment in which people can develop and contribute, and where championship teams flourish

### Government Relations

Beyond Cummins manufacturing processes, the Company is involved in the setting of public policy to help establish processes that will lead to desired goals.

In August 2001, Cummins opened an office in Washington, D.C. to coordinate government relations activities for the corporation.

The office provides strategic insight and advice to Cummins business leaders on emerging government issues and activities, provides top-level access to government officials and key policymakers, develops and implements government relations strategies to achieve business objectives and advances business marketing objectives relative to government programs.

The office elevates government issues to senior management, ensures alignment with Cummins businesses and objectives and identifies and aggressively resolves key government issues for the corporation. Specific areas of activity include

energy policy, environment, tax, trade, transportation, government research and development, government markets, workplace and human resources issues, defense and homeland security, and facility and infrastructure programs. In 2005, the Cummins Government Relations Office worked with other engine companies and stakeholders to enact the Diesel Emissions Reduction Act of 2005, a national grant and incentive program to promote voluntary retrofits of new emission reduction technologies on older diesel engines in existing fleets. Cummins also worked to enact provisions in the 2005 energy and transportation bills to encourage the development and use of advanced clean diesel engines and improved emission technologies through tax credits, retrofit programs, grant programs and government-funded research and development. The company also worked to ensure that EPA's regulations requiring ultra-low sulfur diesel fuel (ULSD) in 2006 and engine emission reductions in 2007 proceed on schedule.

## Social Performance

Corporate social responsibility is a core value for Cummins, a fundamental part of who we are and how we do business.

Cummins has several ways of promoting this essential value. A Corporate Social Responsibility Department oversees strategies and programs to encourage community involvement and responsible citizenship. The Cummins Foundation plays a role in promoting and developing programs or processes that enable the Company to do good work. However, the most important work is done by Cummins employees.

Partially as a result of these efforts, Cummins earned the No. 1 position on *Business Ethics* magazine's list of "Best Corporate Citizens" and is one of only a few companies to be named to the list every year since its inception six years ago. Underwriting the development of schools in China and India, funding great architecture, aiding in the tsunami disaster relief effort and the volunteer efforts of employees in their communities are just a few of the reasons for recognizing Cummins social responsibility.

Cummins turned the honor of being named the top U.S. Corporate Citizen (see separate sidebar story in this section) into another opportunity to give back to the community by making it possible for employees to volunteer on company time. Some of the "Every Employee, Every Community" projects were:

- In China, about 480 employees dedicated more than 5,300 hours of volunteer time. Employees assisted traffic police with road safety, helped disabled and poor families clean their homes and improved the shared community environment by painting, cleaning and gardening.
- Community involvement teams from the Columbus Technical Center completed a total of



Helping to keep Mexican children living in poverty healthy is one of the main goals of the Juarez Community Involvement team.



Tata Holset employees in India prepare ideal sets for tsunami victims.

35 community service projects, with more than 1,400 hours of service.

- Fleetguard employees in Nashville, Tenn. expanded partnerships that were already in existence and provided even more support for the Boys and Girls Club, Girls Beyond Bars and Hispanic Achievers.
- Cummins employees in Russia assisted disabled children and their families in attending Russia's International Children's Day event, and volunteered to take disabled children to the Moscow Zoo.

- Formed around the tsunami disaster relief effort, the community involvement team in Korea had more than 60 percent participation in its effort to clean up a local park.

Cummins corporate social responsibility has three major areas of focus: community involvement, corporate donations and The Cummins Foundation. When special needs arise, Cummins does not hesitate to provide assistance.

As a company, Cummins responded with compassion and financial support to various natural disasters around the globe this year. Cummins employees donated \$400,000 for victims of hurricane Katrina in 2005 in the United States, which generated an additional \$400,000 match from the Cummins Foundation. In response to the tsunami disaster in early 2005, Cummins donated \$2.8 million toward the relief effort, which included \$2.4 million worth of product. Employees took the initiative by making donations, forming community involvement teams and volunteering at local charities. Donations made by employees assisted more than 55 different non-profit organizations. Matching pledges made by the Cummins Foundation will be used for long-term projects such as rebuilding schools and orphanages in Indonesia, India and Sri Lanka.

As a result of the employee desire to provide assistance, 23 new community involvement teams were formed around the globe. A total of 58 teams completed projects to help serve the tsunami relief effort.

Other notable tsunami relief efforts included:

- Cummins South Pacific partnered with International Rotary Shelterbox and Aquabox.

### “Every Employee, Every Community”

To celebrate Cummins ranking as the Top U.S. Corporate Citizen by *Business Ethics* magazine, Cummins gave every employee the opportunity to spend a half-day of company time to improve the communities in which we live. “Every Employee, Every Community” service projects were scheduled between May and August to provide flexibility for each site to manage around customer, employee and production schedules.

The measurable numbers: in total, 2,000 employees spent 12,000 hours serving 42 communities as part of the initiative. China led the Company’s efforts with 5,300 hours of community service, followed by the Cummins Technical Center in Columbus, Indiana with 1,400 hours.

The immeasurable benefits: “There were benefits from ‘Every Employee, Every Community’ that we did not anticipate. I met people for the first time who had been my co-workers for years. I got a chance to problem solve and be a leader.”

*Evelyn, Cummins Technical Center employee*

“I love to volunteer. As a parent with two small children, I never have the time anymore. This program let me do something I love that I no longer have time to do. I am proud to work for a company that really cares about its community and its employees.”

*Beth, Cummins MidRange Engine Plant employee*

These programs included tents, sleeping bags, food, flashlights, cooking utensils, water purification systems and other survival supplies for victims of the tsunami.

- Cummins Power Generation, Pune provided more than 20 small and medium generators to the Indian Navy to be transported to the remotest islands in Andaman.
- Tata Holset Limited, a joint venture between Tata and Holset, prepared an ideal set (rice, dal, wheat, carpet, blanket, utensil, etc.) of materials needed by families. They made almost 200 for at least 80-90 families.

### Community Involvement Teams

Community Involvement Teams are employee-driven committees that represent the diversity of the workforce and all levels of management. They are driven by the philosophy that a company cannot function without a healthy community.

Each team establishes a work plan, a budget and a focus area for community service. Every two years, these teams are audited against a set of Functional Excellence criteria. The audit process ensures that corporate responsibility remains an important business objective across all business units, provides a measurement and recognition process and identifies areas for development over the next two-year cycle.

Community involvement teams have the responsibility of developing an annual plan, organizing volunteer activities, responding to community requests for donations and developing proposals for the Cummins Foundation. Some recent examples of their work:

- Cummins Darlington, United Kingdom raised \$11,000 for DASH (Darlington After School and Holiday) for disabled children as well as had employees directly engaged in support.
- Employees from Newage, India held blood donation camps, donated items to schools for the underprivileged, awarded the Stamford Scholarship and outsourced jobs to the Pune Leprosy Association.
- Volunteers from Cummins Power Generation visited Minneapolis Crisis Nursery to participate in the Book Buddy Program for children at risk of abuse or neglect. Volunteers read to children from giant picture books and dramatized the stories with puppets, props and music. The project was underwritten by the Cummins Foundation, which provided a \$10,000 grant to equip a Learning Resource Room.

### Corporate Donations

Donations provide a means for Cummins to participate in community events that are more appropriately funded by the Company than the Foundation. These activities include memberships, sponsorships, dinners or other events. Cummins donated approximately \$250,000 to charitable causes in 2004.

### The Cummins Foundation

The Cummins Foundation is one of the oldest corporate charitable foundations in the United States. The Foundation serves to improve the communities in which Cummins does business by providing the tools and means for people living on the edge of society to overcome the barriers they face.

### The Foundation

The Cummins Foundation is one of the oldest corporate charitable foundations in the United States. In 2004, the Foundation provided 42 grants worth \$1.5 million to charitable organizations.

The Foundation's President serves as Cummins Executive Director of Corporate Social Responsibility, providing leadership and coordination to all the Company's social work. Cummins also has formed foundations in Mexico and India over the last decade.

The Foundation focuses on embracing the diverse perspectives of all people, seeking innovative ways to address our social needs, emphasizing partnerships and leveraging our people, money, products and services to make a difference.

In 2004, the Cummins Foundation provided 42 grants worth \$1.5 million to charitable organizations. That money is in addition to direct corporate donations and considerable employee donations to the United Way.

In 2005, the Cummins Foundation began the Community Innovation Grant Program (CIGP). The CIGP is the combination of two very successful programs the Foundation has spearheaded in recent years – The Plant Innovation Program and the 50th Anniversary Grant Programs. Employees already have taken the initiative and completed a project to make much-needed repairs to the Jennings County Senior Center in southern Indiana.

Donating funds to important projects is just part of the work done by the Foundation. Cummins recognizes that “people power” can be as effective as providing grants, and the Foundation plays a leading role in facilitating Cummins employees and citizens worldwide with getting involved in their communities.

## Diversity

*“In the search for character and commitment, we must rid ourselves of our inherited, even cherished, biases and prejudices. Character, ability and intelligence are not concentrated in one sex over the other, nor in persons with certain accents, or in certain races, or in persons holding degrees from some universities over others.”*

*“When we indulge ourselves in such irrational prejudices, we damage ourselves most of all and ultimately assure ourselves of failure in competition with those more open and less biased.”*

– J. Irwin Miller, former Cummins Chairman and CEO.

Mr. Miller's words, spoken more than 20 years ago when he was Cummins Chairman, ring as true today as ever. At Cummins – which does business in more than 160 countries - the message is



powerful: Not only is valuing diversity good business, it's also the right thing to do. From a business perspective, the Company believes that successfully managing diversity strengthens relationships with an increasingly diverse customer base. Beyond that, a diverse work force – in terms of race, gender, lifestyle and educational background – ensures a variety of perspectives to best address the Company's business needs. Cummins diversity initiatives include the following:

- All employees complete a comprehensive diversity training program designed exclusively for Cummins. Second generation diversity training is a mandatory part of career development for leaders.
- The Chairman's Diversity Council, made up of senior leaders from across the Company, sets the course for diversity issues including hiring practices, supplier relations, benefits matters and training.
- In all, 48 Local Diversity Councils (LDCs) have been created to address diversity issues in the communities in which Cummins does business. In addition, the LDCs focus on recruiting, retention and cultural differences in the workplace.
- Cummins long-standing commitment to use qualified minority-owned suppliers has yielded good results in recent years. In 2004, Cummins spent \$147 million with small business and minority-owned suppliers.
- Cummins offers health care and other benefits to non-spousal domestic partners. In making these benefits available to employee life partners (both



Playing an educational game on computer equipment donated by Cummins China.

same-sex and opposite-sex partners), Cummins recognizes that it must provide attractive and flexible programs to all employees. In 2005, the Human Rights Campaign recognized Cummins as one of the corporations that achieved a 100 percent score on its diversity index.

