

CUMMINS INC
Form 10-K
February 17, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2014
Commission File Number 1-4949
CUMMINS INC.

Indiana
(State of Incorporation)
500 Jackson Street
Box 3005
Columbus, Indiana 47202-3005
(Address of principal executive offices)
Telephone (812) 377-5000

35-0257090
(IRS Employer Identification No.)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$2.50 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting stock held by non-affiliates was approximately \$28.4 billion at June 29, 2014. This value includes all shares of the registrant's common stock, except for treasury shares.

As of January 30, 2015, there were 181,945,783 shares outstanding of \$2.50 par value common stock.

Documents Incorporated by Reference

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Portions of the registrant's definitive Proxy Statement for its 2015 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission on Schedule 14A within 120 days after the end of 2014, will be incorporated by reference in Part III of this Form 10-K to the extent indicated therein upon such filing.

Website Access to Company's Reports

We maintain an internet website at www.cummins.com. Investors may obtain copies of our filings from this website free of charge as soon as reasonable practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission.

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CUMMINS INC. AND SUBSIDIARIES

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Cummins Inc. and its consolidated subsidiaries are hereinafter sometimes referred to as "Cummins," "we," "our," or "us."

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

Certain parts of this annual report contain forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those that are based on current expectations, estimates and projections about the industries in which we operate and management's beliefs and assumptions. Forward-looking statements are generally accompanied by words such as "anticipates," "expects," "forecasts," "intends," "plans," "believes," "seeks," "estimates," "could," "should" or words of similar meaning. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which we refer to as "future factors," which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Some future factors that could cause our results to differ materially from the results discussed in such forward-looking statements are discussed below and shareholders, potential investors and other readers are urged to consider these future factors carefully in evaluating forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. Future factors that could affect the outcome of forward-looking statements include the following:

- a sustained slowdown or significant downturn in our markets;
- a slowdown in infrastructure development;
- unpredictability in the adoption, implementation and enforcement of emission standards around the world;
- the actions of, and income from, joint ventures and other investees that we do not directly control;
- changes in the engine outsourcing practices of significant customers;
- a downturn in the North American truck industry or financial distress of a major truck customer;
- a major customer experiencing financial distress;
- any significant problems in our new engine platforms;
- supply shortages and supplier financial risk, particularly from any of our single-sourced suppliers;
- variability in material and commodity costs;
- product recalls;
- competitor pricing activity;
- increasing competition, including increased global competition among our customers in emerging markets;
- exposure to information technology security threats and sophisticated "cyber attacks;"
- political, economic and other risks from operations in numerous countries;
- changes in taxation;
- global legal and ethical compliance costs and risks;
- aligning our capacity and production with our demand;
- product liability claims;
- the development of new technologies;
- obtaining additional customers for our new light-duty diesel engine platform and avoiding any related write-down in our investments in such platform;
- increasingly stringent environmental laws and regulations;
- foreign currency exchange rate changes;
- the price and availability of energy;
- the performance of our pension plan assets;
- labor relations;
- changes in accounting standards;
- our sales mix of products;

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- protection and validity of our patent and other intellectual property rights;
- technological implementation and cost/financial risks in our increasing use of large, multi-year contracts;
- the cyclical nature of some of our markets;
- the outcome of pending and future litigation and governmental proceedings;
- continued availability of financing, financial instruments and financial resources in the amounts, at the times and on the terms required to support our future business;
- the consummation and integration of the planned acquisitions of our partially-owned United States and Canadian distributors; and
- other risk factors described in Item IA under the caption "Risk Factors."

Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are made only as of the date of this annual report and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

ITEM 1. Business

OVERVIEW

Cummins Inc. was founded in 1919 as a corporation in Columbus, Indiana, as one of the first diesel engine manufacturers. We are a global power leader that designs, manufactures, distributes and services diesel and natural gas engines and engine-related component products, including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems and electric power generation systems. We sell our products to original equipment manufacturers (OEMs), distributors and other customers worldwide. We serve our customers through a network of approximately 600 company-owned and independent distributor locations and approximately 7,200 dealer locations in more than 190 countries and territories.

OPERATING SEGMENTS

We have four complementary operating segments: Engine, Distribution, Components and Power Generation. These segments share technology, customers, strategic partners, brand recognition and our distribution network in order to compete more efficiently and effectively in their respective markets. In each of our operating segments, we compete worldwide with a number of other manufacturers and distributors that produce and sell similar products. Our products compete primarily on the basis of performance, fuel economy, speed of delivery, quality, customer support and price. Financial information about our operating segments, including geographic information, is incorporated by reference from Note 19, "OPERATING SEGMENTS," to our Consolidated Financial Statements.

Engine Segment

Engine segment sales and earnings before interest and taxes (EBIT) as a percentage of consolidated results were:

	Years ended December 31,			
	2014	2013	2012	
Percent of consolidated net sales ⁽¹⁾	45	% 47	% 50	%
Percent of consolidated EBIT ⁽¹⁾	48	% 48	% 54	%

⁽¹⁾ Measured before intersegment eliminations

Our Engine segment manufactures and markets a broad range of diesel and natural gas powered engines under the Cummins brand name, as well as certain customer brand names, for the heavy- and medium-duty truck, bus, recreational vehicle (RV), light-duty automotive, agricultural, construction, mining, marine, oil and gas, rail and governmental equipment markets. We offer a wide variety of engine products including:

• Engines with a displacement range of 2.8 to 95 liters and horsepower ranging from 49 to 5,100;

• New parts and service, as well as remanufactured parts and engines, through our extensive distribution network;

• The newly developed 5.0 liter V8 diesel engine, which will be sold through the RV, pick-up, bus and certain medium-duty truck markets; and

• The newly developed 95 liter QSK95 diesel engine will begin production in 2015.

Our Engine segment is organized by engine displacement size and serves these end-user markets:

• Heavy-duty truck - We manufacture diesel engines that range from 310 to 600 horsepower serving global heavy-duty truck customers worldwide.

• Medium-duty truck and bus - We manufacture medium-duty diesel engines ranging from 200 to 450 horsepower serving medium-duty and inter-city delivery truck customers worldwide, with key markets including North America, Latin America, Europe and Mexico. We also provide diesel and natural gas engines for school buses, transit buses and shuttle buses worldwide, with key markets including North America, Europe, Latin America and Asia.

• Light-duty automotive and RV - We manufacture 320 to 385 horsepower diesel engines for Chrysler Group, LLC's (Chrysler) heavy-duty chassis cab and pickup trucks and 200 to 600 horsepower diesel engines for Class A motor homes (RVs), primarily in North America.

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Industrial - We provide mid-range, heavy-duty and high-horsepower engines that range from 49 to 5,100 horsepower for a wide variety of equipment in the construction, agricultural, mining, rail, government, oil and gas, power generation and commercial and recreational marine applications throughout the world. Across these markets we have major customers in North America, Europe, Middle East, Africa, China, Korea, Japan, Latin America, India, Russia, Southeast Asia, South Pacific and Mexico.

The principal customers of our heavy- and medium-duty truck engines include truck manufacturers such as PACCAR Inc. (PACCAR), Daimler Trucks North America, Navistar International Corporation (Navistar), Ford Motor Company, MAN Latin America and Volvo. We sell our industrial engines to manufacturers of construction, agricultural and marine equipment, including Komatsu, Belaz, Hyundai, Hitachi and JLG. The principal customers of our light-duty on-highway engines are Chrysler and manufacturers of RVs.

In the markets served by our Engine segment, we compete with independent engine manufacturers as well as OEMs who manufacture engines for their own products. Our primary competitors in North America are Navistar, Daimler Trucks North America, Caterpillar Inc. (CAT), Volvo Powertrain, Ford Motor Company and Hino Power. Our primary competitors in international markets vary from country to country, with local manufacturers generally predominant in each geographic market. Other engine manufacturers in international markets include Weichai Power Co. Ltd., MAN Nutzfahrzeuge AG (MAN), Fiat Power Systems, Guangxi Yuchai Group, GE Jenbacher, Tognum AG, CAT, Volvo, Yanmar Co., Ltd. and Deutz AG.

Distribution Segment

Distribution segment sales and EBIT as a percentage of consolidated results were:

	Years ended December 31,			
	2014	2013	2012	
Percent of consolidated net sales ⁽¹⁾	22	% 18	% 16	%
Percent of consolidated EBIT ⁽¹⁾	19	% 18	% 16	%

⁽¹⁾ Measured before intersegment eliminations

Our Distribution segment consists of 34 company-owned and 8 joint venture distributors that service and distribute the full range of our products and services to end-users at over 400 locations in approximately 80 distribution territories. Our company-owned distributors are located in key markets, including North America, Australia, Europe, the Middle East, India, China, Africa, Russia, Japan, Brazil, Singapore and Central America, while our joint venture distributors are located in key markets, including North America, South America, China, Thailand, Singapore and Vietnam. The Distribution segment consists of the following businesses which service and/or distribute the full range of our products and services:

Parts and filtration;
Power generation;
Engines; and
Service.

The Distribution segment is organized into seven primary geographic regions:

North and Central America;
Europe, CIS and China;
Asia Pacific;
Middle East;
Africa;
India; and
South America.

Asia Pacific is composed of six smaller regional distributor organizations (South Pacific, Korea, Japan, Philippines, Malaysia and Singapore) which allow us to better manage these vast geographic territories.

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North and Central America are comprised of a network of wholly-owned, partially-owned and independent distributors. Internationally, our network consists of independent, partially-owned and wholly-owned distributors. Through these networks, we provide parts and service to our customers. These full-service solutions include maintenance contracts, engineering services and integrated products, where we customize our products to cater to specific needs of end-users. Our distributors also serve and develop dealers, predominantly OEM dealers, in their territories by providing new products, technical support, tools, training, parts and product information.

In addition to managing our involvement with our wholly-owned and partially-owned distributors, our Distribution segment is responsible for managing the performance and capabilities of our independent distributors. Our Distribution segment serves a highly diverse customer base with approximately 43 percent of its 2014 sales being generated from new engines and power generation equipment, compared to 44 percent in 2013, with its remaining sales generated by parts and filtration and service revenue.

Financial information about our distributors accounted for under the equity method are incorporated by reference from Note 3, "INVESTMENTS IN EQUITY INVESTEEES," to our Consolidated Financial Statements.

Our distributors compete with distributors or dealers that offer similar products. In many cases, these competing distributors or dealers are owned by, or affiliated with the companies that are listed as competitors of our Engine, Components or Power Generation segments. These competitors vary by geographical location.

In September 2013, we announced our intention to acquire the equity that we do not already own in most of our partially-owned United States and Canadian distributors over the next three to five years. During 2014, we spent \$460 million on these acquisitions and the related debt retirements. Refer to Note 2, "ACQUISITIONS," to our Consolidated Financial Statements for additional information.

Components Segment

Components segment sales and EBIT as a percentage of consolidated results were:

	Years ended December 31,			
	2014	2013	2012	
Percent of consolidated net sales ⁽¹⁾	21	% 21	% 19	%
Percent of consolidated EBIT ⁽¹⁾	27	% 24	% 18	%

⁽¹⁾ Measured before intersegment eliminations

Our Components segment supplies products which complement our Engine segment, including aftertreatment systems, turbochargers, filtration products and fuel systems for commercial diesel applications. We manufacture filtration systems for on- and off-highway heavy-duty and mid-range equipment, and we are a supplier of filtration products for industrial and passenger car applications. In addition, we develop aftertreatment systems and turbochargers to help our customers meet increasingly stringent emission standards and fuel systems which to date have primarily supplied our Engine segment and our joint venture partner Scania.

Our Components segment is organized around the following businesses:

Emission solutions - Our emission solutions business is a global leader in designing, manufacturing and integrating aftertreatment technology and solutions for the commercial on-and off-highway medium-duty, heavy-duty and high-horsepower engine markets. Our emission solutions business develops and produces various emission solutions, including custom engineering systems and integrated controls, oxidation catalysts, particulate filters, oxides of nitrogen (NOx) reduction systems such as selective catalytic reduction and NOx adsorbers and engineered components including dosers and sensors. Our emission solutions business primarily serves markets in North America, Europe, China, Brazil, Russia and Australia and serves both OEM and engine first fit and retrofit customers.

Turbo technologies - Our turbo technologies business designs, manufactures and markets turbochargers for light-duty, mid-range, heavy-duty and high-horsepower diesel markets with manufacturing facilities in five countries and sales and distribution worldwide. Our turbo technologies business provides critical air handling technologies for engines, including variable geometry turbochargers, to meet challenging performance requirements and worldwide emission standards. Our turbo technologies business primarily serves markets in North America, Europe, Asia and Brazil.

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Filtration - Our filtration business designs and manufactures filtration, coolant and chemical products. Our filtration business offers over 8,300 products including air filters, fuel filters, fuel water separators, lube filters, hydraulic filters, coolant, diesel exhaust fluid, fuel additives and other filtration systems to OEMs, dealers/distributors and end users. Our filtration business supports a wide customer base in a diverse range of markets including on-highway, off-highway, oil and gas, agriculture, construction, power generation, marine, industrial and light-duty trucks. We produce and sell globally recognized Fleetguard® branded products in over 160 countries including countries in North America, Europe, South America, Asia, Australia and Africa. Fleetguard products are available through thousands of distribution points worldwide.

Fuel systems - Our fuel systems business designs and manufactures new and replacement fuel systems primarily for heavy-duty on-highway diesel engine applications and also remanufactures fuel systems.

Customers of our Components segment generally include our Engine and Distribution segments, truck manufacturers and other OEMs, many of which are also customers of our Engine segment, such as PACCAR, Daimler, Navistar, Volvo, Scania, Fiat, Komatsu, Ford and other manufacturers that use our components in their product platforms.

Our Components segment competes with other manufacturers of aftertreatment systems, filtration, turbochargers and fuel systems. Our primary competitors in these markets include Robert Bosch GmbH, Donaldson Company, Inc., Clarcor Inc., Mann+Hummel Group, Honeywell International, Borg-Warner, Tenneco Inc., Eberspacher

Holding GmbH & Co. KG and Denso Corporation.

On July 18, 2012, we acquired the doser technology business assets from Hilite Germany GmbH (Hilite) in a \$176 million cash transaction. The acquisition was accounted for as a business combination with the majority of the purchase price being allocated to goodwill and technology and customer related intangible assets. The results of the acquired entity were included in the Components operating segment after the acquisition date.

Power Generation Segment

Power Generation segment sales and EBIT as a percentage of consolidated results were:

	Years ended December 31,			
	2014	2013	2012	
Percent of consolidated net sales ⁽¹⁾	12	% 14	% 15	%
Percent of consolidated EBIT ⁽¹⁾	6	% 10	% 12	%

⁽¹⁾ Measured before intersegment eliminations

Our Power Generation segment designs and manufactures most of the components that make up power generation systems, including controls, alternators, transfer switches and switchgear. This segment is a global provider of power generation systems, components and services for a diversified customer base, including the following:

• Standby power solutions for customers who rely on uninterrupted sources of power to meet the needs of their customers;

• Distributed generation power solutions for customers with less reliable electrical power infrastructures, typically in developing countries. In addition, our power solutions provide an alternative source of generating capacity located close to its point of use, which is purchased by utilities, independent power producers and large power customers for use as prime or peaking power; and

• Mobile power solutions, which provide a secondary source of power (other than drivetrain power) for mobile applications.

Our Power Generation segment is organized around the following businesses:

Power products - Our power products business manufactures generators for commercial and consumer applications ranging from two kilowatts (kW) to one megawatt (MW) under the Cummins Power Generation and Cummins Onan brands.

Power systems - Our power systems business manufactures and sells diesel fuel-based generator sets over one MW, paralleling systems and transfer switches for critical protection and distributed generation applications. We also offer integrated systems that consist of generator sets, power transfer and paralleling switchgear for applications such as data centers, health care facilities and waste water treatment plants.

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Alternators - Our alternator business designs, manufactures, sells and services A/C generator/alternator products internally as well as to other generator set assemblers. Our products are sold under the Stamford, AVK and Markon brands and range in output from 0.6 kilovolt-amperes (kVA) to 30,000 kVA.

Power Solutions - Our power solutions business provides natural gas fuel-based turnkey solutions for distributed generation and energy management applications in the range of 300-2000 kW products. The business also serves a global rental account for diesel and gas generator sets.

This segment continuously explores emerging technologies and provides integrated power generation products using technologies other than reciprocating engines. We use our own research and development capabilities as well as those of our business partnerships to develop cost-effective and environmentally sound power solutions.

Our customer base for our power generation products is highly diversified, with customer groups varying based on their power needs. India, China, the United Kingdom (U.K.), Western Europe, Latin America and the Middle East are our largest geographic markets outside of North America.

Power Generation competes with a variety of engine manufacturers and generator set assemblers across the world.

Our primary competitors are CAT, Tognum (MTU) and Kohler/SDMO (Kohler Group), but we also compete with GE Jenbacher, FG Wilson (CAT group), Generac, Mitsubishi (MHI) and numerous regional generator set assemblers. Our alternators business competes globally with Emerson Electric Co., Marathon Electric and Meccalte, among others.

JOINT VENTURES, ALLIANCES AND NON-WHOLLY-OWNED SUBSIDIARIES

We have entered into a number of joint venture agreements and alliances with business partners around the world. Our joint ventures are either distribution or manufacturing entities. We also own controlling interests in non-wholly-owned manufacturing and distribution subsidiaries. Seven entities, in which we own more than a 50 percent equity interest or have a controlling interest, are consolidated in our Distribution segment results as well as several manufacturing joint ventures in the other operating segments.

In the event of a change of control of either party to certain of these joint ventures and other strategic alliances, certain consequences may result including automatic termination and liquidation of the venture, exercise of "put" or "call" rights of ownership by the non-acquired partner, termination or transfer of technology license rights to the non-acquired partner and increases in component transfer prices to the acquired partner. We will continue to evaluate joint venture and partnership opportunities in order to penetrate new markets, develop new products and generate manufacturing and operational efficiencies.