- Cummins has received local, state and national recognition for its work to develop diversity in the workforce. In early 2005, *Diversity Inc.*, a nationally-recognized magazine that covers diversity issues, named Cummins as the top company for Asian-Americans and one of the "Notable Companies" for diversity.

Cummins concept of diversity in the workplace has two parts. The first is creating a diverse workplace in terms of the representation of people from many different backgrounds. The second is creating an environment that promotes people's differences and, in doing so, inspires innovative ideas and solutions.



Cummins Diesel South Africa employees clear the way for a new technical training institute.

The Company relies on the insight that comes from a diverse workforce to enter new markets and geographies. The Company depends on the varied talents of its people, systems and organizational knowledge to solve complex problems, reduce costs and create products and services that delight customers.

Diversity provides Cummins with a competitive advantage in the following areas:

- **New markets and new businesses** – Sales in markets outside of the United States currently are growing faster than in the U.S., the largest current market. Nearly all world growth to 2050 is projected to occur in Africa, Asia and Latin America. The best way to grow into new businesses and to expand into other geographic regions is to have employees who understand the culture or are part of it.
- **Customer requirements** – Purchasing materials and services from a diverse supply base puts Cummins in a position to take advantage of all opportunities to be the low-cost producer. Cummins customers demand we create economic opportunities for all segments of society, especially those under-represented in today's economy.

- **Changing demographics** – Successful companies understand how the world's population is being transformed by immigration and changing birthrates. The population of Latinos, people of African descent and Asians is growing and more women occupy positions of authority in business and government. Companies that understand and adapt to these demographic changes will thrive in the economy of the future.
- **Competitive performance** – Having a diverse workforce enables a company to solve complex problems, innovate and otherwise adapt more quickly in a competitive environment.
- **Attracting and retaining the best people** – Employees who feel welcome and valued in the workplace will be more innovative, act as owners and engage customers to provide superior products and service. A company that promotes diversity in hiring and increases an understanding and appreciation of differences will reap the following benefits:
  - A positive work environment where all people can perform at the highest levels
  - Increased employee engagement and creativity
  - Attraction and retention of the best talent
  - A positive reputation in the community
  - Improved decision-making capabilities provided by more viewpoints and choices
  - Improved problem resolution
- **Doing the right thing** - A company is only as healthy as the environment and communities in which its employees work and live. It is in Cummins self-interest to create an environment in which people treat others as they want to be treated. This is consistent with the Company's core values.



On the road, on the rail, on the farm – wherever dependability is in demand.

**Research and Development**

More than half of the \$2.4 billion spent by Cummins on research and development in the last 10 years has been invested in emission reduction technologies. Nothing the Company does is more important.

# Environment and Safety

## Protecting Our World

### Performance Indicators: Products

Cummins products are designed to provide customers with the highest levels of performance, durability and dependability at the lowest cost of operation. At the same time, the Company is committed to meeting and exceeding clean air standards.

To achieve its commitment, Cummins has long been a pioneer in emission research and development, investing in critical technologies to achieve future emission standards while meeting the needs of the customer. The emission solutions the Company uses today are the result of a technology plan set in motion in the early 1990s. This plan will carry Cummins through 2010 and beyond.

At the core of this road map is a strategic decision not to limit the Company's approach, but to develop the right technology for each application

and market served. Different operating conditions and factors can and will influence the technology path for each market. While developing multiple emission solutions has required a broader and deeper investment in research and development, the Company believes it will guarantee Cummins customers optimum performance and reliability at the lowest possible cost of operation.

More than half of the \$2.4 billion spent by Cummins on research and development in the last 10 years has been invested in emission reduction technologies. Nothing the Company does is more important. Cummins global presence gives us access to global talents, so not only do we have the ability to understand the markets better, we have the added advantage of an around-the-clock workforce. If you add to those advantages the improvements from Six Sigma, Cummins has done a more comprehensive job of developing and delivering technology to market than 10 years ago when research and development was 5 percent of sales instead of the 3 percent of sales it is today.

A second part of the Cummins clean diesel strategy is to involve original equipment manufacturers as early as possible in the development and integration process. This open exchange of information and technology has been – and will continue to be – instrumental in developing high-performance products that deliver optimum performance and reliability at the lowest total cost.

### First in 2002 – Ready for 2007

Cummins was the first to meet the EPA standards in 2002 – and we're well on our way to meeting the next level of EPA standards in 2007. The proven products in operation today are the base platform for 2007. Engines with 2007 technology have been in field tests with end-users since mid-2005. And in 2007 Cummins ability to leverage its businesses will become even more of an advantage, as Cummins is the only engine manufacturer with wholly-owned subsidiaries providing technology for air-handling (Holset) and aftertreatment systems (Emission Solutions).

As a result, the Company is able to practice system integration across all critical components and subsystems.

The Cummins technology plan for on-highway, heavy-duty applications in 2007 is straightforward, and includes the following:

- Cummins will continue to use cooled EGR as the base technology for NOx reduction.
- Cummins will use a particulate filter to achieve the required 90 percent reduction in particulate matter.

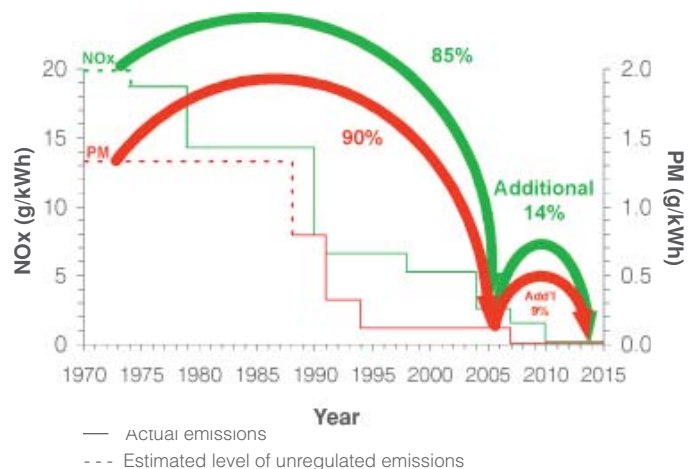
### The Right Technology Matters

Leadership in combustion research, fuel systems, air-handling systems, controls and aftertreatment allows Cummins to maintain its goal of maximizing customer value by providing the most appropriate emissions control solution for each market served.

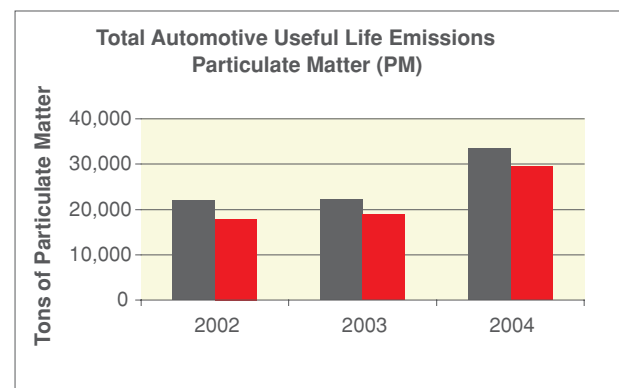
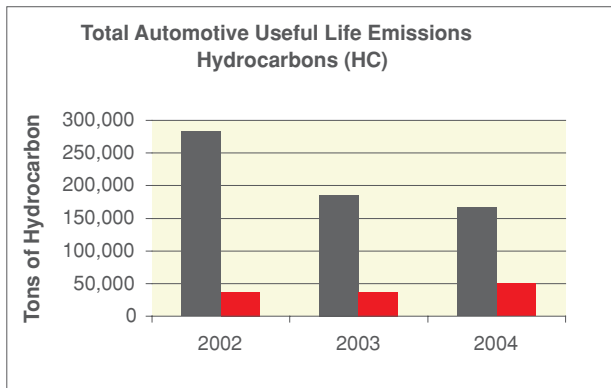
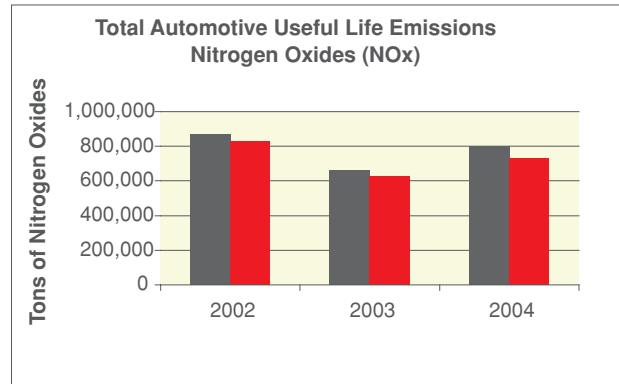
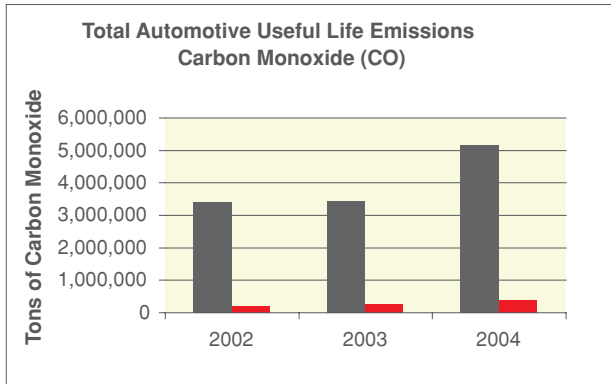
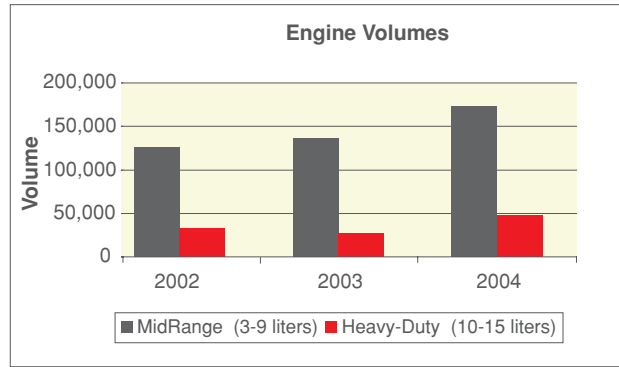
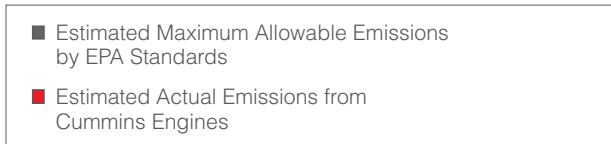
In Europe, Cummins met the Euro IV on-highway emissions standards that first became effective in October 2005 using Selective Catalytic Reduction (SCR) aftertreatment. SCR uses urea in a chemical reaction to reduce nitrogen oxides (NOx) in the exhaust. Manufacturers have developed this technology for the European market because it is the most cost-effective trade-off when considering emission control and fuel economy. Cummins expects to use a relatively simple evolution of this technology to meet the more stringent Euro V standards that will first become effective in October 2008.

For the U. S. on-highway truck market, Cummins has been the leader in the application of cooled Exhaust Gas Recirculation (EGR) technology. Cooled EGR is a very effective method of NOx control. During combustion, EGR reduces flame temperatures, which, in turn, reduces NOx

### U.S. On-Highway Emission Standards



## Cummins On-Road Engine Emissions Compared to EPA Standards



production. This allows the engine to be tuned for the best fuel economy and performance at lower NOx levels. EGR technology is the foundation for Cummins 2007 products and beyond.

### Emissions Regulations and Cummins Product Goals

Since the 1970s, Cummins on-highway engines have been regulated by the EPA and similar regulatory agencies around the world for combustion emissions, including NOx, carbon

monoxide (CO), hydrocarbons (HC) and particulate matter (PM), also called soot.

Cummins works closely with regulatory bodies to seek emission reductions that are necessary, yet are technologically feasible while meeting customers' needs.

When compared to emissions from unregulated engines, i.e. before EPA standards became effective in 1973, today's on-highway diesel engines emit 90 percent less PM and nearly



Cummins is part of a joint venture that allows engines to operate on natural gas, such as the bus pictured.

90 percent less NOx. Cummins is required to reduce PM and NOx from these diesel engines by the end of the decade to standards that are 99 percent less than the unregulated levels.

Off-highway engines produced by Cummins are also subject to stringent emission standards. While the combustion process for off-highway engines is fundamentally the same as for on-highway engines, the emission control strategies are not interchangeable because of the broad horsepower range, unique applications and the wide variety of duty cycles typical of off-highway products.

Between 1995 and 2004, there has been a 70 percent reduction in NOx emissions and a 75 percent reduction in particulate matter emissions from off-highway engines. Between 2011 and 2015, off-highway engines will be controlled to essentially the same level of emissions as their on-highway engines counterparts. By 2015, NOx and PM emissions from off-highway engines will be 98 percent lower than they were in 1995.

The charts on the previous page depict Cummins commitment to the environment by demonstrating that the Company manufactures engines that often exceed emission standards. The charts compare the estimated maximum allowable emissions by

EPA standards versus Cummins estimate of its engines' actual emissions for the past three years. Estimates are based on the number of engines, both heavy-duty and midrange, manufactured in the United States for on-highway use per year. Cummins engines have released far less hydrocarbon and carbon monoxide into the environment than the maximum allowed by the EPA. And even by the tough NOx and PM measures, Cummins has been under the standards. The absolute level of emissions increased in 2004 over 2003 because of the greater number of the engines produced in 2004.

Cummins also participates in a regulatory program called "Averaging, Banking and Trading (ABT)." This program allows emission credits to be generated and "banked" by a company whose products generate emissions that are lower than the regulated level. These banked credits may be applied to other engines whose emissions are higher than the standard. However, some credits are discounted by a certain percentage depending on engine type and ABT program rules. As a result of this discounting process, a portion of the emissions credits go unused by the Company, and are thus a benefit to the environment. In 2004, Cummins did not use credits equal to 1.6 tons of NOx and 0.4 tons of PM.

### **The 2007/2010 EPA Emissions and Fuel Rule**

Looking ahead to 2007-2010, emission requirements will change dramatically for heavy-duty trucks over this period. Both NOx and particulate matter will be reduced by 90 percent from 2004 levels.

The EPA will allow for a NOx phase-in from 2007 through 2009. During this time, 50 percent of the

engines produced must meet the stricter, 2007 NOx standard, while 50 percent may continue to meet the 2004 standard.

The particulate matter requirement is not phased in, and thus all engine production is required to be in compliance with the new standard beginning in January 2007.

By 2010 all heavy-duty diesel engines are expected to meet the NOx standard of 0.2 grams per brake-horsepower hour (g/bhp-hr) and the PM standard of 0.01g/bhp-hr.

Also by 2010, regulations will require advanced on-board diagnostics with additional sensors to monitor the effectiveness of emission-control systems on the engine, which will alert the driver if a failed emission-reduction device needs to be repaired.

### **Ultra-Low Sulfur Fuel**

In addition to the new exhaust emission standards and in support of them, the EPA is lowering the limit for diesel sulfur from 500 parts per million (ppm) to 15 ppm. The new fuel standard will be phased in beginning October 15, 2006, (80 percent participation) through Sept. 1, 2010 (100 percent participation). Cummins has publicly expressed its support of ultra-low sulfur fuel and has urged lawmakers not to further extend the start date. The EPA's ongoing monitoring of refineries' progress indicates 15-ppm fuel will be widely available. Ultra-low sulfur fuel has several benefits. It produces less particulate matter from combustion, so it is a particulate matter control strategy for all equipment in use. In addition, ultra-low sulfur fuel enables the use of aftertreatment control systems.

### **Aftertreatment Solutions**

While cooled EGR is an "in-cylinder" technology that can reduce NOx, there are several aftertreatment solutions that can achieve reduced NOx levels by treating the exhaust gases after they leave the engine. These include Selective Catalytic Reduction (SCR) and NOx catalysts. As noted above, our heavy-duty strategy is to use EGR to achieve NOx reduction.

### **Particulate Matter Reduction**

While previous reductions in particulate matter emissions have been achieved through engine combustion improvements and oxidation catalysts, the stringent 2007 particulate standards will require very effective particulate aftertreatment.

The active diesel particulate filter is the only current technology option for meeting the U.S. 2007 particulate standards. This is the technology Cummins will employ to reduce PM emissions to the levels required in 2007.

A typical filter consists of an array of small channels through which exhaust gas flows. Adjacent channels are plugged at opposite ends, forcing the exhaust gas to flow through the porous wall, capturing the soot particles on the surface and inside pores of the media. Soot accumulates in the filter, and when sufficient heat is present a "regeneration" event occurs, oxidizing the soot and cleaning the filter.

### **Aftermarket: Emission Solutions**

Cummins has leveraged its research, product development and technology expertise to create businesses such as Emission Solutions. This Components Group business specializes in filtration and exhaust products and systems for



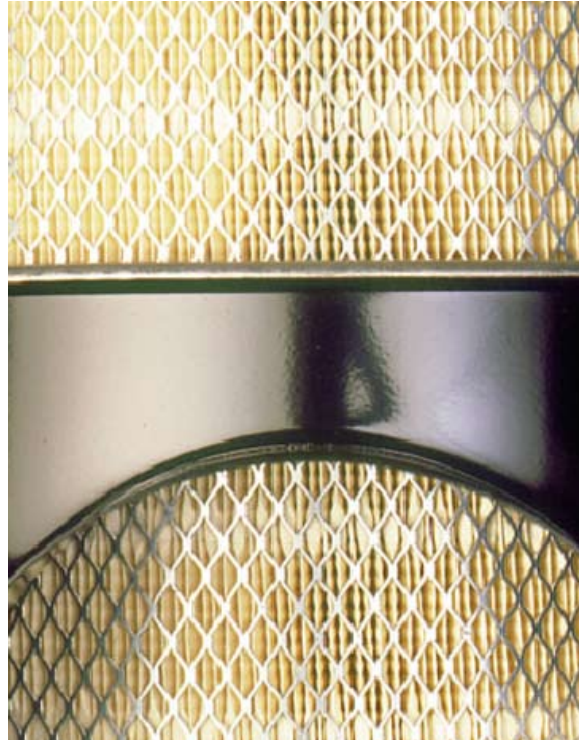
diesel engines (9-7,000 horsepower). Emission Solutions offers exhaust aftertreatment systems that control harmful emissions such as CO, HC, NOx and PM. Emission Solutions products reduce PM and NOx to 99 percent less than unregulated levels. With retrofit and first-fit options, Emission Solutions has integrated service solutions to help customers understand local air quality regulations and identify sources of funding for specific emission reduction efforts.

### **Fleetguard and the Environment**

As the global leader in providing filtration, exhaust, coolant and chemical products, Fleetguard recognizes the impact its business has on the environment. Caring for the environment also makes good business sense and is imperative for success in today's market. As a holder of more than 200 active patents, Fleetguard goes beyond the development of current products and encompasses areas where advanced research may result in environmentally friendly technologies applicable for products well into the future. Fleetguard products continually meet or exceed emissions and noise regulations, reduce disposal issues and support extended service maintenance for longer product life. The company has developed a specific line of environmentally safer products called Fleetguard's Enviro-Saver line to ensure:

- Reduced environmental impact
- Lower operating costs and increased vehicle uptime
- Excellent performance

To achieve these superior results, Fleetguard offers an integrated system approach to equipment maintenance with environmentally friendly product



Fleetguard filters help reduce the environmental impact of engine emissions.

choices for all major engine systems. Some of Fleetguard's "green" products are:

#### **Centrifugal Filtration**

Centriguard filtration with patented ConeStaC rotor and SpiraTec media technology, collects soot up to two and a half times faster than conventional empty rotor designs. Centriguard's unique disposal and incinerable design offers 50 percent reduction in soot, significantly reduced engine component wear and improved oil viscosity and fuel economy.

#### **Open Crankcase Ventilation**

Enviroguard Open Crankcase Ventilation system helps the environment through:

- Reducing blow-by oil emissions to the atmosphere by more than 65 percent
- Lower PM emissions
- Reduced oily residues on the back of vehicles

- Reducing oil drip by 99 percent, eliminating oil dripping onto roads, crops and bodies of water, garages and driveways
- Reduced oil waste and clean-up costs
- Reduced demand for oil, a non-renewable resource
- Less engine downtime and lower maintenance costs

### **Air Filtration**

OptiAir filters with disposable elements are designed with an increased outlet area to allow more air to flow through the pleats, resulting in less filter waste due to its 30 percent smaller size, lower filter replacement costs and reduced engine downtime. Similar benefits are provided with Fleetguard's Air Filter Minders, which monitor filter capacity and optimize performance by allowing use of filters to maximum capacity to support longer life and lower usage rates.