Financial information about our investments in joint ventures and alliances is incorporated by reference from Note 3, "INVESTMENTS IN EQUITY INVESTEEES," to the Consolidated Financial Statements.

Our equity income from these investees was as follows:

In millions	Years ended December 31,								
	2014			2013			2012		
Distribution Entities									
North American distributors	\$107	32	%	\$129	40	%	\$147	42	%
Komatsu Cummins Chile, Ltda.	29	9	%	25	8	%	26	8	%
All other distributors	4	1	%	1	—	%	4	1	%
Manufacturing Entities									
Dongfeng Cummins Engine Company, Ltd.	67	20	%	63	19	%	52	15	%
Chongqing Cummins Engine Company, Ltd.	51	16	%	58	18	%	61	18	%
Beijing Foton Cummins Engine Co., Ltd. (Light-duty)	28	8	%	17	5	%	5	1	%
Beijing Foton Cummins Engine Co., Ltd. (Heavy-duty)	(30)	(9)	%	(21)	(6)	%	(13)	(4)	%
All other manufacturers	74	23	%	53	16	%	65	19	%
Cummins share of net income ⁽¹⁾	\$330	100	%	\$325	100	%	\$347	100	%

⁽¹⁾ This total represents our share of net income of our equity investees and is exclusive of royalties and interest income from our equity investees. To see how this amount reconciles to "Equity, royalty and interest income from

investees" in the Consolidated Statements of Income, see Note 3, "INVESTMENTS IN EQUITY INVESTEES," to our Consolidated Financial Statements.

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Distribution Entities

North American Distributors - As of December 31, 2014, our distribution channel in North America included three unconsolidated partially-owned distributors. Our equity interests in these nonconsolidated entities ranged from 49 percent to 50 percent. We also had more than a 50 percent ownership interest in two partially owned distributors which we consolidate. While each distributor is a separate legal entity, the business of each is substantially the same as that of our wholly-owned distributors based in other parts of the world. All of our distributors, irrespective of their legal structure or ownership, offer the full range of our products and services to customers and end-users in their respective markets.

Komatsu Cummins Chile, Ltda. - Komatsu Cummins Chile, Ltda. is a joint venture with Komatsu America Corporation. The joint venture is a distributor that offers the full range of our products and services to customers and end-users in the Chilean and Peruvian markets.

Our distribution agreements with independent and partially-owned distributors generally have a renewable three-year term and are restricted to specified territories. Our distributors develop and maintain a network of dealers with which we have no direct relationship. Our distributors are permitted to sell other, noncompetitive products only with our consent. We license all of our distributors to use our name and logo in connection with the sale and service of our products, with no right to assign or sublicense the trademarks, except to authorized dealers, without our consent. Products are sold to the distributors at standard domestic or international distributor net prices, as applicable. Net prices are wholesale prices we establish to permit our distributors an adequate margin on their sales. Subject to local laws, we can generally refuse to renew these agreements upon expiration or terminate them upon written notice for inadequate sales, change in principal ownership and certain other reasons. Distributors also have the right to terminate the agreements upon 60-day notice without cause, or 30-day notice for cause. Upon termination or failure to renew, we are required to purchase the distributor's current inventory, signage and special tools and may, at our option purchase other assets of the distributor, but are under no obligation to do so.

See further discussion of our distribution network under the Distribution segment section above.

Manufacturing Entities

Our manufacturing joint ventures have generally been formed with customers and generally are intended to allow us to increase our market penetration in geographic regions, reduce capital spending, streamline our supply chain management and develop technologies. Our largest manufacturing joint ventures are based in China and are included in the list below. Our engine manufacturing joint ventures are supplied by our Components segment in the same manner as it supplies our wholly-owned Engine segment and Power Generation segment manufacturing facilities. Our Components segment joint ventures and wholly owned entities provide fuel systems, filtration, aftertreatment systems and turbocharger products that are used in our engines as well as some competitors' products. The results and investments in our joint ventures in which we have 50 percent or less ownership interest are included in "Equity, royalty and interest income from investees" and "Investments and advances related to equity method investees" in our Consolidated Statements of Income and Consolidated Balance Sheets, respectively.

Chongqing Cummins Engine Company, Ltd. - Chongqing Cummins Engine Company, Ltd. (CCEC) is a joint venture in China with Chongqing Machinery and Electric Co. Ltd. This joint venture manufactures several models of our heavy-duty and high-horsepower diesel engines, primarily serving the industrial and stationary power markets in China.

Dongfeng Cummins Engine Company, Ltd. - Dongfeng Cummins Engine Company, Ltd. (DCEC) is a joint venture in China with Dongfeng Automotive Co. Ltd., a subsidiary of Dongfeng Motor Corporation (Dongfeng), one of the largest medium-duty and heavy-duty truck manufacturers in China. DCEC produces Cummins 4- to 13-liter mechanical engines, full-electric diesel engines, with a power range from 125 to 545 horsepower, and natural gas engines.

Beijing Foton Cummins Engine Co., Ltd. - Beijing Foton Cummins Engine Co., Ltd. is a joint venture in China with Beiqi Foton Motor Co., Ltd., a commercial vehicle manufacturer, which consists of two distinct lines of business, a light-duty business and a heavy-duty business. The light-duty business produces ISF 2.8 liter and ISF 3.8 liter families of our high performance light-duty diesel engines in Beijing. These engines are used in light-duty commercial trucks, pickup trucks, buses, multipurpose and sport utility vehicles with main markets in China, Brazil and Russia. Certain

types of marine, small construction equipment and industrial applications are also served by these engine families. The heavy-duty business has been in the development stage for the past several years but started production of ISG 10.5 liter and ISG 11.8 liter families of our high performance heavy-duty diesel engines in the second quarter of 2014 in Beijing. These engines are used in heavy-duty commercial trucks in China and will be used in world wide markets. Certain types of construction equipment and industrial applications will also be served by these engine families in the future.

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Non-Wholly-Owned Subsidiary

We have a controlling interest in Cummins India Ltd. (CIL), which is a publicly listed company on various stock exchanges in India. CIL produces mid-range, heavy-duty and high-horsepower engines, generators for the Indian and export markets and natural gas spark-ignited engines for power generation, automotive and industrial applications. CIL also has distribution and power generation operations.

SUPPLY

The performance of the end-to-end supply chain, extending through to our suppliers, is foundational to our ability to meet customers' expectations and support long-term growth. We are committed to having a robust strategy for how we select and manage our suppliers to enable a market focused supply chain. This requires us to continuously evaluate and upgrade our supply base, as necessary, to ensure we are meeting the needs of our customers.

We have a strategic sourcing policy that guides decisions on what we make internally, what we purchase externally and when we establish supplier partnerships to provide the lowest total cost and highest supply chain performance. We design and/or manufacture our strategic components used in or with our engines and power generation units, including cylinder blocks and heads, turbochargers, connecting rods, camshafts, crankshafts, filters, alternators, electronic and emissions controls, and fuel systems. We source externally purchased material and manufactured components from leading global suppliers. Many key suppliers are managed through long-term supply agreements that assure capacity, delivery, quality and cost requirements are met over an extended period. Approximately 55 percent of the direct material in our product designs are single sourced to external suppliers. Although we have elected to source a relatively high proportion of our total raw materials and components from single suppliers, we have an established sourcing strategy and supplier management process to evaluate and mitigate risk. These processes are leading us to determine our need for dual sourcing and increase our use of dual and parallel sources to minimize risk and increase supply chain responsiveness. Our current target for dual and parallel sourcing is approximately 64 percent of our direct material spend. As of December 31, 2014, we have 45 percent of direct material spend with dual or parallel sources or 72 percent of the target.

Other important elements of our sourcing strategy include:

- working with suppliers to measure and improve their environmental footprint;
- selecting and managing suppliers to comply with our supplier code of conduct; and
- assuring our suppliers comply with Cummins' prohibited and restricted materials policy.

PATENTS AND TRADEMARKS

We own or control a significant number of patents and trademarks relating to the products we manufacture. These patents and trademarks were granted and registered over a period of years. Although these patents and trademarks are generally considered beneficial to our operations, we do not believe any patent, group of patents, or trademark (other than our leading brand house trademarks) is significant to our business.

SEASONALITY

While individual product lines may experience modest seasonal variation in production, there is no material effect on the demand for the majority of our products on a quarterly basis with the exception that our Power Generation segment normally experiences seasonal declines in the first quarter due to general declines in construction spending during this period and our Distribution segment normally experiences seasonal declines in its first quarter business activity due to holiday periods in Asia and Australia.

Table of Contents**LARGEST CUSTOMERS**

We have thousands of customers around the world and have developed long-standing business relationships with many of them. PACCAR is our largest customer, accounting for approximately 14 percent of our consolidated net sales in 2014, compared to approximately 12 percent in 2013 and 13 percent in 2012. We have long-term supply agreements with PACCAR for our heavy-duty ISX 15 liter and ISX 11.9 liter engines and our ISL 9 liter mid-range engine. While a significant number of our sales to PACCAR are under long-term supply agreements, these agreements provide for particular engine requirements for specific vehicle models and not a specific volume of engines. PACCAR is our only customer accounting for more than 10 percent of our net sales in 2014. The loss of this customer or a significant decline in the production level of PACCAR vehicles that use our engines would have an adverse effect on our results of operations and financial condition. We have been an engine supplier to PACCAR for over 70 years. A summary of principal customers for each operating segment is included in our segment discussion.

In addition to our agreement with PACCAR, we have long-term heavy-duty engine supply agreements with Navistar, Volvo Trucks North America and Daimler Trucks North America and long-term mid-range supply agreements with Daimler Trucks North America, Navistar, Ford and MAN. We also have an agreement with Chrysler to supply engines for its Ram trucks. In our off-highway markets, we have various engine and component supply agreements across our mid-range and high-horsepower businesses with Komatsu Ltd., as well as various joint ventures and other license agreements in our Engine, Component and Distribution segments. Collectively, our net sales to these eight customers, including PACCAR, were approximately 37 percent of our consolidated net sales in 2014, compared to approximately 36 percent in 2013 and 35 percent in 2012. Excluding PACCAR, net sales to any single customer were less than 8 percent of our consolidated net sales in 2014, compared to less than 7 percent in 2013 and less than 8 percent in 2012. These agreements contain standard purchase and sale agreement terms covering engine and engine parts pricing, quality and delivery commitments, as well as engineering product support obligations. The basic nature of our agreements with OEM customers is that they are long-term price and operations agreements that help assure the availability of our products to each customer through the duration of the respective agreements. Agreements with most OEMs contain bilateral termination provisions giving either party the right to terminate in the event of a material breach, change of control or insolvency or bankruptcy of the other party.

BACKLOG

We have supply agreements with some truck and off-highway equipment OEMs, however most of our business is transacted through open purchase orders. These open orders are historically subject to month-to-month releases and are subject to cancellation on reasonable notice without cancellation charges and therefore are not considered firm. As of December 31, 2014, we did not have any significant backlogs.

RESEARCH AND DEVELOPMENT

In 2014, we increased our research, development and engineering expenses as we continued to invest in future critical technologies and products. We will continue to make investments to improve our current technologies, continue to meet the future emission requirements around the world and improve fuel economy.

Our research and development program is focused on product improvements, innovations and cost reductions for our customers. Research and development expenditures include salaries, contractor fees, building costs, utilities, administrative expenses and allocation of corporate costs and are expensed, net of contract reimbursements, when incurred. From time to time, we enter into agreements with customers to fund a portion of the research and development costs of a particular project. We generally account for these reimbursements as an offset to the related research and development expenditure. Research and development expenses, net of contract reimbursements, were \$737 million in 2014, \$700 million in 2013 and \$721 million in 2012. Contract reimbursements were \$121 million in 2014, \$76 million in 2013 and \$86 million in 2012.

For 2013 and 2012, approximately \$15 million and \$101 million, or 2 percent and 14 percent, respectively, of our research and development expenditures were directly related to compliance with 2013 EPA emission standards. For 2014 and 2013, approximately \$60 million and \$32 million, or 8 percent and 5 percent, respectively, of our research and development expenditures were directly related to compliance with 2017 EPA emission standards.

ENVIRONMENTAL SUSTAINABILITY

Cummins adopted its first-ever comprehensive environmental sustainability plan in 2014 that builds on the many years of good work already done to positively impact the environment through the products we make, the use of our facilities, management of our supply chain and improvement of the communities where we live and work. We examined our entire environmental footprint, focusing on the key areas of water, waste, energy and greenhouse gases. We then identified the top four

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environmental sustainability priorities of products in-use, materials and fuel efficiency, transportation and facilities and operations. We set initial goals in our facilities, where we have the most data, influence and experience. Those goals are to reduce energy use and greenhouse gas emissions by 25% and 27%, respectively, by 2015 against a 2005 baseline and adjusted for sales; reduce direct water use by 33% adjusted for hours worked and achieve water neutrality at 15 sites by 2020; and increase our recycling rate from 88% to 95% and achieve zero disposal at 30 sites by 2020. We continue to invest significantly in our products to further reduce emissions and increase efficiency. We endeavor to work collaboratively with customers to improve their fuel efficiency, reduce their carbon footprints and conserve other resources. Our next efforts will be specifically focused on products, both in design and in use, as well as on how we use the best mode and method of transportation to reduce emissions in moving goods throughout the Cummins network.

Over the past four years, we believe that we have reduced company-wide water usage intensity by approximately 30 percent, U.S.-wide process-derived hazardous waste generation by approximately 41 percent and company-wide disposal waste by approximately 28 percent, all normalized to total work hours. As part of the U.S. Department of Energy's Better Buildings, Better Plants program, we have pledged to achieve a 25 percent energy intensity (energy use adjusted for sales) reduction by 2015; at the end of 2013, we had achieved a 33 percent reduction. We also have articulated our positions on key public policy issues and on a wide range of environmental issues. We are actively engaged with regulatory, industry and other stakeholder groups around the world as greenhouse gas and fuel efficiency standards become more prevalent globally. For the ninth consecutive year, we were named to the Dow Jones North American Sustainability Index and as well as a "Natural Capital Decoupling Leader" by Green Biz Group and Trucost for reductions in environmental footprint amid company growth. Our Sustainability Report for 2013/2014 and prior reports as well as an addendum of more detailed environmental data is available on our website at www.cummins.com, although such report and addendum are not incorporated into this Form 10-K.

ENVIRONMENTAL COMPLIANCE

Product Environmental Compliance

Our engines are subject to extensive statutory and regulatory requirements that directly or indirectly impose standards governing emission and noise. We have substantially increased our global environmental compliance presence and expertise to better prepare for, understand and ultimately meet emerging product environmental regulations around the world. Our products comply with current emission standards that the European Union (EU), EPA, the California Air Resources Board (CARB) and other state and international regulatory agencies have established for heavy-duty on-highway diesel and gas engines and off-highway engines. Our ability to comply with these and future emission standards is an essential element in maintaining our leadership position in regulated markets. We have made, and will continue to make, significant capital and research expenditures to comply with these standards. Our failure to comply with these standards could result in adverse effects on our future financial results.

EU and EPA Engine Certifications

The current on-highway emission standards came into effect in the European Union (EU) on January 1, 2013 (Euro VI) and on January 1, 2010 for the EPA. To meet the more stringent heavy-duty on-highway emission standards, we used an evolution of our proven selective catalytic reduction (SCR) and exhaust gas recirculation (EGR) technology solutions and refined them for the EU and EPA certified engines to maintain power and torque with substantial fuel economy improvement and maintenance intervals comparable with our previous compliant engines. We offer a complete lineup of on-highway engines to meet the near-zero emission standards. Mid-range and heavy-duty engines for EU and EPA require NOx aftertreatment. NOx reduction is achieved by an integrated technology solution comprised of the XPI High Pressure Common Rail fuel system, SCR technology, next-generation cooled EGR, advanced electronic controls, proven air handling and the Cummins Diesel Particulate Filter (DPF). The EU, EPA, and CARB have certified that our engines meet the current emission requirements. Emission standards in international markets, including Japan, Mexico, Australia, Brazil, Russia, India and China are becoming more stringent. We believe that our experience in meeting the EU and EPA emission standards leaves us well positioned to take advantage of opportunities in these markets as the need for emission control capability grows.

We received certification from the EPA that we met both the EPA 2013 and 2014 greenhouse gas (GHG) regulations and rules. The EPA 2013 regulations add the requirement of On-Board Diagnostics, which were introduced on the ISX15 in 2010, across the full on-highway product line in 2013 in addition to maintaining the same near-zero emission levels of NOx and Particulate Matter (PM) required in 2010. On-Board Diagnostics provide enhanced service capability with standardized diagnostic trouble codes, service tool interface, in-cab warning lamp and service information availability. The new GHG and fuel-efficiency regulations were required for all heavy-duty diesel and natural gas engines beginning in January 2014. Our GHG certification was the first engine certificate issued by the EPA and uses the same proven base engine with the XPI fuel system, Variable Geometry Turbocharger (VGT™), Cummins Aftertreatment System with DPF and SCR technology.

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Other Environmental Statutes and Regulations

Expenditures for environmental control activities and environmental remediation projects at our facilities in the U.S. have not been a substantial portion of our annual capital outlays and are not expected to be material in 2015. We believe we are in compliance in all material respects with laws and regulations applicable to our plants and operations. In the U.S., pursuant to notices received from federal and state agencies and/or defendant parties in site environmental contribution actions, we have been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended or similar state laws, at less than 20 waste disposal sites. Based upon our experiences at similar sites we believe that our aggregate future remediation costs will not be significant. We have established accruals that we believe are adequate for our expected future liability with respect to these sites.