### **Going Beyond Requirements in Other Countries**

Cummins meets or exceeds emission regulations in every country that it operates. In South Africa, where there are no emission regulations, Cummins sells EPA certified 1998/1999 engines. Similarly, in Taiwan, emissions regulations require EPA 1994 standards, yet Cummins sells EPA 1999 certified engines. In Mexico, the Company sells EPA 2004 certified engines, although the law requires EPA 1999 certified engines.

Cummins has worked closely with the Chinese government and original equipment manufacturers to introduce "green engines" to China. Cummins is committed to bringing in advanced, low-emission environmental products to Chinese customers concurrently with international markets, including the United States and Europe.

Cummins and its joint venture partner Dongfeng Automotive will produce Euro III diesels in 2006, far in advance of the local competitors. Cummins in China has a history of being a "green leader." Cummins was the first foreign diesel maker to power the large-scale Euro II transit fleet in 1999 in south China's Shenzhen City, two years before China implemented the Euro I. Currently, nearly 6,000 Cummins Euro III diesels power transit buses and coaches across the country, making Cummins the top Euro III diesel supplier in China.

Although China does not currently have a nationwide emission standard for off-road equipment, Cummins has been working closely with local OEMs to introduce emission-compliant industrial engines at the same time as the European and U.S. markets. All of the imported engines we sell for China's construction market are either Tier 2 or 3 compliant, with local production moving to Tier 2 in the near future. In addition, Cummins Chinese engineers are helping the local EPA draft the first generation of China's off-road emission standards.

Cummins is pursuing low-emission and high-efficiency power generation solutions in China. In 2005, the first Cummins Power Generation gas combined heat and power project was successfully launched in a sports center in Shanghai and is an efficient producer of both heat and electricity for the recreational facility.

### **Recycling Cummins Products**

The Company's environmental focus extends beyond a product's initial useful life. Nearly all Cummins engines are candidates for remanufacturing. Today we remanufacture some of our smallest engines (such as the 4B) up the

high-horsepower K19 engine. Cummins, for example, remanufactures and recycles engine blocks, crankshafts, cylinder heads, turbochargers, water, oil and fuel pumps, fuel injectors, aftercoolers, oil coolers, rocker housings, connecting rods and other parts through its reconditioning initiatives. In 2004, Cummins ReCon recaptured about 20,000 metric tons of used “core” material. More than 99 percent of this material is reused or recycled, either by Cummins directly or by recyclers to whom Cummins has sold scrapped materials.

### **Future Products**

Cummins is actively engaged in new product development to help customers and end-users minimize environmental impact.

### **Particulate Filter**

The stringent 2007 particulate standards, as previously mentioned, will require very effective particulate aftertreatment. The active diesel particulate filter is the only current technology option for meeting the U. S. 2007 particulate standards. This is the technology Cummins will employ to reduce PM emissions to the levels required in 2007.

### **SCR Systems**

Cummins has opened a manufacturing facility in South Africa to produce SCR systems to help heavy-duty trucks meet the Euro IV and Euro V emission standards, which take effect in 2006. SCR works by introducing aqueous urea (known as AdBlue in Europe) into the exhaust system. The urea, an organic compound of carbon, nitrogen, oxygen and hydrogen, reacts with a catalyst in the exhaust system to break down NOx into nitrogen and water, significantly reducing NOx emissions.

### **Light-Duty Diesel Engines**

The synergy of combustion and aftertreatment capability has given rise to the success of a light-duty diesel research effort designed to meet performance and emission requirements for the latter part of this decade. Through a project funded in part by the DOE, Cummins light-duty diesel engine was the first to achieve the stringent Tier 2 (Bin 5) emission standards for a product in its class.

Typically, diesel engines are 20 to 40 percent more efficient than comparable gasoline engines. Studies by the DOE have found that a 20 percent penetration of diesel vehicles by 2020 would save the U.S. 350,000 barrels of oil each day. And with the recent increases in fuel prices and the provisions in the 2005 Energy Bill for tax credits, it will now be possible to pay back the cost premium for a diesel-powered light truck in less than one year. This makes the diesel more viable than ever as a partial solution to the energy shortage.

Diesel engines can be found in about 40 percent of all new vehicles in Europe. While nowhere near that penetration today, American consumers have more diesel choices than ever before. Modern clean diesel technology can now be available in all key market segments, from economy cars to luxury sedans to light trucks and SUVs.

### **Distributed Generation Technology Development**

Gas and electric power industry restructuring has created opportunities for distributed generation and combined heat and power installations that can offer a significant increase in efficiency and a decrease in emissions over present fossil fuel utility power plants. Cummins Power Generation entered into a cooperative development program with the DOE to develop an advanced natural gas engine and genset

technology of 1 MW output that has a targeted fuel thermal efficiency of 50 percent and reduced NOx emissions of 0.1 g/bhp-hr. These figures are further improved when the genset is used in a combined heat and power (CHP) application. This 10-year advanced development program, now in its fourth year, is broken into three phased levels of performance improvements.

### **Electrically-Assisted Turbocharger**

Holset is in the early stages of researching an electrically-assisted turbocharger as part of European Union funded project. This turbocharger has a motor/generator incorporated in the center section of the turbocharger that can be used as a motor to improve transient performance and reduce emissions during acceleration as well as a generator to assist the alternator. Potential benefits are reduced fuel consumption, reduced cost and better drivability.

### **Fuel Cells**

Cummins environmental commitment goes beyond the development of current products. It also encompasses areas where advanced research may result in technologies applicable for products well into the future. Such is the case with fuel cell research in Cummins Power Generation. The Department of Energy (DOE) awarded Cummins a long-term contract to develop and commercialize a 10-kilowatt (kW) solid oxide fuel cell system for a wide range of commercial and consumer applications. Cummins is both developing core fuel cell systems competencies and also strategic technology relationships. The modular ceramic solid oxide fuel cell technology being developed can be scaled up into large stationary power systems. Such fuel cells use fossil and renewable fuels in an highly efficient and environmentally friendly manner by producing electricity without

combustion. The only exhaust byproducts are water vapor, and a small amount of carbon dioxide if hydrocarbon fuels are used.

### **Innovations Beyond Diesel Engines**

Cummins is part of a joint venture with Westport Innovations Inc., a leading developer of technologies that allow engines to operate on natural gas, hydrogen and hydrogen-enriched natural gas. Cummins Westport develops and markets the world's widest range of high-performance, low-emission engines for commercial applications, such as trucks and buses. In 2004, approximately 24 percent of Cummins Westport's revenue came from its natural gas engines sold to China. They are being used in cities such as Urumuqi, Chengdu, Xi'an and Chongqing, and Beijing operates more than 2,400 buses powered with Cummins Westport natural gas engines. Currently, there are approximately 12,000 Cummins Westport engines powering vehicles worldwide.

### **Supporting Independent Health Research**

In the early 1980s, Cummins anticipated the need for sound, independent research on the health effects of mobile source emissions. In response to that need, the Company – together with the EPA – was instrumental in chartering the Health Effects Institute ([www.healtheffects.org](http://www.healtheffects.org)), which provides unbiased information on the health effects of motor vehicle emissions. This institution receives equal funding from the EPA and the motor vehicle industry. Today, Cummins continues to support this important work, even as exhaust emissions have improved considerably since the Institute was established. In addition, Cummins supports various efforts at renowned research institutions that focus on the health effects of mobile source emissions.

## Global Climate Change

Cummins is a member of the Business Round Table Climate RESOLVE (Responsible Environmental Steps, Opportunities to Lead by Voluntary Efforts), whose members have committed to reduce or offset greenhouse gas (GHG) emissions. The Climate RESOLVE initiative will give the Company another avenue to partner with the government to find practical, cost-effective ways to manage greenhouse gas emissions. Cummins also is a member of the Global Environmental Leadership Council of the Pew Center on Climate Change.

Cummins efforts to reduce carbon intensity encompass both our products and our manufacturing operations. A key component of Cummins GHG reduction efforts is related to the fuel efficiency of our engine and generator product lines. Cummins has numerous initiatives in this area, with key ones focused on the management of engine idle, cruise control and speed. For example, idle shutdown is a feature in our engine's electronic control module that shuts off the engine after a specified amount of time at idle, thus saving fuel. And a road speed governor limits the maximum vehicle speed controlled by the driver, so power required and therefore fuel burned, is directly proportional to vehicle speed. In addition, diesel technology is fundamentally more efficient than gasoline, in some applications as much as 40 percent. This advantage provides opportunities for the expansion of diesel engines into the market place and with them an associated reduction in GHG emissions.

## Cummins Distributors

Cummins distributors invest in environmental product development as well. For example, Cleaire

Advanced Emission Controls, a division of the Cummins West Inc. distributor, is part of team that has received a \$211,000 grant in 2005 from the Environmental Protection Agency for a demonstration project designed to lower emissions on heavy construction equipment in California.

The team also includes the West Coast Diesel Emission Reduction Collaborative and the Sacramento Metropolitan Air Quality Management District. Cleaire will be the technology provider for the project and also has committed to providing \$760,000 in funding for the effort.

The award is the first of a series of EPA grants totaling \$1.4 million for projects aimed at reducing diesel emissions in California, Oregon and Washington. The grants will leverage another \$5.8 million in matching funds from private businesses and local government agencies.

Together, the partners on this project will retrofit five pieces of heavy construction equipment with emission-reduction technology and then evaluate the ability of the technology to lower emissions of PM, NOx, HC and CO.

The construction equipment being retrofitted includes backhoes, loaders and excavators, which will have their old mufflers replaced with the advanced catalytic and filtration technology made by Cleaire. California's construction sector is among the largest sources of diesel particulate matter (PM), or soot, in the state, accounting for nearly 30 percent of all PM emissions. The retrofit equipment is expected to reduce PM emissions by more than 85 percent, NOx emissions by up to 25 percent, and CO and HC emissions by up to 90 percent.

## Counsel in Developing Products and Meeting Standards

In developing products to meet various standards, as well as the demands of its customers, Cummins seeks advice and counsel from its Science and Technology Council and the Technology and Environment Committee of its Board of Directors.

Cummins Science and Technology Council, formed in 1993, has given the Company access to some of the country's leading scientific thinkers and policymakers from the worlds of academia, industry and government.

The Cummins Science and Technology Council members regularly discuss the future of the internal combustion engine and the use of alternative power sources. As a result, Cummins already has pursued alternative energy options, including clean natural gas bus engines and power generation units that harness waste gases such as methane available in landfills.

The Science and Technology Committee members are:

### Dr. John M. Deutch (Chairman)

Institute Professor at Massachusetts Institute of Technology, former Provost and Dean of Science at MIT, CIA Director and Assistant Secretary DOE.

### Dr. Harold Brown, Counselor

Center for Strategic and International Studies, retired Cummins Director, former Secretary of Defense and President of CalTech.

### Dr. George M. Whitesides

Mallinckrodt Professor of Chemistry at Harvard University.

### Dr. Michael Oppenheimer

Albert G. Milbank Professor of Geosciences and International Affairs at Princeton University and Director of the Program in Science, Technology and Environmental Policy at the Woodrow Wilson School.

### Dr. Ernest Moniz

Professor of Physics at the Massachusetts Institute of Technology.

### Dr. Anita K. Jones

Lawrence R. Quarles Professor of Engineering and Applied Science University of Virginia and Vice Chair of the National Science Foundation.

### Dr. Gerald L. Wilson

Professor of Electrical Engineering and Mechanical Engineering, Massachusetts Institute of Technology, formerly Dean of Engineering at MIT.

The Technology and Environment Committee of the Cummins Board of Directors advises top management and the technical leadership of Cummins regarding:

- Technology strategy and planning
- Significant research and technology projects and tools
- Major new product programs
- Environmental policy and strategy within the public arena as well maintaining as an internal action plan

Its membership includes the following Directors: John M. Deutch, Chair, Alexis M. Herman, Georgia R. Nelson, William I. Miller and Carl Ware.

The committee also encourages collaboration between Cummins and the external technical and environmental community and reviews the technology plans of the Company.

### Greenhouse Gases

Cummins improvement efforts in its greenhouse gas emissions from its facilities are focused on efficiencies associated with the energy necessary to operate our facilities and power our manufacturing processes.

## Performance Indicators: Facilities

### Environmental Policy

Cummins commitment to being a good corporate citizen is realized in many forms, including protecting our employees and the environment. Yet, doing our part to promote a healthy environment goes beyond producing the cleanest possible products. Our facilities have a large role to play in helping create a safe and sustainable environment for today and in the future. Minimizing workplace injuries, reducing facility emissions and waste and conserving natural resources are fundamental parts of our overall commitment to the communities in which we work and live. These efforts also have a direct positive impact on the profitability of our business.

The Safety and Environmental Council promotes environmental health and safety initiatives through the development and implementation of our ISO 14001 certified Environmental Management System and the Cummins Safety System. The framework for the environmental and the safety management systems was built upon the Corporate Health Safety and Environmental Policy.

This policy statement acknowledges the importance of protecting the environment and conserving our natural resources, and includes our formal commitment to the long-term sustainability of our operations. Consistent with our policy and our pursuit of environmental sustainability, our efforts to establish and achieve measurable environmental objectives and targets ensures that we are continually improving our environmental performance.

As we continue to diligently meet our regulatory obligations, we also will persist in our efforts to identify opportunities for improvement and to reduce the environmental impacts of our operations.



Workers at the Dongfeng plant in China use safe engine painting practices.

## Safety and Environmental Council

Cummins Safety and Environmental Council includes the manufacturing, safety and environmental leaders from across the Company's four business units and from the corporate staff.

The Council meets quarterly and is responsible for building a best-in-class safety and environmental organization across Cummins worldwide entities. The group develops, reviews and recommends improvement initiatives at all levels of the organization, with the goal of minimizing the global impact of the Company's operations.

Among these initiatives are a focus on facility registration to the ISO 14001 standard, the elements of which are maintained within the Cummins existing and more comprehensive health, safety and environmental management systems (HSEMS). The Council also leads the sustainability effort by determining which facilities will report environmental measures, setting strategy, developing objectives and targets, and monitoring progress against those targets.

## Cummins Operating System

Cummins Operating System (COS), our structured approach that ensures consistent execution of the company's values and mission, is supported by 10 common functions. While safety and environmental improvement efforts apply to each of the COS practices, they are most clearly applicable to Practice 7, "Right Environment". The ultimate goal of our safety and environmental improvement efforts is to put the customer first by protecting our employees and communities. To create the "right environment," Cummins must assure a place of employment free from industrial



## Cummins Sustainability Leadership Recognized

Cummins was recognized this past year for its sustainability leadership by being added to the 2005-2006 Dow Jones Sustainability World Index. The index analyzes companies in three categories – economic, environment and social – also known as the "sustainability triple bottom line." Each of these categories counts for one-third of a company's total score, which gives the Company's environmental performance a stronger weighting than in other sustainability evaluators.

This selection puts Cummins in the top 10 percent of the world's largest 2,500 companies in these corporate sustainability metrics. Cummins is one of the 44 global companies in the World Index's industrial goods and services sector and only one of two U.S. companies added to that particular sector this year. Dow Jones considers issues such as corporate governance, codes of conduct, environmental policy and procedures and the scope of their application, environmental management systems, corporate citizenship and philanthropy, labor practices and employee development.



**Environmental Management System Registration to ISO 14001**

Site	Reg. Year	Location	Business Unit
Daventry Engine Plant	2001	UK	Engine
Fleetguard – Quimper	2001	France	Components
Holset – Huddersfield	2001	UK	Components
Darlington Engine Plant	2002	UK	Engine
Nelson – Mineral Point	2001	USA	Components
Cummsa SLP	2002	Mexico	Engine
Nelson – Viroqua	2002	USA	Components
Nelson – Arcadia	2002	USA	Components
Nelson – Wautoma	2002	USA	Components
Cummins Industrial Center/Cummins Komatsu Engine Co.	2002	USA	Engine
Newage – Stamford	2002	UK	Power Gen
Holset – Charleston	2002	USA	Power Gen
Dongfeng Cummins Engine Co. Ltd/ Cummins Xiangfan Machinery Co. Ltd	2002	China	Engine
Cummins Original Equipment Reman	2003	Canada	Engine
Tata Cummins Limited	2003	India	Engine
Fuel Systems Plant/General Office	2003	USA	Components
Cummins Brazil Ltd.	2003	Brazil	Engine
Midrange Engine Plant	2003	USA	Engine
Fleetguard – Lake Mills	2003	USA	Components
Nelson – Black River Falls	2003	USA	Components
Cummins Corporate Enterprise Environmental Management System	2003	Worldwide	Corp
Nelson – Bloomer	2003	USA	Components
Nelson – East	2003	USA	Components
Tata Holset	2004	India	Power Gen
Kuss	2004	USA	Components
Wuxi – Holset	2004	China	Power Gen
Consolidated Diesel Company	2004	USA	Engine
Jamestown Engine Plant	2004	USA	Engine
Cummins Power Gen – Fridley	2004	USA	Power Gen
Diesel ReCon Co. – Juárez/El Paso	2004	USA	Engine
Cummins Power Generation - Kent	2005	UK	Power Gen
Fleetguard - Shanghai	2005	China	Components
Fleetguard – San Luis Potosi	2005	Mexico	Components
Newage – San Luis Potosi	2005	Mexico	Power Gen
Diesel ReCon - Memphis	2005	USA	Engine

\* Sites listed in red represent enterprise registrations

illness, injury or environmental compromise. The workplace must be clean, orderly and free from hazards to achieve the goal of zero injuries and environmental incidents. This, in turn, aligns with the mission statement of demanding that everything we do leads to a cleaner, healthier, safer environment.

### ISO 14001 Registrations

Cummins is committed to using ISO 14001 to achieve effective environmental management as the Company strives to become a worldwide leader among manufacturers in protecting the environment.

Corporate level procedures were developed and incorporated within the Cummins HSEMS to serve as a framework for the organization's conformance to the ISO 14001 standard. A key component of the HSEMS framework is a worldwide, centrally managed, "enterprise" approach to ISO 14001 registration. This allows Cummins to identify superior environmental management programs at individual sites and implement those programs throughout Cummins worldwide.

The Safety and Environmental policy drives the global Enterprise Environmental Management System, which provides the platform for setting key environmental objectives and ongoing monitoring of our environmental performance. The enterprise approach also is a cost effective way for Cummins sites around the world to obtain and maintain ISO 14001 certification and is the model on which we will deploy our international Safety Management system to conform to OHSAS 18001.

Cummins registered five new sites to the ISO 14001 standard since our last sustainability report

and by the end of 2005, will have 34 manufacturing facilities and the corporate entity registered. Twenty-one of those entities are registered within the worldwide Cummins Enterprise certification.

### Greenhouse Gas Emissions and Climate Strategy

Climate change and greenhouse gas (GHG) emissions are key strategic environmental initiatives at Cummins facilities. Over the past several years, we have increased the number of entities reporting their emissions and related data for compilation in this report. The data are also used to identify areas of opportunity where we can leverage improvement initiatives around the worldwide organization. Additional efforts have involved addressing worldwide variability in regulatory requirements and other inconsistencies that make the collection and assimilation of the data a challenge. We are continually improving the reporting process to support the accurate reporting of comprehensive measures that represent impacts to the environment, both positive and negative.

Our initial corporate objective and associated targets included the improvement of our data collection and measurement systems, and the development of a GHG emissions baseline for 2003. These efforts are complete. An effort is now under way to capture historical data to develop a year 2000 baseline so we can measure the positive impacts of our Six Sigma projects before 2003. From these data, we will develop a GHG intensity reduction goal. Cummins will provide a status report of progress against the goal in future sustainability reporting efforts.

### **Emission Reduction in Our Facilities**

From a facilities GHG emissions perspective, Cummins improvement efforts are focused on efficiencies associated with the energy necessary to operate our facilities and power our manufacturing processes. These projects have ranged from energy efficient lighting and compressor efficiency endeavors to installation of Cummins turbine products that energize a combined heat and power system. Cummins has initiated a number of process improvements and quality initiatives at its manufacturing and test facilities to improve the quality of our products, while at the same time, reducing associated emissions from those facilities.

### **Engine Testing**

Cummins is working to reduce energy consumption, lower pollution levels and reduce costs through initiatives to reduce engine testing in product development and in manufacturing. These initiatives encompass design, the verification of manufacturing quality and the advanced diesel engine quality verification process. Some of those initiatives are detailed below.

### **Analysis-Led Design Initiative**

Cummins has applied Six Sigma disciplines and processes in our product design and technology development areas to ensure we are designing components and systems that will be robust in the manufacturing environment. The analytical tools being used are part of our analysis-led design initiative.