In addition, we have several other sites where we are working with governmental authorities on remediation projects. The costs for these remediation projects are not expected to be material.

EMPLOYEES

As of December 31, 2014, we employed approximately 54,600 persons worldwide. Approximately 17,680 of our employees worldwide are represented by various unions under collective bargaining agreements that expire between 2015 and 2019.

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information electronically with the Securities and Exchange Commission (SEC). You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including Cummins) file electronically with the SEC. The SEC's internet site is www.sec.gov.

Our internet site is www.cummins.com. You can access our Investors and Media webpage through our internet site, by clicking on the heading "Investors and Media" followed by the "Investor Relations" link. We make available, free of charge, on or through our Investors and Media webpage, our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934 or the Securities Act of 1933, as amended, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

We also have a Corporate Governance webpage. You can access our Governance Documents webpage through our internet site, www.cummins.com, by clicking on the heading "Investors and Media," followed by the "Investor Relations" link and then the topic heading of "Governance Documents" within the "Corporate Governance" heading. Code of Conduct, Committee Charters and other governance documents are included at this site. Our Code of Conduct applies to all employees, regardless of their position or the country in which they work. It also applies to the employees of any entity owned or controlled by us. We will post any amendments to the Code of Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange LLC (NYSE), on our internet site. The information on our internet site is not incorporated by reference into this report.

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EXECUTIVE OFFICERS OF THE REGISTRANT

Following are the names and ages of our executive officers, their positions with us as of January 31, 2015, and summaries of their backgrounds and business experience:

Name and Age	Present Cummins Inc. position and year appointed to position	Principal position during the past five years other than Cummins Inc. position currently held
N. Thomas Linebarger (52)	Chairman of the Board of Directors and Chief Executive Officer (2012)	President and Chief Operating Officer (2008-2011)
Richard J. Freeland (57)	President and Chief Operating Officer (2014)	Vice President and President - Engine Business (2010-2014) Vice President and President-Components Group (2008-2010) Chief Information Officer (2013-2014)
Sherry A. Aaholm (52)	Vice President—Chief Information Officer (2014)	Executive Vice President, Information Technology, FedEx Services (1998-2013) Partner—Law firm of Foley & Lardner (2011-2012)
Sharon R. Barner (57)	Vice President—General Counsel (2012)	Deputy Under Secretary of Commerce—Intellectual Property and Deputy Director of the United States Patent and Trademark Office (2009-2011)
Pamela L. Carter (65)	Vice President and President—Distribution Business (2007)	
Steven M. Chapman (60)	Group Vice President—China and Russia (2009)	
Jill E. Cook (51)	Vice President—Human Resources (2003)	
Dave J. Crompton (49)	Vice President and President—Engine Business (2014)	Vice President and General Manager - Engine Business (2013-2014) Vice President and General Manager - Midrange Engine Business (2005-2013) Vice President and President—Turbo Technologies (2012-2014)
Tracy A. Embree (41)	Vice President and President—Components Group (2015)	General Manager, Turbo Technologies—Asia (2011-2012) Executive Director—On Highway Business (2010-2011) Executive Director—Chrysler Business (2008-2010)

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Thaddeaus B. Ewald (47)	Vice President - Corporate Strategy and Business Development (2010)	Executive Director—Growth Office (2008-2010)
Richard E. Harris (62)	Vice President—Chief Investment Officer (2008)	
Marsha L. Hunt (51)	Vice President—Corporate Controller (2003)	
Mark A. Levett (65)	Vice President—Corporate Responsibility and Chief Executive Officer - Cummins Foundation (2013)	General Manager and Vice President—High Horsepower (1999-2013)

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Mark J. Osowick (47)	Vice President - Human Resources Operations (2014)	Executive Director—Human Resources, Components Segment & India ABO (2010-2014) Executive Director, Global Organization Development & Recruiting (2007-2010) Vice President—General Counsel and Corporate Secretary (2001-2011)
Marya M. Rose (52)	Vice President—Chief Administrative Officer (2011)	
Livingston L. Satterthwaite (54)	Vice President and President—Power Generation (2008)	
Anant J. Talaulicar (53)	Chairman and Managing Director-Cummins India Area Business Organization (2003)	Vice President and President - Components Group (2010-2014)
John C. Wall (63)	Vice President—Chief Technical Officer (2000)	
Patrick J. Ward (51)	Vice President—Chief Financial Officer (2008)	
Lisa M. Yoder (51)	Vice President—Global Supply Chain & Manufacturing (2011)	Vice President—Corporate Supply Chain (2010-2011), Executive Director—Supply Chain & Operations-Power Generation (2007-2010)

Our Chairman and Chief Executive Officer is elected annually by our Board of Directors and holds office until the meeting of the Board of Directors at which his election is next considered. Other officers are appointed by the Chairman and Chief Executive Officer, are ratified by our Board of Directors and hold office for such period as the Chairman and Chief Executive Officer or the Board of Directors may prescribe.

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ITEM 1A. Risk Factors

Set forth below and elsewhere in this Annual Report on Form 10-K are some of the principal risks and uncertainties that could cause our actual business results to differ materially from any forward-looking statements contained in this Report and could individually, or in combination, have a material adverse effect on our results of operations, financial position or cash flows. These risk factors should be considered in addition to our cautionary comments concerning forward-looking statements in this Report, including statements related to markets for our products and trends in our business that involve a number of risks and uncertainties. Our separate section above, "CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION," should be considered in addition to the following statements.

A sustained slowdown or significant downturn in our markets could materially and adversely affect our results of operations, financial condition or cash flows.

The U.S. economy began to improve in 2014, although many international markets continued to struggle. If the global economy or some of our significant markets encounter a sustained slowdown; depending upon the length, duration and severity of such a slowdown, our results of operations, financial condition and cash flow would almost certainly be materially adversely affected. Specifically, our revenues would likely decrease, we may be forced to consider further restructuring actions, we may need to increase our allowance for doubtful accounts, our days sales outstanding may increase and we could experience impairments to assets of certain of our businesses.

A slowdown in infrastructure development could adversely affect our business.

Infrastructure development has been a significant driver of our business in recent years, especially in the emerging markets of China and Brazil. General weakness in economic growth or the perception that infrastructure has been overbuilt could lead to a decline in infrastructure spending. Any sustained downturns in infrastructure development that result from these or other circumstances could adversely affect our business.

Unpredictability in the adoption, implementation and enforcement of increasingly stringent emission standards by multiple jurisdictions around the world could adversely affect our business.

Our engines are subject to extensive statutory and regulatory requirements governing emission and noise, including standards imposed by the EPA, the European Union, state regulatory agencies (such as the CARB) and other regulatory agencies around the world. We have made, and will be required to continue to make, significant capital and research expenditures to comply with these emission standards. Developing engines to meet numerous changing government regulatory requirements, with different implementation timelines and emission requirements, makes developing engines efficiently for multiple markets complicated and could result in substantial additional costs that may be difficult to recover in certain markets. In some cases, we may be required to develop new products to comply with new regulations, particularly those relating to air emissions. While we have met previous deadlines, our ability to comply with other existing and future regulatory standards will be essential for us to maintain our position in the engine markets we serve. The successful development and introduction of new and enhanced products in order to comply with new regulatory requirements are subject to other risks, such as delays in product development, cost over-runs and unanticipated technical and manufacturing difficulties.

In addition to these risks, the nature and timing of government implementation and enforcement of increasingly stringent emission standards in emerging markets are unpredictable and subject to change, or delays which could result in the products we developed or modified to comply with these standards becoming unnecessary or becoming necessary later than expected and in some cases negating our competitive advantage. This in turn can delay, diminish or eliminate the expected return on capital and research expenditures that we have invested in such products and may adversely affect our perceived competitive advantage in being an early, advanced developer of compliant engines.

We derive significant income from investees that we do not directly control.

Our net income includes significant equity, royalty and interest income from investees that we do not directly control. For 2014, we recognized \$370 million of equity, royalty and interest income from investees, compared to \$361 million in 2013. The majority of our equity, royalty and interest income from investees is from our unconsolidated North American distributors and from two of our joint ventures in China, Dongfeng Cummins Engine Company, Ltd. (DCEC) and Chongqing Cummins Engine Company, Ltd. (CCEC) at December 31, 2014. Our equity ownership

interests in our unconsolidated North American distributors ranged from 49 percent to 50 percent at December 31, 2014. We have 50 percent equity ownership interests in DCEC and CCEC. As a result, although a significant percentage of our net income is derived from these unconsolidated entities, we do not unilaterally control their management or their operations, which puts a substantial portion of our net income at risk from the actions or inactions of these entities. A significant reduction in the level of contribution by these entities to our net income would likely have a material adverse effect on our results of operations.

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Our truck manufacturers and original equipment manufacturers (OEMs) customers may not continue to outsource their engine supply needs.

Several of our engine customers, including PACCAR, Volvo AB, Navistar, Chrysler and DCEC, are truck manufacturers or OEMs that manufacture engines for some of their own products. Despite their own engine manufacturing abilities, these customers have historically chosen to outsource certain types of engine production to us due to the quality of our engine products, our emission capabilities, our systems integration, their customers' preferences, their desire for cost reductions, their desire for eliminating production risks and their desire to maintain company focus. However, there can be no assurance that these customers will continue to outsource, or outsource as much of, their engine production in the future. Increased levels of OEM vertical integration could result from a number of factors, such as shifts in our customers' business strategies, acquisition by a customer of another engine manufacturer, the inability of third-party suppliers to meet product specifications and the emergence of low-cost production opportunities in foreign countries. Any significant reduction in the level of engine production outsourcing from our truck manufacturer or OEM customers could have a material adverse effect on our results of operations. A downturn in the North American truck industry or other factors negatively affecting any of our truck OEM customers could materially adversely impact our results of operations.

We make significant sales of engines and components to a few large truck OEMs in North America. If the North American truck market suffers a significant downturn, or if one of our large truck OEM customers experienced financial distress or bankruptcy, such circumstance would likely lead to significant reductions in our revenues and earnings, commercial disputes, receivable collection issues, and other negative consequences that could have a material adverse impact on our results of operations.

The discovery of any significant problems with our recently-introduced engine platforms in North America could materially adversely impact our results of operations, financial condition and cash flow.

The EPA and CARB have certified all of our 2012/2013 on-highway and off-highway engines, which utilize SCR technology to meet requisite emission levels. We introduced SCR technology into our engine platforms in 2010. The effective performance of SCR technology and the overall performance of these engine platforms impact a number of our operating segments and remain crucial to our success in North America. While these 2010 and 2013 engine platforms have performed well in the field, the discovery of any significant problems in these platforms could result in recall campaigns, increased warranty costs, reputational risk and brand risk, and could materially adversely impact our results of operations, financial condition and cash flow.

We are vulnerable to supply shortages from single-sourced suppliers.

During 2014, we single sourced approximately 55 percent of the total types of parts in our product designs. Any delay in our suppliers' deliveries may adversely affect our operations at multiple manufacturing locations, forcing us to seek alternative supply sources to avoid serious disruptions. Delays may be caused by factors affecting our suppliers, including capacity constraints, labor disputes, economic downturns, availability of credit, the impaired financial condition of a particular supplier, suppliers' allocations to other purchasers, weather emergencies, natural disasters or acts of war or terrorism. Any extended delay in receiving critical supplies could impair our ability to deliver products to our customers and our results of operations.

Our products are exposed to variability in material and commodity costs.

Our businesses establish prices with our customers in accordance with contractual time frames; however, the timing of material and commodity market price increases may prevent us from passing these additional costs on to our customers through timely pricing actions. Additionally, higher material and commodity costs around the world may offset our efforts to reduce our cost structure. While we customarily enter into financial transactions and contractual pricing adjustment provisions with our customers that attempt to address some of these risks (notably with respect to copper, platinum and palladium), there can be no assurance that commodity price fluctuations will not adversely affect our results of operations. In addition, while the use of commodity price hedging instruments may provide us with some protection from adverse fluctuations in commodity prices, by utilizing these instruments we potentially forego the benefits that might result from favorable fluctuations in price. As a result, higher material and commodity costs, as well as hedging these commodity costs during periods of decreasing prices, could result in declining margins.

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Our products are subject to recall for performance or safety-related issues.

Our products may be subject to recall for performance or safety-related issues. Product recalls subject us to harm to our reputation, loss of current and future customers, reduced revenue and product recall costs. Product recall costs are incurred when we decide, either voluntarily or involuntarily, to recall a product through a formal campaign to solicit the return of specific products due to a known or suspected performance issue. Any significant product recalls could have a material adverse effect on our results of operations, financial condition and cash flows.

Failure to successfully integrate the planned acquisitions of the equity we do not already own of our partially-owned United States and Canadian distributors could have an adverse impact on our realization of expected benefits to our financial condition and results of operations.

The completion of our plan to acquire all of the equity we do not already own of our partially- owned United States and Canadian distributors (each, an "Acquisition," and collectively, the "Acquisitions"), is subject to various risks, including, among other things, our ability to realize the full extent of the incremental revenue, earnings, cash flow, cost savings and other benefits that we expect to realize as a result of the completion of the Acquisitions within the anticipated time frame, or at all; the costs that are expected to be incurred in connection with evaluating, negotiating, consummating and integrating the Acquisitions; the ability of management to focus adequate time and attention on evaluating, negotiating, consummating and integrating the Acquisitions; and diversion of management's attention from base strategies and objectives, both during and after the acquisition process. Further, as with all merger and acquisition activity, there can be no assurance that we will be able to negotiate, consummate and integrate the Acquisitions in accordance with our plans. Those persons holding the third-party ownership of our partially-owned United States and Canadian distributors may not agree to our acquisition proposals, including the terms and conditions thereof, and may claim that our proposals to exercise certain contractual rights that we have with respect to acquiring such distributors may violate applicable state franchise and distributor laws, which may prohibit, delay or otherwise adversely affect the consummation of such Acquisitions on terms and conditions that are less favorable to us than we currently anticipate, or not at all.

After completion of the Acquisitions, we may fail to realize the expected enhanced revenue, earnings, cash flow, cost savings and other benefits.

The financial success of the Acquisitions will depend, in substantial part, on our ability to successfully combine our business with the businesses of our partially-owned United States and Canadian distributors, transition operations and realize the expected enhanced revenue, earnings, cash flow, cost savings and other benefits from such Acquisitions. While we currently believe that these enhanced revenue, earnings, cash flow, cost savings and other benefits estimates are achievable, it is possible that we will be unable to achieve these objectives within the anticipated time frame, or at all. Our enhanced revenue, earnings, cash flow, cost savings and other benefits estimates also depend on our ability to execute and integrate the Acquisitions in a manner that permits those benefits to be realized. If these estimates turn out to be incorrect or we are not able to execute our integration strategy successfully, the anticipated enhanced revenue, earnings, cash flow, cost savings and other benefits, resulting from the Acquisitions may not be realized fully, or at all, or may take longer to realize than expected.

Specifically, issues that must be addressed in integration in order to realize the anticipated benefits and costs savings of the Acquisitions include, among other things:

- maintaining and improving management and employee engagement, morale, motivation and productivity;
- recruiting and retaining executives and key employees;
- retaining and strengthening relationships with existing customers and attracting new customers;
- conforming standards, controls, procedures and policies, business cultures and compensation structures among the companies;
- consolidating and streamlining corporate and administrative infrastructures;
- consolidating sales, customer service and marketing operations;
- identifying and eliminating redundant and underperforming operations and assets;
- integrating the distribution, sales, customer service and administrative support activities among the companies;
-

integrating information technology systems, including those systems managing data security for sensitive employee, customer and vendor information, and diverse network applications across the companies;

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managing the broadened competitive landscape, including responding to the actions taken by competitors in response to the Acquisitions;

- coordinating geographically dispersed organizations;
- managing the additional business risks of businesses that we have not previously directly managed; and
- managing tax costs or inefficiencies associated with integrating our operations following completion of the Acquisitions.

Delays encountered in the process of integrating the Acquisitions could negatively impact our revenues, expenses, operating results, cash flow and financial condition after completion of the Acquisitions, including through the loss of current customers or suppliers. Although significant benefits, such as enhanced revenue, earnings, cash flow and cost savings, are expected to result from the Acquisitions, there can be no assurance that we will realize any of these anticipated benefits after completion of any or all of the Acquisitions.

Additionally, significant costs are expected to be incurred in connection with the integration of the Acquisitions. We continue to assess the magnitude of these costs and additional unanticipated costs may be incurred, including costs associated with assuming our partially-owned United States and Canadian distributors' exposure to outstanding and anticipated legal claims and other liabilities. Although we believe that the elimination of duplicative costs, as well as the realization of other synergies and efficiencies related to the integration of the Acquisitions, will offset incremental integration-related costs over time, no assurances can be given that this net benefit will be achieved in the near term, or at all. In addition, the process of integrating the operations of our partially-owned United States and Canadian distributors may distract management and employees from delivering against base strategies and objectives, which could negatively impact other segments of our business following the completion of the Acquisitions.

Furthermore, the Acquisitions and the related integration efforts, could result in the departure of key managers and employees, and we may fail to identify managerial resources to fill both executive-level and lower-level managerial positions and replace key employees, including those who oversee customer relationships, any of which could have a negative impact on our business, and, prior to the completion of the Acquisitions, the businesses of our partially-owned United States and Canadian distributors.

The completion of the Acquisitions may be subject to the receipt of certain required clearances or approvals from governmental entities that could prevent or delay their completion or impose conditions that could have an adverse effect on us.

Completion of each of the Acquisitions may be conditioned upon the receipt of certain governmental clearances or approvals, including, but not limited to, the expiration or termination of any applicable waiting periods under U.S. competition and trade laws with respect to such Acquisitions as well as applicable state regulations and restrictions.

There can be no assurance that these clearances and approvals will be obtained, and, additionally, government authorities from which these clearances and approvals are required may impose conditions on the completion of any, or all, of the Acquisitions or require changes to their respective terms. If, in order to obtain any clearances or approvals required to complete any of the Acquisitions, we become subject to any material conditions after completion of any of such Acquisitions, our business and results of operations after completion of any of such Acquisitions may be adversely affected.

We face significant competition in the markets we serve.

The markets in which we operate are highly competitive. We compete worldwide with a number of other manufacturers and distributors that produce and sell similar products. We primarily compete in the market with diesel engines and related diesel products; however, new technologies continue to be developed for gasoline, natural gas and other technologies and we will continue to face new competition from these expanding technologies. Our products primarily compete on the basis of price, performance, fuel economy, speed of delivery, quality and customer support. We also face competitors in some emerging markets who have established local practices and long standing relationships with participants in these markets. There can be no assurance that our products will be able to compete successfully with the products of other companies and in other markets. For a more complete discussion of the competitive environment in which each of our segments operates, see "Operating Segments" in "Item 1 Business."

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Increasing global competition among our customers may affect our existing customer relationships and restrict our ability to benefit from some of our customers' growth.

As our customers in emerging markets continue to grow in size and scope, they are increasingly seeking to export their products to other countries. This has meant greater demand for our advanced engine technologies to help these customers meet the more stringent emissions requirements of developed markets, as well as greater demand for access to our distribution systems for purposes of equipment servicing. As these emerging market customers enter into and begin to compete in more developed markets, they may increasingly begin to compete with our existing customers in these markets. Our further aid to emerging market customers could adversely affect our relationships with developed market customers and, as a result, we may be pressured to restrict sale or support of some of our products in the areas of increased competition. In addition, to the extent the competition does not correspond to overall growth in demand, we may see little or no benefit from this type of expansion by our emerging market customers.

We are exposed to, and may be adversely affected by, information technology security threats and sophisticated "cyber attacks."

We rely on our information technology systems and networks in connection with various of our business activities. Some of these networks and systems are managed by third party service providers and are not under our direct control. Our operations routinely involve receiving, storing, processing and transmitting sensitive information pertaining to our business, customers, dealers, suppliers, employees and other sensitive matters. Information technology security threats, including security breaches, computer malware and other "cyber attacks" are increasing in both frequency and sophistication. These threats could create financial liability, subject us to legal or regulatory sanctions or damage our reputation with customers, dealers, suppliers and other stakeholders. We continuously seek to maintain a robust program of information security and controls, but the impact of a material information technology event could have a material adverse effect on our competitive position, reputation, results of operations, financial condition and cash flow.

We are exposed to political, economic and other risks that arise from operating a multinational business.

Approximately 48 percent of our net sales for 2014 and 52 percent in 2013 were attributable to customers outside the U.S. Accordingly, our business is subject to the political, economic and other risks that are inherent in operating in numerous countries. These risks include:

- the difficulty of enforcing agreements and collecting receivables through foreign legal systems;
- trade protection measures and import or export licensing requirements;
- the imposition of taxes on foreign income and tax rates in certain foreign countries that exceed those in the U.S.;
- the imposition of tariffs, exchange controls or other restrictions;
- difficulty in staffing and managing widespread operations and the application of foreign labor regulations;
- required compliance with a variety of foreign laws and regulations;
- and
- changes in general economic and political conditions in countries where we operate, particularly in emerging markets.

As we continue to operate our business globally, our success will depend, in part, on our ability to anticipate and effectively manage these and other related risks. There can be no assurance that the consequences of these and other factors relating to our multinational operations will not have a material adverse effect upon us.

Unanticipated changes in our effective tax rate, the adoption of new tax legislation or exposure to additional income tax liabilities could adversely affect our profitability.

We are subject to income taxes in the U.S. and numerous international jurisdictions. Our income tax provision and cash tax liability in the future could be adversely affected by changes in the distribution of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes to our assertions regarding permanent re-investment of our foreign earnings, changes in tax laws and the discovery of new information in the course of our tax return preparation process. The carrying value of deferred tax assets, which are predominantly in the U.S., is dependent on our ability to generate future taxable income in the U.S. We are also subject to ongoing tax audits. These audits can involve complex issues, which may require an extended period of time to resolve and can be highly judgmental. Tax authorities may disagree with certain tax reporting positions taken by us and, as a result,

assess additional taxes against us. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. The amounts ultimately paid upon resolution of these or subsequent tax audits could be materially different from the amounts previously included in our income tax provision and, therefore, could have a material impact on our tax provision.

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Our global operations are subject to laws and regulations that impose significant compliance costs and create reputational and legal risk.

Due to the international scope of our operations, we are subject to a complex system of commercial and trade regulations around the world. Recent years have seen an increase in the development and enforcement of laws regarding trade compliance and anti-corruption such as the U.S. Foreign Corrupt Practices Act and similar laws from other countries. Our numerous foreign subsidiaries, affiliates and joint venture partners are governed by laws, rules and business practices that differ from those of the U.S. The activities of these entities may not comply with U.S. laws or business practices or our Code of Business Conduct. Violations of these laws may result in severe criminal or civil sanctions, could disrupt our business, and result in an adverse effect on our reputation, business and results of operations or financial condition. We cannot predict the nature, scope or effect of future regulatory requirements to which our operations might be subject or the manner in which existing laws might be administered or interpreted.

We face the challenge of accurately aligning our capacity with our demand.

We can experience capacity constraints and longer lead times for certain products in times of growing demand while we can also experience idle capacity as economies slow or demand for certain products decline. Accurately forecasting our expected volumes and appropriately adjusting our capacity have been, and will continue to be, important factors in determining our results of operations. We cannot guarantee that we will be able to increase manufacturing capacity to a level that meets demand for our products, which could prevent us from meeting increased customer demand and could harm our business. However, if we overestimate our demand and overbuild our capacity, we may have significantly underutilized assets and we may experience reduced margins. If we do not accurately align our manufacturing capabilities with demand it could have a material adverse effect on our results of operations.

Our business is exposed to risks of product liability claims.

We face an inherent business risk of exposure to product liability claims in the event that our products' failure to perform to specification results or is alleged to result in property damage, bodily injury and/or death. We may experience material product liability losses in the future. While we maintain insurance coverage with respect to certain product liability claims, we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against product liability claims. In addition, product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome. An unsuccessful defense of a significant product liability claim could have a material adverse effect upon us. In addition, even if we are successful in defending against a claim relating to our products, claims of this nature could cause our customers to lose confidence in our products and us. We may need to write off significant investments in our new North American light-duty diesel engine platform if customer commitments deteriorate.

We began development of a new North American light-duty diesel engine platform in July 2006 to be used in a variety of on- and off-highway applications. Since that time, and as of December 31, 2014, we have capitalized investments of approximately \$251 million. Market uncertainty due to the global recession resulted in some customers delaying or cancelling their vehicle programs, while others remained active. We reached an agreement to supply Nissan Motor Co. Ltd. with our light-duty diesel engine beginning in 2015, however, if customer expectations or volume projections deteriorate from our current expected levels and we do not identify new customers, we may need to recognize an impairment charge.

Our operations are subject to increasingly stringent environmental laws and regulations.

Our plants and operations are subject to increasingly stringent environmental laws and regulations in all of the countries in which we operate, including laws and regulations governing air emission, discharges to water and the generation, handling, storage, transportation, treatment and disposal of waste materials. While we believe that we are in compliance in all material respects with these environmental laws and regulations, there can be no assurance that we will not be adversely impacted by costs, liabilities or claims with respect to existing or subsequently acquired operations, under either present laws and regulations or those that may be adopted or imposed in the future. We are also subject to laws requiring the cleanup of contaminated property. If a release of hazardous substances occurs at or from any of our current or former properties or at a landfill or another location where we have disposed of hazardous materials, we may be held liable for the contamination and the amount of such liability could be material.

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We are subject to foreign currency exchange rate and other related risks.

We conduct operations in many areas of the world involving transactions denominated in a variety of currencies. We are subject to foreign currency exchange rate risk to the extent that our costs are denominated in currencies other than those in which we earn revenues. In addition, since our financial statements are denominated in U.S. dollars, changes in foreign currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our results of operations. While we customarily enter into financial transactions that attempt to address these risks and many of our supply agreements with customers include foreign currency exchange rate adjustment provisions, there can be no assurance that foreign currency exchange rate fluctuations will not adversely affect our results of operations. In addition, while the use of currency hedging instruments may provide us with some protection from adverse fluctuations in foreign currency exchange rates, by utilizing these instruments we potentially forego the benefits that might result from favorable fluctuations in foreign currency exchange rates.

We also face risks arising from the imposition of foreign exchange controls and currency devaluations. Foreign exchange controls may limit our ability to convert foreign currencies into U.S. dollars or to remit dividends and other payments by our foreign subsidiaries or businesses located in or conducted within a country imposing controls. Currency devaluations result in a diminished value of funds denominated in the currency of the country instituting the devaluation.

We are exposed to risks arising from the price and availability of energy.

The level of demand for our products and services is influenced in multiple ways by the price and availability of energy. High energy costs generally drive greater demand for better fuel economy in almost all countries in which we operate. Some of our engine products have been developed with a primary purpose of offering fuel economy improvements, and if energy costs decrease or increase less than expected, demand for these products may likewise decrease. The relative unavailability of electricity in some emerging market countries also influences demand for our electricity generating products, such as our diesel generators. If these countries add energy capacity by expanding their power grids at a rate equal to or faster than the growth in demand for energy, the demand for our generating products could also decrease or increase less than would otherwise be the case.

Significant declines in future financial and stock market conditions could diminish our pension plan asset performance and adversely impact our results of operations, financial condition and cash flow.

We sponsor both funded and unfunded domestic and foreign defined benefit pension and other retirement plans. Our pension cost and the required contributions to our pension plans are directly affected by the value of plan assets, the projected and actual rates of return on plan assets and the actuarial assumptions we use to measure our defined benefit pension plan obligations, including the discount rate at which future projected and accumulated pension obligations are discounted to a present value. We could experience increased pension cost due to a combination of factors, including the decreased investment performance of pension plan assets, decreases in the discount rate and changes in our assumptions relating to the expected return on plan assets.

Significant declines in future financial and stock market conditions could cause material losses in our pension plan assets, which could result in increased pension cost in future years and adversely impact our results of operations, financial condition and cash flow. Depending upon the severity of market declines and government regulatory changes, we may be legally obligated to make pension payments in the U.S. and perhaps other countries and these contributions could be material.

We may be adversely impacted by work stoppages and other labor matters.

As of December 31, 2014, we employed approximately 54,600 persons worldwide. Approximately 17,680 of our employees worldwide are represented by various unions under collective bargaining agreements that expire between 2015 and 2019. While we have no reason to believe that we will be materially impacted by work stoppages or other labor matters, there can be no assurance that future issues with our labor unions will be resolved favorably or that we will not encounter future strikes, work stoppages, or other types of conflicts with labor unions or our employees. Any of these consequences may have an adverse effect on us or may limit our flexibility in dealing with our workforce. In addition, many of our customers and suppliers have unionized work forces. Work stoppages or slow-downs

experienced by our customers or suppliers could result in slow-downs or closures that would have a material adverse effect on our results of operations, financial condition and cash flow.

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Our financial statements are subject to changes in accounting standards that could adversely impact our profitability or financial position.

Our financial statements are subject to the application of accounting principles generally accepted in the United States of America (GAAP), which are periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board. Recently, accounting standard setters issued new guidance which further interprets or seeks to revise accounting pronouncements related to revenue recognition and lease accounting as well as to issue new standards expanding disclosures. The impact of accounting pronouncements that have been issued but not yet implemented is disclosed in our annual and quarterly reports on Form 10-K and Form 10-Q. An assessment of proposed standards is not provided, as such proposals are subject to change through the exposure process and, therefore, their effects on our financial statements cannot be meaningfully assessed. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on the reported results of operations and financial position.

ITEM 1B. Unresolved Staff Comments

None.

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ITEM 2. Properties

Manufacturing Facilities

Our principal manufacturing facilities include our plants used by the following segments in the following locations:

Segment	U.S. Facilities	Facilities Outside the U.S.
Engine	Indiana: Columbus, Seymour	Brazil: Sao Paulo
	Tennessee: Memphis	India: Pune, Phaltan
	New Mexico: Clovis	Mexico: San Luis Potosi
	New York: Lakewood	U.K.: Darlington, Daventry, Cumbernauld
Components	North Carolina: Whitakers	
	Indiana: Columbus	Australia: Kilsyth
	South Carolina: Charleston	Brazil: Sao Paulo
	Tennessee: Cookeville	China: Beijing, Shanghai, Wuxi, Wuhan
Power Generation	Wisconsin: Mineral Point, Neillsville	France: Quimper
		Germany: Marktheidenfeld
		India: Pune, Dewas, Pithampur, Rudrapur
		Mexico: Ciudad Juarez, San Luis Potosi
		South Africa: Pietermaritzburg
		South Korea: Suwon
		Turkey: Ismir
		U.K.: Darlington, Huddersfield
		Brazil: Sao Paulo
		China: Wuxi, Wuhan
		Germany: Ingolstadt
		India: Pirangut, Ahmendnagar, Ranjangaon, Phaltan
	Mexico: San Luis Potosi	
	Romania: Craiova	
	U.K.: Margate, Manston, Stamford	
	Nigeria: Lagos	

In addition, engines and engine components are manufactured by joint ventures or independent licensees at manufacturing plants in the U.S., China, India, South Korea, Mexico and Sweden.

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Distribution Facilities

The principal distribution facilities used by our Distribution and Engine segments are located in the following locations:

Segment	U.S. Facilities	Facilities Outside the U.S.
Distribution	Alaska: Anchorage Arkansas: Little Rock Colorado: Commerce City, Henderson Florida: Orlando Georgia: Atlanta Illinois: Hodgkins Kansas: Wichita Louisiana: Kenner Massachusetts: Dedham Michigan: Grand Rapids Minnesota: White Bear Lake Missouri: Kansas City Nebraska: Omaha New Mexico: Farmington New York: Bronx Ohio: Hilliard Oklahoma: Oklahoma City Oregon: Portland Pennsylvania: Bristol, Harrisburg Texas: Dallas Utah: Salt Lake City Washington: Renton, Spokane Tennessee: Memphis	Australia: Scoresby Canada: Vancouver, Montreal Germany: Gross Gerau India: Pune Japan: Tokyo Korea: Cheonan Panama: Panama City Russia: Moscow Singapore: Singapore SG South Africa: Johannesburg U.K.: Wellingborough United Arab Emirates: Dubai
Engine		Belgium: Rumst

Headquarters and Other Offices

Our Corporate Headquarters are located in Columbus, Indiana. Additional marketing and operational headquarters are in the following locations:

U.S. Facilities	Facilities Outside the U.S.
Indiana: Columbus, Indianapolis Tennessee: Nashville Washington, D.C.	China: Beijing, Shanghai, Wuhan India: Pune U.K.: Staines, Stockton

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ITEM 3. Legal Proceedings

We are subject to numerous lawsuits and claims arising out of the ordinary course of our business, including actions related to product liability; personal injury; the use and performance of our products; warranty matters; patent, trademark or other intellectual property infringement; contractual liability; the conduct of our business; tax reporting in foreign jurisdictions; distributor termination; workplace safety; and environmental matters. We also have been identified as a potentially responsible party at multiple waste disposal sites under U.S. federal and related state environmental statutes and regulations and may have joint and several liability for any investigation and remediation costs incurred with respect to such sites. We have denied liability with respect to many of these lawsuits, claims and proceedings and are vigorously defending such lawsuits, claims and proceedings. We carry various forms of commercial, property and casualty, product liability and other forms of insurance; however, such insurance may not be applicable or adequate to cover the costs associated with a judgment against us with respect to these lawsuits, claims and proceedings. We do not believe that these lawsuits are material individually or in the aggregate. While we believe we have also established adequate accruals for our expected future liability with respect to pending lawsuits, claims and proceedings, where the nature and extent of any such liability can be reasonably estimated based upon then presently available information, there can be no assurance that the final resolution of any existing or future lawsuits, claims or proceedings will not have a material adverse effect on our business, results of operations, financial condition or cash flows.

We conduct significant business operations in Brazil that are subject to the Brazilian federal, state and local labor, social security, tax and customs laws. While we believe we comply with such laws, they are complex, subject to varying interpretations and we are often engaged in litigation regarding the application of these laws to particular circumstances.

ITEM 4. Mine Safety Disclosures

Not Applicable.

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Our common stock is listed on the NYSE under the symbol "CMI." For information about the quoted market prices of our common stock, information regarding dividend payments and the number of common stock shareholders, see "Selected Quarterly Financial Data" in this report. For other matters related to our common stock and shareholders' equity, see Note 14, "SHAREHOLDERS' EQUITY," to the Consolidated Financial Statements.

(b) Use of proceeds—not applicable.

(c) The following information is provided pursuant to Item 703 of Regulation S-K:

Period	Issuer Purchases of Equity Securities			
	(a) Total Number of Shares Purchased ⁽¹⁾	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
September 29 - November 2, 2014	315,011	\$129.26	314,276	81,701
November 3 - November 30, 2014	867	144.83	—	84,031
December 1 - December 31, 2014	180,614	138.75	180,214	88,027
Total	496,492	132.74	494,490	

⁽¹⁾ Shares purchased represent shares under our Key Employee Stock Investment Plan established in 1969 (there is no maximum repurchase limitation in this plan) and the 2012 Board of Directors authorized \$1 billion share repurchase program.

⁽²⁾ These values reflect the sum of shares held in loan status under our Key Employee Stock Investment Plan. The repurchase program authorized by the Board of Directors does not limit the number of shares that may be purchased and was excluded from this column.