As part of this initiative, we use computer simulations to replace traditional hardware testing,

which involves building and testing many expensive prototypes. Instead, a “virtual engine” is built and then tested in a simulation that analyzes how the parts interact with each other in system performance.

This process allows us to look at more designs in a shorter time. As we have applied analysis-led design, we have added 2,500 hours of virtual analysis while eliminating 5,500 hours of engine testing and the prototypes that go along with it. The process yields better designs faster, at a lower cost and with substantial reductions in test cell time and the fuel use and its associated emissions.

### **Verification of Manufacturing Quality**

Engine attribute testing requirements have been reduced on certain product lines because in-process verification allows the identification of potential problems upstream of the test cell process. This product quality initiative promotes the concept of “Right First Time,” a more effective means to test a component and engine system, with an associated environmental benefit.

### **Advanced Diesel Engine Quality Verification**

Cummins has used the Technology Development for Six Sigma tools to develop the next generation of production diesel engine testing – Advanced Engine Functional Test (AEFT). The enabling technology for AEFT is the introduction of the new family of high pressure common rail fuel systems. This advancement allows the engine to self-prime and thus removes the need for even the most rudimentary form of running engine test. As Cummins migrates to this fuel system technology, production facilities can introduce AEFT as the primary end-of-line test solution.

### MidRange Engine Plant AEFT Initiative

The environmental impact of AEFT is best understood in the context of comparing the emissions from an existing test to its AEFT counterpart. In the existing MidRange no-load two-minute attribute test, for example, at current plant build levels, this attribute test uses approximately 4,000 gallons of fuel. In contrast, AEFT is projected to consume approximately 88 gallons. This represents a 97 percent reduction in fuel consumption. Attribute hot test is scheduled to be decommissioned as AEFT comes on line and is targeted for full production by the end of 2006.

### Future AEFT Impact

Each particular engine will have a different implementation strategy. MidRange automotive can approach AEFT as a complete solution. Other segments, for example High-Horsepower, would use AEFT as a cost-effective approach to reduce the amount of time required to hot test an engine, greatly reducing fuel consumption.

### Reporting Scope

Cummins has been collecting environmental performance data selectively from its manufacturing facilities since 1999. Expansion of the reporting effort encompasses each of the Cummins manufacturing divisions worldwide.

Cummins tracks a wide range of facility data to measure the potential environmental impacts of its operations. The data compiled for this report represent a substantial majority of Cummins manufacturing facilities, including all of the Company's engine assembly plants, the corporate office building and the larger non-manufacturing facilities.

Increases in the number of reporting facilities and the evolution of our data reporting and collection process has made trend analysis of our environmental measures a challenge. Still, our many efforts that address waste minimization, energy efficiency and recycling provide significant and incremental contributions that ensure our environmental impacts are diminishing.

For perspective on our areas of environmental concern, a general description of the manufacturing operations by business unit follows below.

### Cummins Engine Business

Within the Cummins Engine Business manufacturing facilities employees conduct product design, research and development, engine manufacturing and engine and component reconditioning. Engine assembly facilities perform engine block and component machining, assembly, painting, alkaline bath parts washing and engine performance testing. Product design and engine testing are the primary operations in the research and development technical centers where production processes are limited.

Engine testing is conducted in stationary test stands or cells, where product performance information is measured as engines run at various duty cycles. Test cells also are used for certification testing to ensure products meet emissions requirements. Rebuild/reconditioning facilities perform engine tear-down and reassembly, using alkaline parts washing processes.

### Cummins Components Group

Cummins Components Group facility operations primarily involve filtration and exhaust product design, research and development, filter and exhaust component assembly and product

distribution and warehousing. Emission Solutions designs and manufactures emission controls aftertreatment products. In addition, the Holset Turbocharger and Fuel Systems businesses are now incorporated within the newly organized Components Group. Key operations conducted among the Components Business divisions include filter, fuel systems, turbocharger and exhaust component assembly, metal stamping and component machining, welding, product assembly, painting and performance testing.

### **Cummins Power Generation Business**

Cummins Power Generation Business facility operations primarily involve product design, research and development, alternator manufacturing, assembly of generator sets, switchgear and controls and product testing. Alternator manufacturing facilities perform component machining, lamination stamping, rotor and stator winding, resin impregnation and alternator assembly. Assembly facilities perform housing fabrication, genset assembly, switchgear and controls assembly, painting, alkaline bath parts washing and genset performance testing. Product design and performance testing are conducted in the research and development technical centers. Genset testing is conducted in stationary test stands/cells, where product performance information is measured while gensets are run at various duty cycles. Test cells also are used for certification testing to ensure products meet emissions requirements.

### **Waste Streams**

The primary waste streams generated at Cummins manufacturing facilities include waste paint and associated materials, paint filters, sludges and filter cake, machine coolant and used oil and

resins. Metals and metal parts that cannot be reconditioned for re-use in Cummins products are salvaged for off-site recycling, as are used oils. Other waste streams include filter media and resins. At most facilities, machine coolant is recycled until ineffective and ultimately added to the wastewater stream for pretreatment prior to discharge to public treatment works.

## **Environmental Performance Measures**

### **Reporting Sites**

Consolidated Diesel Company (CDC)  
Cummins – Brazil Ltd.  
Cummins Engine Plant 1 (CEP)  
Cummins India Ltd. (CIL)  
Cummins Industrial Center (CIC/CKEC)  
Cummins MerCruiser Diesel (CMD)  
Cummins MidRange Engine Plant (CMEP)  
Cummins Power Generation - Fridley  
Cummins Power Generation - Kent  
Cummins Power Generation - Singapore  
Cummins Technical Center (CTC)  
Cummsa - SLP  
Darlington  
Daventry  
Diesel ReCon – El Paso  
Diesel ReCon - Juarez  
Diesel ReCon - Memphis  
Dongfeng Cummins Engine Company  
Fleetguard - Cookeville  
Fleetguard – Lake Mills  
Fleetguard - Quimper  
Fuel Systems/General Office Building (FSP/GOB)  
Holset - Charleston  
Holset - Huddersfield  
Jamestown Engine Plant (JEP)  
Kuss Corporation  
Memphis Parts Distribution Center

Nelson - Arcadia  
 Nelson – Black River Falls  
 Nelson - Bloomer  
 Nelson – Mineral Point  
 Nelson – Neillsville East  
 Nelson – Neillsville West  
 Nelson - Viroqua  
 Nelson - Wautoma  
 Newage - Stamford  
 Tata Cummins Ltd. (TCL)  
 Universal Silencer - Muscoda

**Materials Other than Water**

Data reported by our facilities quantifies specific categories of process materials used most commonly in Cummins manufacturing processes.

Diesel Fuel – 11,044,034 gallons  
 Natural Gas – 1,205,829,814 cubic feet  
 Propane – 467,910 cubic feet  
 Oil – 1,688,349 gallons  
 Paint – 305,961 gallons  
 Coolant – 828,200 gallons  
 Solvent/thinner – 92,512 gallons  
 Acids – 121,038 gallons  
 Caustics – 216,383 gallons

**Direct and Indirect Energy Use**

Cummins manufacturing operations use electricity, natural gas, diesel and propane as the primary sources of energy. The energy data provided below represent electricity used at the Company's facilities to generate power for manufacturing operations, power produced and sold to the regional grid and that used for facility heating and cooling purposes. Emission calculations on the basis of electrical energy use account for its ultimate source, so although the total KWh are

reflected in these data, power derived from hydroelectric, nuclear and/or renewable sources are not applied to emission factors.

**Direct (totals in kWh and gigajoules)**

Fuel Oil: 40,364,720 kWh / 145,313 GJ  
 Natural Gas: 364,166,400 kWh / 1,310,999 GJ  
 Propane: 340,833 kWh / 1,227 GJ

**Indirect:**

Electricity: 662,736,935 kWh / 2,382,421 GJ

**Total Water Use**

1,111,252,451 gallons / 4,206,548 cubic meters

The water use data were derived from annual totals for each of the reporting facilities and includes water used for industrial and consumptive purposes.

**Greenhouse Gas Emissions**

Totals are reported in metric tons.

<b>Direct</b>	<b>CO2</b>
Fuel Oil	856
Diesel	111,927
Natural Gas	65,722
Propane	73

<b>Indirect</b>	<b>CO2</b>
Electricity	448,588

CO2 totals were derived using World Resources Institute GHG Emissions Protocols and/or EPA AP-42 Compilation of Air Pollutant Emissions Factors.

## Ozone Depleting Substances

In 1995, Cummins implemented a policy that stationary equipment using chlorofluorocarbons (CFCs) would no longer be purchased by Cummins. Equipment already in place would be considered for conversion or replacement depending on its age and repair costs.

As a result of this policy, Cummins has replaced more than 50 percent of its equipment containing ozone-depleting substances.

## Significant Air Emissions

Direct emissions to air from facility operations; all data is in metric tons.

NO<sub>x</sub> – 3,164

CO – 695

PM – 215

CO<sub>2</sub> – 178,578

VOCs – 854

Data for NO<sub>x</sub>, CO, PM and CO<sub>2</sub> are based on diesel fuel used in product testing applications and No. 2 fuel oil, propane and natural gas used in boilers and furnaces, and were derived using EPA AP-42 Compilation of Air Pollutant Emission Factors, 1996. It should be noted that AP-42 emissions conversions used for large diesel engines are based on obsolete technology. Although we have not used conversion factors developed from our own emission testing, it is certain that the emissions data presented here based on AP-42 is overstated. VOC totals are based on throughput and VOC content of the significant sources at each reporting site; however, total emissions for this parameter are not considered to be comprehensive.

## Total Amount of Waste by Type

Cummins has active recycling programs. Proceeds from recycling efforts at some locations are used to fund employee enrichment programs or are donated to charitable causes within the local community.

Wastes disposed are closely tracked at the facility level to meet environmental regulatory requirements, to quantify materials for which monetary returns are available on a weight or volumetric basis and for environmental performance measures. Waste and recycled material quantities are presented in aggregate. Data have been rounded to the nearest whole number. Categories are defined and materials quantified as follows:

### Landfilled Industrial Waste

Includes industrial wastes disposed in landfills, such as sludges, filter cake, grinding swarf (grit and other solid impurities that build up in machine coolant) and related material that is concentrated and accumulated from specific manufacturing processes, but is not specially regulated due to toxicity.

5,420,141 pounds / 2,463 metric tons

### General Refuse

This waste data represent approximately 75 percent of our facilities, as some facilities do not currently report weight-based measures.