In December 2012, the Board of Directors authorized the acquisition of \$1 billion of our common stock upon completion of the 2011 repurchase program. In 2014, we acquired \$670 million or 4.8 million shares of our common stock leaving \$174 million available for purchase under the 2012 repurchase plan at December 31, 2014. In July 2014, our Board of Directors authorized the acquisition of up to \$1 billion of additional common stock upon the completion of the 2012 repurchase plan.

During the fourth quarter of 2014, we repurchased 2,002 shares from employees in connection with the Key Employee Stock Investment Plan which allows certain employees, other than officers, to purchase shares of common stock on an installment basis up to an established credit limit. Loans are issued for five-year terms at a fixed interest rate established at the date of purchase and may be refinanced after its initial five-year period for an additional five-year period. Participants must hold shares for a minimum of six months from date of purchase and after shares are sold must wait six months before another share purchase may be made. We hold participants' shares as security for the loans and would, in effect repurchase shares if the participant defaulted in repayment of the loan. There is no maximum amount of shares that we may purchase under this plan.

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Performance Graph (Unaudited)

The following Performance Graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any of our future filings under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares the cumulative total shareholder return on our common stock for the last five years with the cumulative total return on the S&P 500 Index and an index of peer companies selected by us. Our peer group includes BorgWarner Inc, Caterpillar, Inc., Daimler AG, Danaher Corporation, Deere & Company, Donaldson Company Inc., Eaton Corporation, Emerson Electric Co., W.W. Grainger Inc., Honeywell International, Illinois Tool Works Inc., Ingersoll-Rand Company Ltd., Navistar, PACCAR, Parker-Hannifin Corporation, Textron Inc. and Volvo AB. Each of the measures of cumulative total return assumes reinvestment of dividends. The comparisons in this table are required by the SEC and are not intended to forecast or be indicative of possible future performance of our stock.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
AMONG CUMMINS INC., S&P 500 INDEX AND CUSTOM PEER GROUP

ASSUMES \$100 INVESTED ON DEC. 31, 2009
ASSUMES DIVIDENDS REINVESTED
FISCAL YEAR ENDING DEC. 31, 2014

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ITEM 6. Selected Financial Data

The selected financial information presented below for each of the last five years ended December 31, beginning with 2014, was derived from our Consolidated Financial Statements. This information should be read in conjunction with our Consolidated Financial Statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

In millions, except per share amounts	2014	2013	2012	2011	2010
For the years ended December 31,					
Net sales	\$19,221	\$17,301	\$17,334	\$18,048	\$13,226
U.S. percentage of sales	52	% 48	% 47	% 41	% 36
Non-U.S. percentage of sales	48	% 52	% 53	% 59	% 64
Gross margin ⁽¹⁾	4,861	4,280	4,416	4,589	3,168
Research, development and engineering expenses	754	713	728	629	414
Equity, royalty and interest income from investees	370	361	384	416	351
Interest expense ⁽²⁾	64	41	32	44	40
Net income attributable to Cummins Inc. ⁽³⁾	1,651	1,483	1,645	1,848	1,040
Earnings per common share attributable to Cummins Inc.					
Basic	\$9.04	\$7.93	\$8.69	\$9.58	\$5.29
Diluted	9.02	7.91	8.67	9.55	5.28
Cash dividends declared per share	2.81	2.25	1.80	1.325	0.875
Net cash provided by operating activities	\$2,266	\$2,089	\$1,532	\$2,073	\$1,006
Capital expenditures	743	676	690	622	364
At December 31,					
Cash and cash equivalents	\$2,301	\$2,699	\$1,369	\$1,484	\$1,023
Total assets	15,776	14,728	12,548	11,668	10,402
Long-term debt ⁽²⁾	1,589	1,672	698	658	709
Total equity ⁽⁴⁾	8,093	7,870	6,974	5,831	4,996

⁽¹⁾ We revised the classification of certain amounts for "Cost of sales" and "Selling, general and administrative expenses" for 2013 and 2012. The segment EBIT performance measure is unchanged, however, certain activities that were previously classified in "Selling, general and administrative expenses" are now classified as "Cost of sales". The reclassifications for the years ended December 31, 2013 and 2012, were \$103 million and \$92 million, respectively. The revision had no impact on reported net income, cash flows or the balance sheet. The amounts for the years ended December 31, 2011 and 2010, were not reclassified to be consistent with the current presentation. See Note 1, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," to our Consolidated Financial Statements for additional detail.

⁽²⁾ In September 2013, we issued \$1 billion of senior unsecured debt.

⁽³⁾ For the year ended December 31, 2012, consolidated net income included \$52 million of restructuring and other charges (\$35 million after-tax) and a \$20 million charge (\$12 million after-tax) related to legal matters. For the year ended December 31, 2011, consolidated net income included a \$68 million gain (\$37 million after-tax) related to the disposition of certain assets and liabilities of our exhaust business and a \$53 million gain (\$33 million after-tax) recorded for the disposition of certain assets and liabilities of our light-duty filtration business, both from the Components segment, and a \$38 million gain (\$24 million after-tax) related to flood damage recoveries from the insurance settlement related to a June 2008 flood in Southern Indiana. For the year ended December 31, 2010, consolidated net income included \$32 million in Brazil tax recoveries (\$21 million after-tax) and \$2 million in flood damage expenses.

⁽⁴⁾ In 2014, 2013, 2012, 2011 and 2010, we recorded non-cash charges (credits) to equity of \$78 million, \$(102) million, \$83 million, \$96 million and \$(125) million, respectively, to record net actuarial (gains) losses associated with the valuation of our pension plans. These (gains) losses include the effects of market conditions on our pension

trust assets and the effects of economic factors on the valuation of the pension liability.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

ORGANIZATION OF INFORMATION

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) was prepared to provide the reader with a view and perspective of our business through the eyes of management and should be read in conjunction with our Consolidated Financial Statements and the accompanying notes to those financial statements. Our MD&A is presented in the following sections:

- Executive Summary and Financial Highlights
- 2015 Outlook
- Results of Operations
- Operating Segment Results
- Liquidity and Capital Resources
- Contractual Obligations and Other Commercial Commitments
- Application of Critical Accounting Estimates
- Recently Adopted and Recently Issued Accounting Pronouncements

EXECUTIVE SUMMARY AND FINANCIAL HIGHLIGHTS

We are a global power leader that designs, manufactures, distributes and services diesel and natural gas engines and engine-related component products, including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems and electric power generation systems. We sell our products to original equipment manufacturers (OEMs), distributors and other customers worldwide. We have long-standing relationships with many of the leading manufacturers in the markets we serve, including PACCAR Inc, Daimler Trucks North America, Chrysler Group, LLC (Chrysler), Volvo AB, Komatsu, Navistar International Corporation, Aggreko plc, Ford Motor Company and MAN Nutzfahrzeuge AG. We serve our customers through a network of approximately 600 company-owned and independent distributor locations and approximately 7,200 dealer locations in more than 190 countries and territories.

Our reportable operating segments consist of the following: Engine, Distribution, Components and Power Generation. This reporting structure is organized according to the products and markets each segment serves. The Engine segment produces engines and parts for sale to customers in on-highway and various industrial markets. Our engines are used in trucks of all sizes, buses and recreational vehicles, as well as in various industrial applications, including construction, mining, agriculture, marine, oil and gas, rail and military equipment. The Distribution segment includes wholly-owned and partially-owned distributorships engaged in wholesaling engines, generator sets and service parts, as well as performing service and repair activities on our products and maintaining relationships with various OEMs throughout the world. The Components segment sells filtration products, aftertreatment systems, turbochargers and fuel systems. The Power Generation segment is an integrated provider of power systems, which sells engines, generator sets and alternators.

Our financial performance depends, in large part, on varying conditions in the markets we serve, particularly the on-highway, construction and general industrial markets. Demand in these markets tends to fluctuate in response to overall economic conditions. Our sales may also be impacted by OEM inventory levels and production schedules and stoppages. Economic downturns in markets we serve generally result in reduced sales of our products and can result in price reductions in certain products and/or markets. As a worldwide business, our operations are also affected by currency, political, economic and regulatory matters, including adoption and enforcement of environmental and emission standards, in the countries we serve. As part of our growth strategy, we invest in businesses in certain countries that carry high levels of these risks such as China, Brazil, India, Mexico, Russia and countries in the Middle East and Africa. At the same time, our geographic diversity and broad product and service offerings have helped limit the impact from a drop in demand in any one industry or customer or the economy of any single country on our consolidated results.

Worldwide revenues improved 11 percent in 2014 compared to 2013, primarily due to the improvements in North American on-highway demand and the consolidation of partially owned North American distributors. Revenue in the U.S. and Canada improved by 20 percent primarily due to increased demand in the North American on-highway markets driving sales in both the Engine and Components segments, as well as improved Distribution segment sales related to the consolidation of partially-

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owned North American distributors since December 31, 2012. These increases were partially offset by the reduced demand in the North American power generation markets primarily due to lower military sales. Amid the continued international economic uncertainty in 2014, our international revenues remained flat compared to 2013. International revenues increased in the Components segment, especially the emission solutions business in Western Europe and China due to additional content as the result of new emission regulations, while the Distribution segment revenues improved due to demand growth in Africa and Asia Pacific. These increases were offset by decreased international on-highway demand with decreased shipments of 7 percent and 11 percent in the heavy-duty and medium-duty truck markets, respectively, and decreased demand in international power generation markets.

The following table contains sales and EBIT (defined as earnings before interest expense, taxes and noncontrolling interests) results by operating segment for the years ended December 31, 2014 and 2013. Refer to the section titled "Operating Segment Results" for a more detailed discussion of net sales and EBIT by operating segment including the reconciliation of segment EBIT to income before income taxes.

Operating Segments

	2014			2013			Percent change 2014 vs. 2013		
	Sales	Percent of Total	EBIT	Sales	Percent of Total	EBIT	Sales	EBIT	
In millions									
Engine	\$10,962	57	% \$1,225	\$10,013	58	% \$1,041	9	% 18	%
Distribution	5,174	27	% 491	3,749	22	% 388	38	% 27	%
Components	5,118	27	% 684	4,342	25	% 527	18	% 30	%
Power Generation	2,896	15	% 168	3,031	18	% 218	(4)	% (23)	%
Intersegment eliminations	(4,929)	(26)	% —	(3,834)	(23)	% —	29	% —	
Non-segment	—	—	(70)	—	—	(14)	—	NM	
Total	\$19,221	100	% \$2,498	\$17,301	100	% \$2,160	11	% 16	%

"NM" - not meaningful information

Net income attributable to Cummins Inc. for 2014 was \$1,651 million, or \$9.02 per diluted share, on sales of \$19.2 billion, compared to 2013 net income attributable to Cummins Inc. of \$1,483 million, or \$7.91 per diluted share, on sales of \$17.3 billion. The increase in net income and earnings per share was driven by improved gross margin, partially offset by higher selling, general and administrative expenses. The improved gross margin was the result of higher volumes, improved Distribution segment sales related to the consolidation of partially-owned North American distributors since December 31, 2012, lower material and commodity costs and favorable mix, partially offset by unfavorable foreign currency fluctuations. Diluted earnings per share for 2014 benefited \$0.16 from lower shares outstanding, primarily due to purchases under the stock repurchase program.

We generated \$2.3 billion of operating cash flows in 2014, compared to \$2.1 billion in 2013. Refer to the section titled "Operating Activities" in the "Liquidity and Capital Resources" section for a discussion of items impacting cash flows. In September 2013, we announced our intention to acquire the equity that we do not already own in most of our partially-owned United States and Canadian distributors over the next three to five years. During 2014, we spent \$460 million on these acquisitions and the related debt retirements. We plan to spend an additional \$170 million to \$210 million on North American distributor acquisitions and the related debt retirements in 2015. Refer to Note 2, "ACQUISITIONS," to the Consolidated Financial Statements for additional information.

During 2014, we repurchased \$670 million of common stock under the 2012 Board of Directors authorized plan. In July 2014, our Board of Directors authorized the acquisition of up to \$1 billion of additional common stock upon the completion of the 2012 repurchase plan.

In the fourth quarter of 2014, we exercised our option to extend the maturity date of our revolving credit agreement by one year from November 9, 2017, to November 9, 2018.

In December 2014, Moody's Investors Service, Inc. raised our rating to 'A2' and confirmed our outlook as stable.

In July 2014, the Board of Directors authorized a dividend increase of approximately 25 percent from \$0.625 per share to \$0.78 per share on a quarterly basis.

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Our debt to capital ratio (capital is defined as debt plus equity) at December 31, 2014, was 17.3 percent, compared to 18.1 percent at December 31, 2013. As of the date of filing this Annual Report on Form 10-K, we had an 'A+' credit rating with a 'Stable' outlook from Standard & Poor's Rating Services, an 'A' credit rating with a 'Stable' outlook from Fitch Ratings and an 'A2' credit rating with a 'Stable' outlook from Moody's Investors Service, Inc. In addition to our \$2.4 billion in cash and marketable securities on hand, we have sufficient access to our credit facilities, if necessary, to meet currently anticipated investment and funding needs.

Our global pension plans, including our unfunded and non-qualified plans, were 108 percent funded at December 31, 2014. Our U.S. qualified plan, which represents approximately 56 percent of the worldwide pension obligation, was 119 percent funded and our United Kingdom (U.K.) plan was 113 percent funded. We expect to contribute \$175 million to our global pension plans in 2015. We anticipate pension and other postretirement benefit cost in 2015 to increase by approximately \$3 million pre-tax, or \$0.01 per diluted share, when compared to 2014. The increase is due to lower discount rates and unfavorable demographics mostly offset by favorable expected return on asset performance. Refer to application of critical accounting estimates within MD&A and Note 11, "PENSION AND OTHER POSTRETIREMENT BENEFITS," to the Consolidated Financial Statements, for additional information concerning our pension and other post-retirement benefit plans.

2015 OUTLOOK

Near-Term

We currently expect the following positive trends in 2015:

- We expect the North American heavy-duty and medium-duty on-highway markets to increase in 2015 as compared to the market in 2014.

- We expect the new ISG engine, which began production in the second quarter of 2014 with our Beijing Foton Cummins Engine Co., Ltd. joint venture, to continue to gain market share in China in its first full year of production.

- We plan to continue acquiring our partially-owned North American distributors, which will increase our Distribution segment revenues.

- Demand in some end markets in India are expected to begin to experience growth during the year.

We currently expect the following challenges to our business that may reduce our revenue and earnings potential in 2015:

- Power generation markets are expected to remain weak.

- Weak economic growth in Brazil could continue to negatively impact our on-highway and power generation businesses.

- We do not anticipate end markets in China to improve.

- Demand in certain European markets could remain weak due to continued political and economic uncertainty.

- Growth in emerging markets could be negatively impacted if emission regulations are not strictly enforced.

- Foreign currency volatility could continue to put pressure on revenue and earnings.

- We expect market demand to decline in the oil and gas markets as the result of the lower crude oil prices.

- Domestic and international mining markets could continue to deteriorate if commodity prices weaken.

Long-Term

We believe that, over the longer term, there will be economic improvements in most of our current markets and that our opportunities for long-term profitable growth will continue in the future as the result of the following four macroeconomic trends that will benefit our businesses:

- tightening emissions controls across the world;

- infrastructure needs in emerging markets;

- energy availability and cost issues; and

- globalization of industries like ours.

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RESULTS OF OPERATIONS

In millions (except per share amounts)	Years ended December 31,			Favorable/(Unfavorable)			
	2014	2013	2012	2014 vs. 2013		2013 vs. 2012	
				Amount	Percent	Amount	Percent
NET SALES	\$19,221	\$17,301	\$17,334	\$1,920	11 %	\$(33)	— %
Cost of sales	14,360	13,021	12,918	(1,339)	(10)%	(103)	(1)%
GROSS MARGIN	4,861	4,280	4,416	581	14 %	(136)	(3)%
OPERATING EXPENSES AND INCOME							
Selling, general and administrative expenses	2,095	1,817	1,808	(278)	(15)%	(9)	— %
Research, development and engineering expenses	754	713	728	(41)	(6)%	15	2 %
Equity, royalty and interest income from investees	370	361	384	9	2 %	(23)	(6)%
Other operating income (expense), net	(17)	(10)	(10)	(7)	70 %	—	— %
OPERATING INCOME	2,365	2,101	2,254	264	13 %	(153)	(7)%
Interest income	23	27	25	(4)	(15)%	2	8 %
Interest expense	64	41	32	(23)	(56)%	(9)	(28)%
Other income (expense), net	110	32	24	78	NM	8	33 %
INCOME BEFORE INCOME TAXES	2,434	2,119	2,271	315	15 %	(152)	(7)%
Income tax expense	698	531	533	(167)	(31)%	2	— %
CONSOLIDATED NET INCOME	1,736	1,588	1,738	148	9 %	(150)	(9)%
Less: Net income attributable to noncontrolling interests	85	105	93	20	19 %	(12)	(13)%
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$1,651	\$1,483	\$1,645	\$168	11 %	\$(162)	(10)%
Diluted earnings per common share attributable to Cummins Inc.	\$9.02	\$7.91	\$8.67	\$1.11	14 %	\$(0.76)	(9)%

"NM" - not meaningful information

Percent of sales	2014			2013			2012			Favorable/(Unfavorable)Percentage Points	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012	2014	2013	2012	2014 vs. 2013	2013 vs. 2012	
Gross margin	25.3	% 24.7	% 25.5	0.6	(0.8)						
Selling, general and administrative expenses	10.9	% 10.5	% 10.4	(0.4)	(0.1)						
Research, development and engineering expenses	3.9	% 4.1	% 4.2	0.2	0.1						

2014 vs. 2013

Net Sales

Net sales increased versus 2013 primarily driven by the following:

- Distribution segment sales increased by 38 percent primarily due to the acquisitions of North American distributors.
- Engine segment sales increased by 9 percent due to higher demand in the North American on-highway markets.
- Components segment sales increased by 18 percent primarily due to higher demand in on-highway markets in North America, Europe and China.