18,658,614 pounds / 8,481 metric tons

### Recycled Metals

Metals derived predominantly from machining and salvage operations.

Iron and Steel:

244,932,922 pounds / 111,333 metric tons

Aluminum: 2,163,717 pounds / 983 metric tons

Copper, Brass and Other:

1,030,370 pounds / 468 metric tons

### Other Recycled Materials

These include shop and office materials reprocessed for re-use outside the facility. Data for recycled materials are understated because at several locations volumes and load weights are unavailable, unreliable or represent aggregate vs. individual material totals.

Cardboard: 28,813,296 pounds /13,096 metric tons

Paper: 462,339 /210 metric tons

Wood: 17,632,779 pounds / 8,014 metric tons

Plastic: 556,018 pounds / 252 metric tons

### Re-used Liquid Wastes

These represent estimated quantities of industrial process wastes reclaimed for re-use or otherwise re-used based on Btu content as feedstock in cement kilns or blended fuels. These include oil, coolants, solvents and thinners and residual fluids primarily from painting processes, including selected wastes that are regulated as hazardous as defined within the U.S. Resource Conservation and Recovery Act.

2,483,219 gallons / 9,400 cubic meters

### Significant Discharges to Water

The discharges listed below represent an estimated quantity of industrial process and sanitary wastewater and do not include water loss from heating and air-conditioning systems.

897,101,545 gallons / 3,395,899 cubic meters

### Significant Spills of Chemicals, Oils, and Fuels

The Daventry Plant in Daventry, England experienced a blockage in the 37-year-old clay public sanitary sewer lines adjacent to the property boundary, which resulted in a release of sanitary wastewater into a storm water inlet outside the property boundary. See further details in the section that follows. This was the only significant spill originating from any Cummins facility within the 2004 sustainability reporting timeframe.

### Incidents and Fines for Non-compliance

#### Daventry Engine Plant, England

The Daventry Plant experienced a sewer blockage that resulted in a release of sanitary wastewater into the storm water system outside the property boundary. The wastewater flowed via the storm sewer system to a surface water body downstream of the plant. Analysis of the surface water body by the Environmental Agency did not prompt the need for any remedial action.

A legal proceeding held in January of 2005 resulted in a fine of £5,000. The issue is now closed with the authorities.

In response to the problem associated with the aging piping system, the sewers were repaired and liners were installed within the system to ensure that sanitary wastes are conveyed to the public treatment works. In addition, the sewers are now installed with a two-stage level alarm, which has flashing beacons for visual notification of a problem and are equipped with an electronic messaging system that sends text messages to site personnel cellular phones to alert of the system status. System status can also be viewed via an internet link at any time.



## **Jamestown Engine Plant – Lakewood, NY 2004 Environmental Regulatory Actions**

### **Waste Water**

The Jamestown Engine Plant on January 20, 2004, was issued an Enforcement Action notice from the Chautauqua Lake Sewer District for alleged discharge of deleterious materials to the sanitary sewer on August 24, 2003. Cummins paid a civil penalty of \$4,000 and expenses of \$588 as financial settlement of this incident.

The August 2003 incident was related to the cleanout of a coolant system at JEP. Cummins worked with the sewer district and our chemical supplier to implement a program of testing the various cleaners and coolants for their potential impact on the sewer district operations. As a result, we have identified the various coolant system wastes that may be processed and sent to the sewer, which wastes can be processed over an extended period of time and which wastes are sent to an off-site treatment facility. Procedures are in place for the control of coolant and other process system cleanouts.

### **Air Emissions**

1.9 percent of the production engines tested at the Jamestown Engine Plant had specified nitrogen oxides (NOx) emissions of 9.3 grams per brake horse power hour (g/bhph), which exceeded the 9.0 g/bhphr limit per New York State (NYS) air regulation 6NYCRR 227, 2.4 (f)(2) for the period of Jan, 1, 2004 through Feb. 11, 2004. The engines tested with NOx specifications greater than 9 g/bhph are for overseas shipment. Revisions to NYS regulations that exempt the testing of diesel engines in test cells from NOx limits became effective Feb. 11, 2004. The revisions to NYS Subpart 227-2 "Reasonably Available Control

Technology for Oxides of Nitrogen" were requested by Cummins.

Cummins reported this deviation from the air permit requirements to the NYS Department of Environmental Conservation in our 2003 semi-annual report. This deviation from permit limits did not result in any regulatory action and no further NYSDEC action is anticipated.

## **Columbus MidRange Engine Plant – Columbus, IN**

On June 17, 2004, a representative from the Indiana Department of Environmental Management (IDEM) performed an inspection of the Columbus MidRange Engine Plant (CMEP) in Walesboro, Indiana. During that visit, it was noted that the site SPCC/Contingency Plan did not identify the Emergency Response Coordinator. The inspector also determined that the SPCC/Contingency Plan needed to be more prescriptive as it relates to hazardous waste planning and response. On August 27, 2004, CMEP submitted a revised SPCC/Contingency to IDEM that included the additional information described in the inspection report. A written response was received from IDEM indicating that no additional action was necessary. No fines or penalties were levied.

## **Cummins India Limited, Pune, India**

On July 14, 2004, Cummins India Limited received a notice of non-compliance with the Hazardous Waste Manufacturing and Handling rules because its used oil was being recycled by an entity not yet registered in India for that purpose. At the time of the citation, a list of registered recyclers had not been developed by the regulatory authority. Nevertheless, CIL paid a fine of approximately \$535.

Following the incident, a list of registered re-refiners and recyclers was published by the Maharashtra Pollution Control Board and CIL manages its used oil in full compliance with applicable requirements.

### **Continual Improvement and Six Sigma**

From a facilities perspective, Cummins has implemented a number of projects to address sustainability issues based on commitments made in the environmental mission and policy. These commitments include natural resource conservation and pollution prevention, which have been a continual improvement focus at Cummins for a number of years. Cummins has made considerable strides in this regard through the implementation of Six Sigma programs. Indeed, Six Sigma is the key problem solving tool that Cummins has employed for environmental improvement projects. Six Sigma projects focused on reducing energy use, waste and costs yielded cost savings of \$5.6 million annually for the years 2001-2003, at an average of \$122,000 per project.

### **Energy Conservation at Cummins Facilities**

Cummins spends more than 88 percent of its utility (electricity, natural gas, heating oil, water and sewage) dollar on electricity and natural gas. For 2004, Cummins spent approximately \$48 million on these utility costs, a 17 percent increase from 2003. This was affected by increased production volumes and higher energy commodity prices; to put this increase into perspective, Cummins revenue in 2004 was 34 percent higher than in 2003. The Company used Six Sigma projects to help control utility consumption and costs.

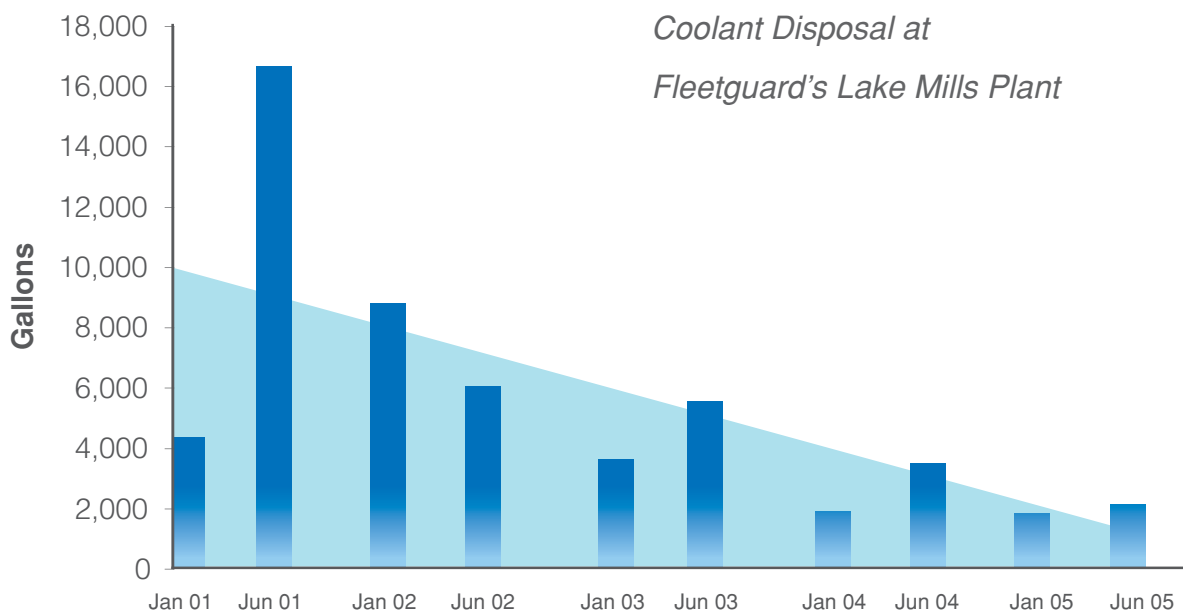
### **Maximizing Energy Efficiency**

Cummins has implemented a number of projects at its facilities in the past three years to reduce energy use. Among the projects receiving awards were:

#### **Cummins Power Generation – Fridley Receives ESC Energy Award**

The Energy Solutions Center (ESC) selected Cummins Power Generation – Fridley (CPGF) as the recipient of the ESC's Partnership Award for Innovative Energy Solutions. The ESC is an international technology organization of 36 energy utilities dedicated to the greater utilization of energy efficient, environmentally-sound equipment for energy users. The award was presented at a ceremony in October 2005 in Minneapolis, Minn. The ESC Award is given to a partnership of organizations that work together to bring online a new, energy efficient solution.

The project team received the Cummins Chairman's Award for Environment for 2003 as the top sustainability effort of the year. The project involved deployment of two Cummins 60 kW microturbines in a Combined Heat and Power (CHP) installation. Net energy efficiency of the CHP system is more than 85 percent. Power from the CHP system has replaced the need to purchase 1 million kWh per year from the local coal-burning utility. This, in turn, reduces the total amount of carbon dioxide emissions by 1,000 tons per year, which is equivalent to the greenhouse gas emissions produced by burning 80,000 gallons of diesel fuel.



**Compressed Air Project MidRange Engine Plant**

A Six Sigma project at Cummins MidRange Engine Plant focused on creating energy savings associated with compressor run time and the overall effort to maximize the compressed air process.