The increases were partially offset by the following:

- Power Generation segment sales decreased by 4 percent mainly due to lower volumes within power products, alternators and power systems.

Foreign currency fluctuations unfavorably impacted sales by approximately 1 percent (primarily in Brazil and India). Sales to international markets (excluding the U.S. and Canada), based on location of customers, were 44 percent of total net sales in 2014, compared with 48 percent of total net sales in 2013.

A more detailed discussion of sales by segment is presented in the “OPERATING SEGMENT RESULTS” section.

Table of Contents**Gross Margin**

Gross margin increased by \$581 million and as a percentage of sales by 0.6 percentage points as higher volumes, improved Distribution segment sales related to the consolidation of partially-owned North American distributors since December 31, 2012, lower material and commodity costs and favorable mix, were partially offset by unfavorable foreign currency fluctuations (primarily in Australia, Europe and Canada).

The provision for warranties issued, excluding campaigns, as a percentage of sales was 2.0 percent in 2014 and 2.1 percent in 2013. A more detailed discussion of margin by segment is presented in the "OPERATING SEGMENT RESULTS" section.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased primarily due to higher compensation and related expenses of \$118 million and increased consulting fees of \$28 million. These increases were significantly impacted by the acquisition of our partially owned North American distributors since December 31, 2012. Compensation and related expenses include salaries, fringe benefits and variable compensation. Overall, selling, general and administrative expenses, as a percentage of sales, increased to 10.9 percent in 2014 from 10.5 percent in 2013.

Research, Development and Engineering Expenses

Research, development and engineering expenses increased primarily due to higher compensation and related expenses of \$44 million, partially offset by decreased consulting expenses of \$7 million and increased expense recovery of \$7 million. Compensation and related expenses include salaries, fringe benefits and variable compensation. Overall, research, development and engineering expenses, as a percentage of sales, decreased to 3.9 percent in 2014 from 4.1 percent in 2013. Research activities continue to focus on development of new products to meet future emission standards around the world and improvements in fuel economy performance.

Equity, Royalty and Interest Income From Investees

Equity, royalty and interest income from investees increased primarily due to the following:

In millions	2014 vs. 2013 Increase/(Decrease)	
Beijing Foton Cummins Engine Co., Ltd. (Light-duty)	\$ 11	
Komatsu Cummins Chile, Ltda.	4	
Dongfeng Cummins Engine Company, Ltd.	4	
Chongqing Cummins Engine Company, Ltd.	(7)
Beijing Foton Cummins Engine Co., Ltd. (Heavy-duty)	(9)
North American distributors	(22)
All other	24	
Cummins share of net income	5	
Royalty and interest income	4	
Equity, royalty and interest income from investees	\$ 9	

The increases above were primarily due to increased earnings at Beijing Foton Cummins Engine Co., Ltd. (Light-duty), Komatsu Cummins Chile, Ltda. and Dongfeng Cummins Engine Company, Ltd., partially offset by the consolidation of the partially-owned North American distributors since December 31, 2012 and losses at Beijing Foton Cummins Engine Co., Ltd. (Heavy-duty) as the result of increased expenses related to the production launch of the 2014 product in the second quarter of 2014.

As we execute our plan to acquire partially-owned distributors, we expect equity earnings for our North American distributors to decrease as the earnings will be included in our consolidated results. See Note 2, "ACQUISITIONS," to the Consolidated Financial Statements for further information.

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Other Operating Income (Expense), Net

Other operating income (expense), net was as follows:

In millions	Years ended December 31,	
	2014	2013
Loss on write off of assets	\$(23	) \$(14
Amortization of intangible assets	(16	) (11
Royalty expense	(7	) (4
Legal matters	(3	) (2
Royalty income	34	20
Other, net	(2	) 1
Total other operating income (expense), net	\$(17	) \$(10

Interest Income

Interest income decreased in 2014, primarily due to an interest income recovery of a loan previously deemed unrecoverable in the second quarter of 2013.

Interest Expense

Interest expense increased as a result of the \$1 billion debt issuance in September 2013.

Other Income (Expense), Net

Other income (expense), net was as follows:

In millions	Years ended December 31,	
	2014	2013
Gain on fair value adjustment for consolidated investee ⁽¹⁾	\$73	\$12
Change in cash surrender value of corporate owned life insurance	24	12
Gain on marketable securities, net	14	13
Dividend income	3	5
Foreign currency loss, net	(6	) (27
Bank charges	(12	) (10
Other, net	14	27
Total other income (expense), net	\$110	\$32

⁽¹⁾ See Note 2, "ACQUISITIONS," to the Consolidated Financial Statements for more details.

Income Tax Expense

Our income tax rates are generally less than the 35 percent U.S. statutory income tax rate primarily because of lower taxes on foreign earnings and research tax credits. Our effective tax rate for 2014 was 28.7 percent compared to 25.1 percent for 2013. The 3.6 percent increase in the effective tax rate from 2013 to 2014 is partially due to a 1.2 percent net tax benefit for one-time items in 2013 that did not repeat in 2014. These 2013 one-time items consisted primarily of the 2012 federal research tax credit that was reinstated during 2013. The additional 2.4 percent increase in tax rate from 2013 to 2014 is attributable primarily to the following unfavorable items that occurred in 2014: a tax law change in the U.K. resulting in a higher limitation on the deductibility of interest; unfavorable changes in the jurisdictional mix of pretax income; and increases in state valuation allowances.

We evaluate the recoverability of our deferred tax assets each quarter by assessing the likelihood of future profitability and available tax planning strategies that could be implemented to realize our net deferred tax assets. At December 31, 2014, we recorded net deferred tax assets of \$184 million. These assets included \$190 million for the value of tax loss and credit carryforwards. A valuation allowance of \$144 million was recorded to reduce the tax assets to the net value management believed was more likely than not to be realized. In the event our operating performance deteriorates, future assessments could conclude that a larger valuation allowance will be needed to further reduce the deferred tax assets.

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We expect our 2015 effective tax rate to be 29.5 percent, excluding any discrete items that may arise. The research tax credit expired December 31, 2014, and has not yet been renewed by Congress. If the research credit is reinstated during 2015, we would anticipate the 2015 effective tax rate to be reduced to 28.5 percent, consistent with the 2014 rate of 28.7 percent.

Noncontrolling Interests

Noncontrolling interests eliminate the income or loss attributable to non-Cummins ownership interests in our consolidated entities. Noncontrolling interests in income of consolidated subsidiaries decreased primarily due to a \$23 million decline from the acquisition of the remaining interest in previously consolidated North American distributors since December 31, 2012.

Net Income Attributable to Cummins Inc. and Diluted Earnings Per Share Attributable to Cummins Inc.

Net income and diluted earnings per share attributable to Cummins Inc. increased primarily due to higher gross margin, mainly driven by improved volumes and improved Distribution segment sales related to the consolidation of partially-owned North American distributors since December 31, 2012. These increases were partially offset by higher selling, general and administrative expenses and a higher effective tax rate of 28.7 percent in 2014 versus 25.1 percent in 2013. Diluted earnings per share for 2014 benefited \$0.16 from lower shares outstanding, primarily due to purchases under the stock repurchase program.

2013 vs. 2012

Net Sales

Net sales decreased slightly versus 2012 and was primarily driven by the following:

Engine segment sales decreased by 7 percent due to lower demand in the power generation markets, weaker demand in the North American heavy-duty truck markets and continued weakness in industrial demand, primarily in off-highway mining markets.

Power Generation segment sales decreased by 7 percent due to lower demand in the power solutions business, primarily in the U.K., and lower demand in the power systems and the alternators businesses in international markets, partially offset by improvements in the North American power product business.

Foreign currency fluctuations unfavorably impacted sales by 1 percent.

The decreases were partially offset by the following:

Distribution segment sales increased by 14 percent primarily due to incremental sales in 2013 related to the consolidation of partially-owned North American distributors since June 2012.

Components segment sales increased by 8 percent due to higher sales within the emission solutions business, mainly related to improved on-highway OEM and aftermarket demand in North America, a full year of sales from Hilite which was acquired in the third quarter of 2012, 2013 pre-buy activity in anticipation of the Euro VI emission standards and growth in the medium-duty Brazilian truck market resulting in improved aftertreatment demand.

A more detailed discussion of sales by segment is presented in the "OPERATING SEGMENT RESULTS" section. Sales to international markets (excluding the U.S. and Canada) were 48 percent of total net sales in 2013, compared with 49 percent of total net sales in 2012.

Gross Margin

Gross margin decreased by \$125 million and as a percentage of sales by 0.7 percentage points. The decrease in gross margin as a percentage of sales was primarily due to a decline in demand for high-horsepower engines and gensets, partially offset by improved price realization, lower material and commodity costs and the absence of 2012 restructuring charges of \$29 million.

The provision for warranties issued, excluding campaigns, as a percentage of sales was 2.1 percent in both 2013 and 2012. A more detailed discussion of margin by segment is presented in the "OPERATING SEGMENT RESULTS" section.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses increased primarily due to incremental costs in 2013 related to the acquisition of partially owned North American distributors since June 2012. These costs primarily contributed to increased compensation and related expenses of \$57 million, partially offset by lower consulting of \$24 million, the absence of 2012 restructuring charges of \$20 million and reduced discretionary spending. Higher compensation expense was primarily due to increased headcount to support our strategic growth initiatives. Compensation and related expenses include salaries, fringe benefits and variable compensation. Overall, selling, general and administrative expenses, as a percentage of sales, increased to 11.1 percent in 2013 from 11.0 percent in 2012.

Research, Development and Engineering Expenses

Research, development and engineering expenses decreased primarily due to lower consulting of \$30 million and decreased engineering program spending of \$23 million, partially offset by increases of \$52 million in compensation related expenses. Higher compensation expense was primarily due to increased headcount to support our strategic growth initiatives. Compensation and related expenses include salaries and fringe benefits. Overall, research, development and engineering expenses, as a percentage of sales, decreased to 4.1 percent in 2013 from 4.2 percent in 2012.

Equity, Royalty and Interest Income From Investees

Equity, royalty and interest income from investees decreased primarily due to the following:

In millions	2013 vs. 2012 Increase/(Decrease)	
North American distributors	\$(18)
Cummins Westport, Inc.	(10)
Beijing Foton Cummins Engine Co., Ltd. (Heavy-duty)	(8)
Tata Cummins, Ltd.	(6)
Dongfeng Cummins Engine Company, Ltd.	11	
Beijing Foton Cummins Engine Co., Ltd. (Light-duty)	12	
All other	(3)
Cummins share of net income	(22)
Royalty and interest income	(1)
Equity, royalty and interest income from investees	\$(23)

The decreases above were primarily due to the consolidation of the partially-owned North American distributors acquired in 2013, unfavorable warranty accruals at Cummins Westport, Inc., an impaired equity investment within Power Generation and additional start-up costs at Beijing Foton Cummins Engine Co., Ltd. (Heavy-duty), partially offset by increased demand at Beijing Foton Cummins Engine Co., Ltd (Light-duty) and Dongfeng Cummins Engine Company, Ltd.

Other Operating Income (Expense), Net

Other operating income (expense), net was as follows:

In millions	Years ended December 31,		
	2013	2012	
Loss on write off of assets	\$(14	) \$(6)
Amortization of intangible assets	(11	) (8)
Royalty expense	(4	) (3)
Legal matters	(2	) (20)
Royalty income	20	18	
Gain on sale of business	—	6	
Other, net	1	3	
Total other operating income (expense), net	\$(10) \$(10)

Interest Income

Interest income was relatively flat compared to 2012.

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Interest Expense

Interest expense increased primarily due to the \$1 billion debt issuance in September 2013.

Other Income (Expense), Net

Other income (expense), net was as follows:

In millions	Years ended December 31,	
	2013	2012
Gain on marketable securities, net	\$13	\$3
Gain on fair value adjustment for consolidated investee ⁽¹⁾	12	7
Change in cash surrender value of corporate owned life insurance	12	5
Dividend income	5	7
Gain on sale of equity investment	—	13
Bank charges	(10	) (15
Foreign currency loss, net	(27	) (14
Other, net	27	18
Total other income (expense), net	\$32	\$24

⁽¹⁾ See Note 2, "ACQUISITIONS," to the Consolidated Financial Statements for more details.

Income Tax Expense

Our income tax rates are generally less than the 35 percent U.S. statutory income tax rate primarily because of lower taxes on foreign earnings and research tax credits. Our effective tax rate for 2013 was 25.1 percent compared to 23.5 percent for 2012. As a result of a restructuring of our foreign operations in 2013, our 2013 effective tax rate was approximately 1 percent less than it would have been without restructuring. On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law and reinstated the research tax credit back to 2012. As tax law changes are accounted for in the period of enactment, we recognized a \$28 million discrete tax benefit in the first quarter of 2013. We also recognized a discrete tax expense of \$17 million in the first quarter which primarily related to the write-off of a deferred tax asset deemed unrecoverable. Also included in 2013 was a third quarter discrete net tax expense of \$7 million primarily related to U.S. federal tax return true-up adjustments and the third quarter enactment of U.K tax law changes. Additionally, our effective tax rate for 2013 also included a fourth quarter discrete net tax benefit of \$21 million primarily due to the release of U.S. deferred tax liabilities related to prior years unremitted income of certain Indian and Mexican subsidiaries now considered to be permanently reinvested, as well as adjustments to our income tax accounts principally based on our 2012 state tax return filings. Our 2012 income tax provision included a one-time \$134 million tax benefit which resulted from tax planning strategies and tax return elections made with respect to our U.K. operations.

We evaluate the recoverability of our deferred tax assets each quarter by assessing the likelihood of future profitability and available tax planning strategies that could be implemented to realize our net deferred tax assets. At December 31, 2013, we recorded net deferred tax assets of \$177 million. These assets included \$187 million for the value of tax loss and credit carryforwards. A valuation allowance of \$101 million was recorded to reduce the tax assets to the net value management believed was more likely than not to be realized. In the event our operating performance deteriorates, future assessments could conclude that a larger valuation allowance will be needed to further reduce the deferred tax assets.

Noncontrolling Interests

Noncontrolling interests in income of consolidated subsidiaries increased reflecting our minority's share of higher profits of \$7 million at Cummins Western Canada LP, \$6 million at Wuxi Cummins Turbo Technologies Co. Ltd. and \$4 million due to the acquisition of a majority interest in Cummins Central Power LLC (Central Power) in the third quarter of 2012. The increases were partially offset by a total decrease of \$8 million at Cummins India Ltd.

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Engine segment sales by market were as follows:

In millions	Years ended December 31,			Favorable/(Unfavorable)		2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	Amount	Percent	Amount	Percent	Amount	Percent
Heavy-duty truck	\$3,139	\$2,705	\$2,964	\$434	16	% \$(259)	(9)	(9)	%
Medium-duty truck and bus	2,530	2,185	2,091	345	16	% 94	4	4	%
Light-duty automotive and RV	1,436	1,300	1,279	136	10	% 21	2	2	%
Total on-highway	7,105	6,190	6,334	915	15	% (144)	(2)	(2)	%
Industrial	3,040	2,996	3,233	44	1	% (237)	(7)	(7)	%
Stationary power	817	827	1,166	(10)	(1)	% (339)	(29)	(29)	%
Total sales	\$10,962	\$10,013	\$10,733	\$949	9	% \$(720)	(7)	(7)	%

Unit shipments by engine classification (including unit shipments to Power Generation) were as follows:

	Years ended December 31,			Favorable/(Unfavorable)		2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	Amount	Percent	Amount	Percent	Amount	Percent
Midrange	471,200	446,000	440,500	25,200	6	% 5,500	1	1	%
Heavy-duty	122,100	105,400	119,100	16,700	16	% (13,700)	(12)	(12)	%
High-horsepower	14,800	14,800	19,800	—	—	% (5,000)	(25)	(25)	%
Total unit shipments	608,100	566,200	579,400	41,900	7	% (13,200)	(2)	(2)	%

2014 vs. 2013

Sales

Engine segment sales increased versus 2013. The following are the primary drivers by market:

• Heavy-duty truck engine sales increased due to improved demand in the North American heavy-duty truck market with higher engine shipments of 29 percent.

• Medium-duty truck and bus sales increased primarily due to market share gains in the North American medium-duty truck and bus markets, partially offset by weaker international demand.

• Light-duty automotive and RV sales increased primarily due to a 9 percent increase in units shipped to Chrysler. The increases above were partially offset by unfavorable foreign currency fluctuations (primarily in Brazil and India). Total on-highway-related sales for 2014 were 65 percent of total engine segment sales, compared to 62 percent in 2013.

Segment EBIT

Engine segment EBIT increased versus 2013, primarily due to higher gross margin and higher equity, royalty and interest income from investees, partially offset by higher selling, general and administrative expenses and higher research, development and engineering expenses. Major components of EBIT and related changes to segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Year ended December 31, 2014 vs. 2013		
	Favorable/(Unfavorable) Change		Percentage point change as a percent of sales
	Amount	Percent	
Gross margin	\$274	13	% 0.6
Selling, general and administrative expenses	(67)	(8)	% 0.1
Research, development and engineering expenses	(22)	(5)	% 0.2
Equity, royalty and interest income from investees	11	8	% (0.1)

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The increase in gross margin versus 2013 was primarily due to higher volumes, favorable mix, decreased material and commodity costs and improved pricing. The increase in selling, general and administrative expenses was primarily due to increased headcount and higher variable compensation expense. The increase in research, development and engineering expenses was primarily due to lower expense recovery, increased consulting, increased variable compensation and increased investment to support new product initiatives. The increase in equity, royalty and interest income from investees was primarily due to higher earnings at Beijing Foton Cummins Engine Co., Ltd. (Light-duty). 2013 vs. 2012

Sales

Engine segment sales decreased versus 2012 due to lower demand in stationary power, heavy-duty truck and industrial businesses, partially offset by the medium-duty truck business. The following are the primary drivers by market:

Stationary power engine sales decreased due to lower demand in power generation markets.

Heavy-duty truck engine sales decreased due to weaker demand in North American on-highway markets during the first half of the year compared to the recovery experienced in the first half of 2012 as trucking companies replaced aging fleets.

Industrial market sales decreased primarily due to a 36 percent reduction in global mining shipments as a result of lower commodity prices and a 37 percent decline in engine shipments to North American oil and gas markets, partially offset by increased shipments to the Western European construction markets as a result of the pre-buy activity in 2013 ahead of the Tier IV emission regulations beginning in the first quarter of 2014.

Foreign currency fluctuations unfavorably impacted sales.

The decreases above were partially offset by the following:

Medium-duty truck engine sales increased due to market share gains in the North American medium-duty truck market and improved demand in the Brazilian and European truck markets. The improved sales in Brazil were primarily due to lower sales in the first half of 2012 as the result of the implementation of the Euro V emission regulations beginning in the first quarter of 2012.

Total on-highway-related sales for 2013 were 62 percent of total engine segment sales, compared to 59 percent in 2012.

Segment EBIT

Engine segment EBIT decreased versus 2012, primarily due to lower gross margin, partially offset by lower research, development and engineering expenses and higher equity, royalty and interest income from investees. Engine segment EBIT for 2012 included restructuring and other charges of \$20 million in the fourth quarter of 2012. Major components of EBIT and related changes to segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Year ended December 31, 2013 vs. 2012		
	Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of sales
Gross margin	\$(237)	(10)%	(0.7)
Selling, general and administrative expenses	1	—	% (0.5)
Research, development and engineering expenses	17	4	% (0.2)
Equity, royalty and interest income from investees	9	7	% 0.2

The decrease in gross margin versus 2012 was primarily due to unfavorable product mix and lower high-horsepower volumes, partially offset by improved price realization, decreased material and commodity costs and favorable foreign currency fluctuations. The decrease in selling, general and administrative expenses was primarily due to lower discretionary spending and the absence of restructuring charges incurred in 2012, partially offset by increased headcount. The decrease in research, development and engineering expenses was primarily due to lower discretionary spending in 2013, partially offset by increases in new product development spending and increased headcount to support our strategic growth initiatives. The increase in equity, royalty and interest income from investees was primarily due to higher earnings at Beijing Foton Cummins Engine Co., Ltd. within the light-duty business and Dongfeng Cummins Engine Company, Ltd., partially offset by lower earnings at Beijing Foton Engine Company, Ltd.

(Heavy-duty) in anticipation of production in the second quarter of 2014.

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2014 vs. 2013

Sales

Distribution segment sales increased versus 2013 primarily due to \$1.2 billion of segment sales related to the consolidation of partially-owned North American distributors since December 31, 2012, \$290 million of organic sales growth primarily in North America, Asia Pacific, Africa, Europe and the Middle East and \$56 million of segment sales related to the acquisition of international distributors. These increases were partially offset by unfavorable foreign currency fluctuations and decreased demand in India.

Segment EBIT

Distribution segment EBIT increased versus 2013, primarily due to the acquisitions of North American distributors, partially offset by unfavorable foreign currency fluctuations (primarily in Australia and Canada), higher selling, general and administrative expenses and lower equity, royalty and interest income from investees. The acquisitions resulted in gains of \$73 million and \$12 million for 2014 and 2013, respectively, related to the remeasurement of our pre-existing ownership interests in accordance with GAAP, which were partially offset by \$36 million and \$14 million of amortization of intangible assets in 2014 and 2013, respectively, for acquisitions since December 31, 2012. The decrease in equity, royalty and interest income from investees was the result of the acquisition of North American distributors since December 31, 2012. Major components of EBIT and related changes to segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Year ended December 31, 2014 vs. 2013		
	Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of sales
Gross margin	\$208	31	% (0.9)
Selling, general and administrative expenses	(144)	(32)	% 0.6
Equity, royalty and interest income from investees	(17)	(10)	% (1.5)

2013 vs. 2012

Sales

Distribution segment sales increased versus 2012 primarily due to \$507 million of incremental sales in 2013 related to the acquisition of partially-owned North American distributors since June 2012. These increases were partially offset by decreased engine product sales, primarily due to a significant slowdown in the North American oil and gas markets, and by unfavorable foreign currency fluctuations. Excluding acquisition related sales, all other changes were relatively flat versus 2012.

Segment EBIT

Distribution segment EBIT increased versus 2012, primarily due to higher gross margin as a result of the acquisition and consolidation of partially owned North American distributors in 2013. This increase was partially offset by unfavorable foreign currency fluctuations, higher selling, general and administrative expenses and lower equity, royalty and interest income from investees as a result of the acquisitions. Amortization of intangible assets related to these acquisitions also negatively impacted EBIT for 2013. These acquisitions resulted in a \$12 million gain related to the remeasurement of our pre-existing ownership interest in 2013, compared to a \$7 million gain related to the remeasurement of our pre-existing 35 percent ownership in Central Power in 2012. Distribution segment EBIT also included restructuring and other charges of \$14 million in 2012. Major components of EBIT and related changes to segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Year ended December 31, 2013 vs. 2012		
	Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of sales
Gross margin	\$75	13	% (0.3)
Selling, general and administrative expenses	(30)	(7)	% 0.8
Equity, royalty and interest income from investees	(23)	(12)	% (1.3)

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In millions	Year ended December 31, 2014 vs. 2013		
	Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of sales
Gross margin	\$ 191	19	% 0.3
Selling, general and administrative expenses	(51)	(19)	% —
Research, development and engineering expenses	(12)	(6)	% 0.5
Equity, royalty and interest income from investees	8	29	% 0.1

The increase in gross margin was primarily due to higher volumes, mainly in the emission solutions business and lower material and commodity costs, partially offset by unfavorable pricing and unfavorable foreign currency adjustments (primarily in Europe). The increase in selling, general and administrative expenses was primarily due to higher headcount to support business growth. The increase in research, development and engineering expenses was primarily due to higher headcount to support our strategic growth initiatives, partially offset by increased expense recovery.

2013 vs. 2012

Sales

Components segment sales increased versus 2012 primarily due to increased sales within the emission solutions business, mainly related to the following:

- Improved on-highway OEM and aftermarket demand in North America.

- The impact of our 2012 acquisition of Hilite experienced in Western Europe, which resulted in \$77 million of related incremental sales in 2013 compared to 2012.

- Western European pre-buy activity in anticipation of the Euro VI emission standards beginning in the first quarter of 2014.

- Growth in the medium-duty Brazilian truck market which resulted in improved aftertreatment demand.

The increases above were partially offset by the following:

- Foreign currency fluctuations unfavorably impacted sales results.

- Fuel systems business sales decreased primarily due to lower demand in North American on-highway markets and lower demand in Europe, partially offset by increased aftermarket demand.

Segment EBIT

Components segment EBIT increased versus 2012, primarily due to higher gross margin. Components segment EBIT for 2012 included restructuring and other charges of \$6 million in the fourth quarter. Major components of EBIT and related changes to segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Year ended December 31, 2013 vs. 2012		
	Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of sales
Gross margin	\$ 112	13	% 0.9
Selling, general and administrative expenses	7	3	% 0.7
Research, development and engineering expenses	(5)	(2)	% 0.3
Equity, royalty and interest income from investees	(1)	(3)	% (0.1)

The increase in gross margin was primarily due to higher volumes in the emission solutions business and lower material and commodity costs in several businesses, partially offset by increased warranty costs and unfavorable foreign currency fluctuations. The decrease in selling, general and administrative expenses was primarily due to lower discretionary spending in 2013, partially offset by increased compensation and variable compensation expense. The increase in research, development and engineering expenses was primarily due to higher headcount to support our strategic growth initiatives and new product development spending, partially offset by lower consulting expenses.

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Segment EBIT

Power Generation segment EBIT decreased versus 2013, primarily due to lower gross margin, higher selling, general and administrative expenses and higher research, development and engineering expenses, partially offset by higher equity, royalty and interest income from investees. Major components of EBIT and related changes to segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Year ended December 31, 2014 vs. 2013		
	Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of sales
Gross margin	\$(32)	(6)	% (0.2)
Selling, general and administrative expenses	(16)	(5)	% (1.0)
Research, development and engineering expenses	(4)	(5)	% (0.3)
Equity, royalty and interest income from investees	7	22	% 0.2

The decrease in gross margin versus 2013 was primarily due to lower volume, operating actions taken in the fourth quarter of 2014 and unfavorable foreign currency fluctuations (primarily in Europe), partially offset by higher warranty costs and favorable mix. The increase in selling, general and administrative expenses and research, development and engineering expenses was primarily due to operating actions taken in the fourth quarter of 2014 and higher compensation expenses. The favorable increase in equity, royalty and interest income from investees was due to an \$8 million impairment charge of an equity method investment in 2013.

2013 vs. 2012

Sales

Power Generation segment sales decreased versus 2012, primarily due to lower demand in the power solutions and power systems businesses. The following are the primary drivers by business:

• Power solutions sales decreased primarily due to lower volumes in the U.K., partially offset by increased sales in Asia.

• Power systems sales decreased primarily due to reduced demand in India, the Middle East, China, Asia and Russia, partially offset by increased sales in Western Europe.

• Alternators sales decreased primarily due to demand reductions in Europe, the U.K. and India.

The decreases above were partially offset by power products as sales increased primarily due to higher volumes in North America and improved price realization. These increases were partially offset by demand reductions in India and Asia and unfavorable foreign currency fluctuations.

Segment EBIT

Power Generation segment EBIT decreased versus 2012, primarily due to lower gross margin, partially offset by lower selling, general and administrative expenses. Power Generation segment EBIT for 2013 included an \$8 million legal settlement and an \$8 million impairment charge for the write-off of an equity method investment, while segment EBIT for 2012 included restructuring and other charges of \$12 million. Major components of EBIT and related changes to segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Year ended December 31, 2013 vs. 2012		
	Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of sales
Gross margin	\$(70)	(11)	% (0.9)
Selling, general and administrative expenses	14	4	% (0.3)
Research, development and engineering expenses	3	4	% (0.1)
Equity, royalty and interest income from investees	(8)	(20)	% (0.1)

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The decrease in gross margin versus 2012 was due to lower volumes, partially offset by improved price realization and favorable foreign currency fluctuations. The decreases in selling, general and administrative expenses and research, development and engineering expenses were primarily due to the absence of restructuring charges incurred in the fourth quarter of 2013 and lower discretionary spending to align with slowing demand in key markets. The decrease in equity, royalty and interest income from investees was due to an \$8 million impairment charge of an equity method investment in 2013.

Reconciliation of Segment EBIT to Income Before Income Taxes

The table below reconciles the segment information to the corresponding amounts in the Consolidated Statements of Income.

In millions	Years ended December 31,		
	2014	2013	2012
Total segment EBIT	\$2,568	\$2,174	\$2,328
Non-segment EBIT ⁽¹⁾	(70	) (14	) (25
Total EBIT	2,498	2,160	2,303
Less: Interest expense	64	41	32
Income before income taxes	\$2,434	\$2,119	\$2,271

⁽¹⁾ Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. The year ended December 31, 2012, included a \$20 million charge (\$12 million after-tax) related to legal matters. The gains and losses have been excluded from segment results as they were not considered in our evaluation of operating results for the year ended December 31, 2012.

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LIQUIDITY AND CAPITAL RESOURCES

Management's Assessment of Liquidity

Our financial condition and liquidity remain strong. Our solid balance sheet and credit ratings enable us to have ready access to credit and the capital markets.

We assess our liquidity in terms of our ability to generate adequate cash to fund our operating, investing and financing activities. We generate significant ongoing cash flow, which has been used, in part, to fund repurchases of common stock, capital expenditures, dividends on our common stock and acquisitions. Cash provided by operations is our principal source of liquidity. As of December 31, 2014, other sources of liquidity included:

- cash and cash equivalents of \$2.3 billion, of which approximately 41 percent was located in the U.S. and 59 percent was located outside the U.S., primarily in the U.K., China, Singapore and Belgium,
- revolving credit facility with \$1.73 billion available, net of letters of credit,
- international and other domestic short-term credit facilities with \$261 million available and
- marketable securities of \$93 million, of which 65 percent is located in India, 29 percent is located in the U.S., and 6 percent is located in Brazil and the majority of which could be liquidated into cash within a few days.

Our revolving credit agreement provides us with a \$1.75 billion unsecured revolving credit facility, the proceeds of which are to be used for our general corporate purposes. In the fourth quarter of 2014, we exercised our option to extend the maturity date of our revolving credit agreement by one year from November 9, 2017, to November 9, 2018. See Note 9, "DEBT," to our Consolidated Financial Statements for further information. The credit agreement includes one financial covenant: a leverage ratio. The required leverage ratio, which measures the sum of total debt plus securitization financing to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) for the four fiscal quarters may not exceed 3.25 to 1.0. At December 31, 2014, our leverage ratio was 0.6 to 1.0.

We have a current shelf registration filed with the Securities and Exchange Commission under which we may offer, from time to time, debt securities, common stock, preferred and preference stock, depositary shares, warrants, stock purchase contracts and stock purchase units.

We believe our liquidity provides us with the financial flexibility needed to fund working capital, common stock repurchases, capital expenditures, dividend payments, acquisitions of our North American distributors, projected pension obligations and debt service obligations. We continue to generate cash from operations in the U.S. and maintain access to \$1.7 billion of our revolver as noted above.

A significant portion of our cash flow is generated outside the U.S. As of December 31, 2014, the total of cash, cash equivalents and marketable securities held by foreign subsidiaries was \$1.4 billion, the vast majority of which was located in the U.K., China, Singapore, Belgium and India. The geographic location of our cash and marketable securities aligns well with our business growth strategy. We manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. As a result, we do not anticipate any local liquidity restrictions to preclude us from funding our targeted expansion or operating needs with local resources.

If we distribute our foreign cash balances to the U.S. or to other foreign subsidiaries, we could be required to accrue and pay U.S. taxes. For example, we would be required to accrue and pay additional U.S. taxes if we repatriated cash from certain foreign subsidiaries whose earnings we have asserted are permanently reinvested outside of the U.S. Foreign earnings for which we assert permanent reinvestment outside the U.S. consist primarily of earnings of our China and U.K. domiciled subsidiaries. At present, we do not foresee a need to repatriate any earnings from these subsidiaries for which we have asserted permanent reinvestment. However, to help fund cash needs of the U.S. or other international subsidiaries as they arise, we repatriate available cash from certain foreign subsidiaries whose earnings are not permanently reinvested when it is cost effective to do so. Earnings generated after 2011 from our China operations are considered permanently reinvested, while earnings generated prior to 2012, for which U.S. deferred tax liabilities have been recorded, are expected to be repatriated in future years.

The maturity schedule of our existing long-term debt does not require significant cash outflows in the intermediate term. Required annual principal payments range from \$11 million to \$28 million over each of the next five years.

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Working Capital Summary

We fund our working capital with cash from operations and short-term borrowings when necessary. Various assets and liabilities, including short-term debt, can fluctuate significantly from month to month depending on short-term liquidity needs. As a result, working capital is a prime focus of management attention.

In millions	2014	2013	Change 2014 vs. 2013		
			Amount	Percent	
Cash and cash equivalents	\$2,301	\$2,699	\$(398)	(15)	%
Marketable securities	93	150	(57)	(38)	%
Accounts and notes receivable, net	2,946	2,649	297	11	%
Inventories	2,866	2,381	485	20	%
Prepaid expenses and other current assets	849	760	89	12	%
Current assets	9,055	8,639	416	5	%
Current maturity of long-term debt, accounts and loans payable	1,990	1,625	365	22	%
Current portion of accrued product warranty	363	360	3	1	%
Accrued compensation, benefits and retirement costs	508	433	75	17	%
Taxes payable (including taxes on income)	70	99	(29)	(29)	%
Other accrued expenses	1,090	851	239	28	%
Current liabilities	4,021	3,368	653	19	%
Working capital	\$5,034	\$5,271			
Current ratio	2.25	2.57			
Days' sales in receivables	53	54			
Inventory turnover	5.3	5.4			

Current assets increased 5 percent compared to 2013, primarily due to increases in inventories and accounts and notes receivable principally due to the acquisitions of North American distributors in 2014. The increases were partially offset by a decrease in cash and marketable securities, primarily due to lower proceeds from borrowings and \$670 million of share repurchases in 2014.

Current liabilities increased 19 percent compared to 2013, primarily due to an increase in trade accounts payable and an increase in other accrued expenses.

Inventory turnover decreased 0.1 turns compared to 2013. The decrease was primarily due to higher inventory balances related to the consolidation of six North American distributors in 2014, which added \$379 million of inventory at December 31, 2014.