Initially, meters were installed on each compressor to obtain a baseline usage. After enough data was generated to establish the average kWh per day, numerous improvements were made involving leakage corrections and overall optimization of the compressed air usage and process. These improvements resulted in a reduction of 6,189 kWh per day, equating to an annual reduction in emissions of 134,000 pounds of nitrogen oxides, 366,000 pounds of sulfur dioxide, and 53 million pounds of carbon dioxide.

**Cummins India Ltd. Receives Excellence in Energy Award**

Cummins India Limited was awarded a National Award Trophy for Excellence in Energy

*Coolant Disposal at Fleetguard's Lake Mills Plant*

Management at the National Award Competition held in Chennai, India in December 2004.

This competition coincided with Energy Summit 2004, organized by the Confederation of Indian Industries (CII) and was open to any industrial company in India whose energy bill (fuel, power and water) exceeds \$600,000 a year or with a peak power demand of 750 KVA or more. Those selected for presentation at Energy Management 2004 represented India's leading industries, including automotive and chemical companies, etc. CIL showcased its achievement of energy cost reduction, amounting to a reduction of 22 percent over the last three years.

**Customer Excellence in Sustainability Award**

Cinergy, the electrical energy provider in the Columbus, Ind. area, selected Cummins as the recipient of a 2004 Excellence in Sustainability Award.

Each year, Cinergy recognizes some of its best suppliers, employees and various branch offices for their work in the community, for dealing with

environmental issues and for providing excellent service to their customers. Cummins is the first customer to receive this award.

Cinergy praised Cummins for being among the best in its industry when it comes to air-emissions reduction research and for:

- Spending more than half its in-house research and development dollars on emission-reduction technologies in the last 10 years
- Reducing diesel engine emissions by 90 percent
- Underwriting the development of schools in China and India
- Purchasing bio-diverse forest land in Mexico

### Going Beyond Waste Disposal Regulations

Fleetguard Lake Mills completed a Six Sigma project on machine coolants used in the components manufacturing area of the South Plant. The coolants were tested during two phases in two different process areas for “life expectancy,” based on the amount of contaminants in the coolant. Testing indicated that only minor amounts of oil contaminants were present and the coolant could be re-used after it was cleaned. As a result of this project, the Lake Mills plant achieved an 82 percent reduction in coolant and water consumption. Costs for new coolant and waste disposal decreased by more than \$120,000 annually.

### Safety and Environmental Awards

In order to recognize outstanding performance, the Safety and Environmental Council presents awards to those Cummins entities that best demonstrated excellence in one or both of these areas in 2004. Through their efforts, these sites

are instrumental in helping Cummins meet the commitments of the Company Vision and Mission. The awards program has been expanded and in 2005 will include Cummins worldwide distributors.

The Council evaluated the performance of each entity, using the following criteria:

- Benefit to environment and safety
- Level of management and employee commitment
- Economic efficiency
- Innovation
- Ability to serve as a model for use by others

The environmental awards focus on projects and initiatives that promote sustainability, emissions reductions, and the conservation of natural resources.

Entities are recognized at three distinct levels; Chairman, Business Unit (BU) and Director. The award winners for 2004 were:

Level	Environment Winners
Chairman	Power Generation, Fridley, Minnesota
Business Unit	<ul style="list-style-type: none"> <li>• Cummins SLP, Mexico</li> <li>• Fleetguard-Nelson Inc., Bloomer, Wisconsin</li> <li>• Tata Cummins Limited, India</li> <li>• Newage AVK-SEG Stamford, England</li> </ul>
Director	Cummins Brazil Limited

The work practices exhibited by these plants not only continue to yield great results and benefits for our organization but also are recognized externally as plants of excellence.

## Safety

Cummins Safety and Environmental Council, which meets quarterly, recommends and implements safety and environmental policies and strategic initiatives by reviewing best practices and Six Sigma projects in these areas.

## Safety

Cummins Safety and Environmental Council is made up of functional excellence, safety and environmental leaders from across the Company's four business units, in addition to Cummins corporate safety and environmental affairs managers and the Company's General Counsel.

The Council, which meets quarterly, recommends and implements safety and environmental policies and strategic initiatives by reviewing best practices and Six Sigma projects in these areas.

The Company's safety measures include both goals and targets. For all Cummins facilities worldwide, the Company measures itself against the U.S. OSHA standard. In addition, it measures and scores manufacturing facilities against a set of criteria established under the Cummins Operating System (called the CPE score).

These criteria look at how well an organization is implementing the Cummins safety system, which is based on 82 statements, 14 programs and the Company's 10 Cummins Operating System practices. Each statement is evaluated on a 1 to 10 scale and the scores are totaled and placed into the following categories:

- 50 points – Level 1
- 50-69 points – Level 2
- 70-84 points – Level 3
- 85-95 points – Excellence level

The corporate goal is zero safety incidents and a CPE score of 95. Targets for 2004/2005 include:

**Incidence Rate** – 2.0 or a 50 percent improvement over 2003 performance.

**Severity Rate** – 8.0 or a 50 percent improvement over 2003 performance.

**CPE/COS Score** – Level 3 with a minimum score of 70 points.

The Incidence Rate is calculated by the number of OSHA recordable injuries times 200,000 divided by the number of exposure hours. The Severity Rate is calculated by the number of lost work days times 200,000 divided by the number of exposure hours.

The table on the following page shows how Cummins safety performance compares to others in the Company's sector.

As part of a control plan to evaluate the system, in 2004 the Company implemented an aggressive audit schedule and will use these results to more

### Incidence Rates Comparison

Industry	Year	Incidence Rate Total	Severity Rate Lost Work Days	# of cases with		Total	Other Recordable Cases
				Day away from work	Job Transfer or Restriction		
Private Industry	2003	5.30	8.00	1.60	1.20	2.80	2.5
Manufacturing	2003	7.20	7.00	1.70	2.30	4.10	3.1
Industrial machinery & Equipment	2003	6.70	7.00	1.60	1.70	3.30	3.4
Miscellaneous manufacturing	2003	6.20	7.00	1.70	1.70	3.40	2.8
Best Rates	2003	0.50	0.50	0.20	0.50	0.10	0.30
Cummins	2002	2.09	9.85	0.60	0.53	1.13	0.96
Cummins	2003	1.94	10.98	0.56	0.32	0.88	1.06
Cummins	2004	1.51	9.01	0.54	0.29	0.83	0.68

formally recognize facilities for safety excellence. This process includes the following three steps:

- **Pre-Audit** – Performed to identify the gap between current practices and the system required based on the CPE/COS criteria.
- **Closing the Gap** – A period of time given to the facility/organization to make improvements.
- **Formal Audit** – A formal audit is conducted with the participation of external auditors, trained in Cummins safety reporting processes, to verify conformance to safety criteria.

To date, 46 audits have been conducted, four lead auditors have been trained and 20 co-auditors have been developed.

Safety award scoring incorporates measures of work place safety, as reflected in reduced injuries, as well as audit scores against elements of the Cummins Safety System itself, based upon the 10 Cummins Operation System (COS) practices. Entities are recognized at three distinct levels;

Chairman, Business Unit (BU) and Director. 2004 Corporate Safety Performance Recognition is based upon the following performance criteria:

#### Chairman’s Award

To be eligible for this award a site must achieve as a minimum an Incidence Rate of 0 to 0.5 and a CPE Level 3 with a score of 95 points.

#### BU Award

To be eligible for this award a site must achieve as a minimum an Incidence Rate of 0.6 to 1.0 and a CPE Level 3 with a score of 85 points.

#### Director Award

To be eligible for this award a site must achieve the Corporate Targets such as an Incidence Rate of 2.0 and a CPE level 3 with a score of 70 points as a minimum.

The award winners for 2004 were:

Level	Safety Winners
Chairman	Fleetguard-Nelson Inc., Viroqua, Wis.
Business Unit	<ul style="list-style-type: none"> <li>• Cummins SLP Mexico Plant and Parts Distribution Center</li> <li>• Fleetguard-Nelson Inc., Arcadia, Wis.</li> <li>• Fleetguard-Nelson Inc., Black River Falls, Wis.</li> <li>• Diesel ReCon SLP, Mexico</li> </ul>
Director	<ul style="list-style-type: none"> <li>• Diesel ReCon Memphis Plant</li> <li>• Newage AVK-SEG, Stamford, England</li> <li>• Fleetguard SLP, Mexico Plant and PDC</li> <li>• Daventry Engine Plant, England</li> <li>• Darlington Engine Plant, England</li> <li>• Cummins Brazil Limited</li> </ul>

The Safety and Environmental Council evaluated the best practice submissions for each BU.

The winners in this category were:

**Engine**

DRC SLP Dexterity Program

**Power Generation**

Fridley Safety Improvement Plant

**Components**

Bloomer STOP Card Awareness

**Distribution**

Cummins SLP Legal Compliance Tracking Program

**External Safety Recognition**

The Tata Holset plant in Dewas, India won second place in 2004 in a state-sponsored safety competition for workstation ergonomic improvements. The five-member team originally applied a seven-step problem-solving methodology specifically to determine the cause of one worker’s chronic back pain. But the project had additional benefit, as it also generated a plan to implement ergonomic measures to help all plant workers minimize workplace injury. Tata Holset plant workers now benefit from warm-up exercises, ergonomics training, workstation flow and re-design and door automation throughout the plant to keep them safe and healthy on the job.

Cummins SLP Mexico received the certification by STPS (Mexican Labor Agency from Federal Government). The SLP site was certified as a “Safe Industry” after a final audit from STPS and after presenting evidence of 100 percent fulfillment in all Mexican legal requirements. As a result, Cummins SLP Mexico will be able to reduce its annual insurance premiums.

## Contacts

Marya M. Rose, Vice President, General Counsel  
One American Square, Suite 1800  
Indianapolis, IN 46282

Christine M. Vujovich, Vice President,  
Marketing and Environmental Policy  
500 Jackson Street  
Columbus, IN 47201

Mark D. Land, Director of Public Relations  
One American Square, Suite 1800  
Indianapolis, IN 46282  
Telephone: 317-610-2456  
Mark.d.Land@cummins.com

## About this Report

The information in this report is presented in the spirit of the guidelines set by the Global Reporting Initiative (GRI). The aim of the GRI is to develop a consistent way for companies around the world to voluntarily report on the economic, environmental and social components of their business.

Started in 1997 by the Coalition for Environmentally Responsible Economies (CERES), the GRI became independent in 2002 and works in collaboration with the United Nations Environment Program (UNEP) and the UN Secretary-General's Global Compact.

We are proud of the positive impact Cummins products and the people who manufacture them have had on our society. We look forward to the opportunity to make a difference, not just today, but for future generations as well.