Cash Flows

Cash and cash equivalents decreased \$398 million during 2014, compared to an increase of \$1,330 million during the comparable period in 2013. The changes impacting cash and cash equivalents were as follows:

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Operating Activities

In millions	Years ended December 31,			Change	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Consolidated net income	\$1,736	\$1,588	\$1,738	\$148	\$(150)
Depreciation and amortization	455	407	361	48	46
Gain on fair value adjustment for consolidated investees	(73)	(12)	(7)	(61)	(5)
Deferred income taxes	31	100	116	(69)	(16)
Equity in income of investees, net of dividends	(100)	(62)	(15)	(38)	(47)
Pension contributions in excess of expense	(148)	(82)	(68)	(66)	(14)
Other post-retirement benefits payments in excess of expense	(27)	(25)	(21)	(2)	(4)
Stock-based compensation expense	36	37	36	(1)	1
Translation and hedging activities	(13)	17	—	(30)	17
Changes in current assets and liabilities, net of acquisitions					
Accounts and notes receivable	(89)	(148)	87	59	(235)
Inventories	(256)	(46)	(32)	(210)	(14)
Other current assets	1	212	(60)	(211)	272
Accounts payable	244	163	(256)	81	419
Accrued expenses	168	(246)	(514)	414	268
Changes in other liabilities and deferred revenue	282	211	214	71	(3)
Other, net	19	(25)	(47)	44	22
Net cash provided by operating activities	\$2,266	\$2,089	\$1,532	\$177	\$557

2014 vs. 2013

Net cash provided by operating activities increased versus 2013 primarily due to higher consolidated net income and favorable working capital fluctuations, partially offset by unfavorable deferred income taxes and higher pension contributions in excess of expense. During 2014, the lower working capital resulted in a cash inflow of \$68 million compared to a cash outflow of \$65 million in 2013. This change of \$133 million was primarily driven by an increase in accrued expenses and accounts payable, partially offset by an increase in other current assets and inventories in 2014, versus the comparable period in 2013. The increase in accrued expenses was primarily due to higher income taxes payable, while the change in other current assets was largely due to the receipt of an income tax refund in 2013.

Pensions

The funded status of our pension plans is dependent upon a variety of variables and assumptions including return on invested assets, market interest rates and levels of voluntary contributions to the plans. In 2014, the investment return on our U.S. pension trust was 13.3 percent while our U.K. pension trust return was 16.8 percent. Approximately 78 percent of our pension plan assets are held in highly liquid investments such as fixed income and equity securities. The remaining 22 percent of our plan assets are held in less liquid, but market valued investments, including real estate, private equity and insurance contracts. We made \$205 million of pension contributions in 2014, including \$111 million of voluntary contributions. Claims and premiums for other postretirement benefits approximated \$45 million, net of reimbursements, in 2014. These contributions and payments include transfers from our funds either to increase pension plan assets or to make direct payments to plan participants. We anticipate making total contributions of \$175 million to our defined benefit pension plans in 2015. Expected contributions to our defined benefit pension plans in 2015 will meet or exceed the current funding requirements.

2013 vs. 2012

Net cash provided by operating activities increased versus 2012 primarily due to favorable working capital fluctuations, partially offset by lower consolidated net income and lower dividends received from equity investees. During 2013, the net increase in working capital resulted in a cash outflow of \$65 million compared to a cash outflow of \$775 million in 2012. This change of \$710 million was primarily driven by an increase in accounts payable due to timing differences, lower net tax payments of \$311 million due to the receipt of income tax refunds in 2013, which were partially offset by tax payments, and a smaller decrease in accrued expenses, partially offset by an increase in

accounts and notes receivable in 2013 as a result of higher sales in the fourth quarter of 2013 versus 2012.

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Investing Activities

In millions	Years ended December 31,			Change	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Capital expenditures	\$(743)	\$(676)	\$(690)	\$(67)	\$14
Investments in internal use software	(55)	(64)	(87)	9	23
Investments in and advances to equity investees	(60)	(42)	(70)	(18)	28
Acquisitions of businesses, net of cash acquired	(436)	(147)	(215)	(289)	68
Investments in marketable securities—acquisitions	(275)	(418)	(561)	143	143
Investments in marketable securities—liquidations	336	525	585	(189)	(60)
Purchases of other investments	—	(40)	—	40	(40)
Cash flows from derivatives not designated as hedges	(14)	1	12	(15)	(11)
Other, net	13	15	44	(2)	(29)
Net cash used in investing activities	\$(1,234)	\$(846)	\$(982)	\$(388)	\$136

2014 vs. 2013

Net cash used in investing activities increased versus 2013 primarily due to higher cash investment for the acquisition of businesses in 2014 and higher capital expenditures, partially offset by reduced purchases of corporate owned life insurance.

In 2014, we spent \$436 million, net of cash acquired, on acquisitions of businesses in the Distribution segment. We plan to spend an additional \$170 million to \$210 million on North American distributor acquisitions and related debt retirements in 2015.

Capital expenditures were \$743 million in 2014 compared to \$676 million in 2013. Despite the challenging international economies, we continue to invest in new product lines and targeted capacity expansions. We plan to spend between \$750 million and \$850 million in 2015 as we continue with product launches, facility improvements and prepare for future emission standards. Approximately 50 percent of our capital expenditures are expected to be invested outside of the U.S. in 2015.

2013 vs. 2012

Net cash used in investing activities decreased versus 2012 primarily due to lower net investments in marketable securities, lower cash investments in acquisitions of businesses and lower investments in and advances to equity investees, partially offset by purchases of corporate owned life insurance.

Financing Activities

In millions	Years ended December 31,			Change	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Proceeds from borrowings	\$55	\$1,004	\$64	\$(949)	\$940
Payments on borrowings and capital lease obligations	(94)	(90)	(145)	(4)	55
Distributions to noncontrolling interests	(83)	(75)	(62)	(8)	(13)
Dividend payments on common stock	(512)	(420)	(340)	(92)	(80)
Repurchases of common stock	(670)	(381)	(256)	(289)	(125)
Other, net	(39)	14	45	(53)	(31)
Net cash (used in) provided by financing activities	\$(1,343)	\$52	\$(694)	\$(1,395)	\$746

2014 vs. 2013

Net cash used in financing activities increased versus 2013 primarily due to lower proceeds from borrowings. In September 2013, we issued \$1 billion aggregate principal amount of senior notes consisting of \$500 million aggregate principal amount of 3.65% senior unsecured notes due in 2023 and \$500 million aggregate principal amount of 4.875% senior unsecured notes due in 2043. Net proceeds from the issuance were \$979 million.

Our total debt was \$1.7 billion at December 31, 2014, compared with \$1.7 billion at December 31, 2013. Total debt as a percent of our total capital (total capital defined as debt plus equity) was 17.3 percent at December 31, 2014, compared with 18.1 percent at December 31, 2013.

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2013 vs. 2012

Net cash provided by financing activities increased versus 2012 primarily due to proceeds from the issuance of senior notes and lower payments on borrowings and capital lease obligations, partially offset by higher repurchases of common stock and higher dividend payments.

Our total debt was \$1.7 billion as of December 31, 2013, compared with \$775 million as of December 31, 2012. Total debt as a percent of our total capital was 18.1 percent at December 31, 2013, compared with 10.0 percent at December 31, 2012.

Repurchase of Common Stock

We repurchased \$670 million of common stock under the 2012 Board of Directors authorized plan during 2014.

Quarterly purchases were as follows:

In millions (except per share amounts) For each quarter ended	Shares Purchased	Average Cost Per Share	Total Cost of Repurchases	Remaining Authorized Capacity ⁽¹⁾
March 30	3.0	\$139.70	\$419	\$425
June 29	0.1	148.11	11	415
September 28	1.2	139.76	175	240
December 31	0.5	132.66	65	174
Total	4.8	\$139.12	\$670	\$174

⁽¹⁾ The remaining authorized capacity is calculated based on the cost to purchase the shares, but excludes commission expenses according to the Board of Directors authorization.

In July 2014, our Board of Directors authorized the acquisition of up to \$1 billion of additional common stock upon the completion of the 2012 repurchase plan.

Quarterly Dividends

Total dividends paid to common shareholders in 2014, 2013 and 2012 were \$512 million, \$420 million and \$340 million respectively. Declaration and payment of dividends in the future depends upon our income and liquidity position, among other factors, and is subject to declaration by our Board of Directors, who meet quarterly to consider our dividend payment. We expect to fund dividend payments with cash from operations.

In July 2014, the Board of Directors authorized a dividend increase of approximately 25 percent from \$0.625 per share to \$0.78 per share on a quarterly basis. In July 2013, the Board of Directors authorized a 25 percent increase to our quarterly cash dividend on our common stock from \$0.50 per share to \$0.625 per share. In July 2012, the Board of Directors authorized a 25 percent increase to our quarterly cash dividend on our common stock from \$0.40 per share to \$0.50 per share. Cash dividends per share paid to common shareholders for the last three years were as follows:

	Quarterly Dividends		
	2014	2013	2012
First quarter	\$0.625	\$0.50	\$0.40
Second quarter	0.625	0.50	0.40
Third quarter	0.78	0.625	0.50
Fourth quarter	0.78	0.625	0.50
Total	\$2.81	\$2.25	\$1.80

Credit Ratings

A number of our contractual obligations and financing agreements, such as our revolving credit facility, have restrictive covenants and/or pricing modifications that may be triggered in the event of downward revisions to our corporate credit rating. There were no downgrades of our credit ratings in 2014 that have impacted these covenants or pricing modifications. In December 2014, Moody's Investors Service, Inc. raised our rating to 'A2' and confirmed our outlook as stable. In October 2014, Fitch Ratings reaffirmed our rating and outlook. In August 2014, Standard & Poor's Ratings Services raised our rating to 'A+' and confirmed our outlook as stable.

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Credit ratings are not recommendations to buy, are subject to change and each rating should be evaluated independently of any other rating. In addition, we undertake no obligation to update disclosures concerning our credit ratings, whether as a result of new information, future events or otherwise. Our ratings and outlook from each of the credit rating agencies as of the date of filing are shown in the table below.

Credit Rating Agency	Senior L-T Debt Rating	Outlook
Standard & Poor's Rating Services	A+	Stable
Fitch Ratings	A	Stable
Moody's Investors Service, Inc.	A2	Stable

CONTRACTUAL OBLIGATIONS AND OTHER COMMERCIAL COMMITMENTS

A summary of payments due for our contractual obligations and commercial commitments, as of December 31, 2014, is as follows:

Contractual Cash Obligations

In millions	2015	2016-2017	2018-2019	After 2019	Total
Loans payable	\$86	\$—	\$—	\$—	\$86
Long-term debt and capital lease obligations ⁽¹⁾	121	225	194	3,010	3,550
Operating leases	152	223	152	105	632
Capital expenditures	218	53	—	—	271
Purchase commitments for inventory	644	—	—	—	644
Other purchase commitments	378	85	16	11	490
Pension funding ⁽²⁾	87	—	—	—	87
Other postretirement benefits	40	74	64	230	408
Total	\$1,726	\$660	\$426	\$3,356	\$6,168

⁽¹⁾ Includes principal payments and expected interest payments based on the terms of the obligations.

⁽²⁾ We are contractually obligated in the U.K. to fund \$87 million in 2015; however, our expected total pension contributions for 2015, including the U.K., are approximately \$175 million.

The contractual obligations reported above exclude our unrecognized tax benefits of \$174 million as of December 31, 2014. We are not able to reasonably estimate the period in which cash outflows relating to uncertain tax contingencies could occur. See Note 4, "INCOME TAXES," to the Consolidated Financial Statements for further details.

Our other commercial commitments as of December 31, 2014, are as follows

Other Commercial Commitments

In millions	2015	2016-2017	2018-2019	After 2019	Total
Standby letters of credit under revolving credit agreements	\$23	\$1	\$—	\$—	\$24
International and other domestic letters of credit	46	30	—	7	83
Performance and excise bonds	70	6	—	—	76
Guarantees, indemnifications and other commitments	4	1	—	—	5
Total	\$143	\$38	\$—	\$7	\$188

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

A summary of our significant accounting policies is included in Note 1, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," of our Consolidated Financial Statements which discusses accounting policies that we have selected from acceptable alternatives.

Our Consolidated Financial Statements are prepared in accordance with GAAP which often requires management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts presented and disclosed in the financial statements. Management reviews these estimates and assumptions based on historical experience, changes in business conditions and other relevant factors they believe to be reasonable under the circumstances. In any given reporting period, our actual results may differ from the estimates and assumptions used in

preparing our Consolidated Financial Statements.

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Critical accounting estimates are defined as follows: the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made; different estimates reasonably could have been used; or if changes in the estimate are reasonably likely to occur from period to period and the change would have a material impact on our financial condition or results of operations. Our senior management has discussed the development and selection of our accounting policies, related accounting estimates and the disclosures set forth below with the Audit Committee of our Board of Directors. We believe our critical accounting estimates include those addressing the estimation of liabilities for warranty programs, accounting for income taxes and pension benefits.

Warranty Programs

We estimate and record a liability for base warranty programs at the time our products are sold. Our estimates are based on historical experience and reflect management's best estimates of expected costs at the time products are sold and subsequent adjustment to those expected costs when actual costs differ. As a result of the uncertainty surrounding the nature and frequency of product recall programs, the liability for such programs is recorded when we commit to a recall action or when a recall becomes probable and estimable, which generally occurs when it is announced. Our warranty liability is generally affected by component failure rates, repair costs and the point of failure within the product life cycle. Future events and circumstances related to these factors could materially change our estimates and require adjustments to our liability. New product launches require a greater use of judgment in developing estimates until historical experience becomes available. Product specific experience is typically available four or five quarters after product launch, with a clear experience trend evident eight quarters after launch. We generally record warranty expense for new products upon shipment using a preceding product's warranty history and a multiplicative factor based upon preceding similar product experience and new product assessment until sufficient new product data is available for warranty estimation. We then use a blend of actual new product experience and preceding product historical experience for several subsequent quarters, and new product specific experience thereafter. Note 10, "PRODUCT WARRANTY LIABILITY," to our Consolidated Financial Statements contains a summary of the activity in our warranty liability account for 2014 and 2013 including adjustments to pre-existing warranties.

Accounting for Income Taxes

We determine our income tax expense using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax effects of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax benefits of tax loss and credit carryforwards are also recognized as deferred tax assets. We evaluate the recoverability of our deferred tax assets each quarter by assessing the likelihood of future profitability and available tax planning strategies that could be implemented to realize our net deferred tax assets. At December 31, 2014, we recorded net deferred tax assets of \$184 million. These assets included \$190 million for the value of tax loss and credit carryforwards. A valuation allowance of \$144 million was recorded to reduce the tax assets to the net value management believed was more likely than not to be realized. In the event our operating performance deteriorates, future assessments could conclude that a larger valuation allowance will be needed to further reduce the deferred tax assets. In addition, we operate within multiple taxing jurisdictions and are subject to tax audits in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. We accrue for the estimated additional tax and interest that may result from tax authorities disputing uncertain tax positions we have taken and we believe we have made adequate provision for income taxes for all years that are subject to audit based upon the latest information available. A more complete description of our income taxes and the future benefits of our tax loss and credit carryforwards is disclosed in Note 4, "INCOME TAXES," to our Consolidated Financial Statements.

Pension Benefits

We sponsor a number of pension plans primarily in the U.S. and the U.K. and to a lesser degree in various other countries. In the U.S. and the U.K. we have several major defined benefit plans that are separately funded. We account for our pension programs in accordance with employers' accounting for defined benefit pension and other postretirement plans under GAAP. GAAP requires that amounts recognized in financial statements be determined using an actuarial basis. As a result, our pension benefit programs are based on a number of statistical and judgmental assumptions that attempt to anticipate future events and are used in calculating the expense and liability related to our plans each year at December 31. These assumptions include discount rates used to value liabilities, assumed rates of

return on plan assets, future compensation increases, employee turnover rates, actuarial assumptions relating to retirement age, mortality rates and participant withdrawals. The actuarial assumptions we use may differ significantly from actual results due to changing economic conditions, participant life span and withdrawal rates. These differences may result in a material impact to the amount of net periodic pension cost to be recorded in our Consolidated Financial Statements in the future.

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The expected long-term return on plan assets is used in calculating the net periodic pension cost. We considered several factors in developing our expected rate of return on plan assets. The long-term rate of return considers historical returns and expected returns on current and projected asset allocations and is generally applied to a five-year average market value of return. Projected returns are based primarily on broad, publicly traded fixed income and equity indices and forward-looking estimates of active portfolio and investment management. As of December 31, 2014, based upon our target asset allocations, it is anticipated that our U.S. investment policy will generate an average annual return over the 10-year projection period equal to or in excess of 7.5 percent approximately 20 percent of the time while returns of 8.0 percent or greater are anticipated 15 percent of the time. We expect additional positive returns from active investment management. The 2014 one-year return of 13.3 percent, combined with the very favorable returns since 2010, has resulted in approximately \$470 million of actuarial gains in accumulated other comprehensive income over the past five years. Based on the historical returns and forward-looking return expectations, we believe an investment return assumption of 7.5 percent per year in 2015 for U.S. pension assets is reasonable.

The methodology used to determine the rate of return on pension plan assets in the U.K. was based on establishing an equity-risk premium over current long-term bond yields adjusted based on target asset allocations. As of December 31, 2014, based upon our target asset allocations, it is anticipated that our U.K. investment policy will generate an average annual return over the 20-year projection period equal to or in excess of 5.2 percent approximately 50 percent of the time while returns of 6.1 percent or greater are anticipated 25 percent of the time. We expect additional positive returns from active investment management. The one-year return for our U.K. plan was 16.8 percent for 2014, and similar to our U.S. plan, the strong returns over the past five years have resulted in approximately \$285 million of actuarial gains in accumulated other comprehensive income. Our strategy with respect to our investments in pension plan assets is to be invested with a long-term outlook. Therefore, the risk and return balance of our asset portfolio should reflect a long-term horizon. Based on the historical returns and forward-looking return expectations, we believe an investment return assumption of 5.8 percent in 2015 for U.K. pension assets is reasonable. Our pension plan asset allocations at December 31, 2014 and 2013 and target allocation for 2015 are as follows:

Investment description	U.S. Plans			U.K. Plans		
	Target Allocation	Percentage of Plan Assets at December 31,		Target Allocation	Percentage of Plan Assets at December 31,	
	2015	2014	2013	2015	2014	2013
Fixed income	64.0	% 65.7	% 57.4	% 50.0	% 56.0	% 46.9
Equity securities	22.0	% 22.9	% 30.5	% 25.5	% 32.0	% 39.5
Real estate/other	14.0	% 11.4	% 12.1	% 24.5	% 12.0	% 13.6
Total	100.0	% 100.0	% 100.0	% 100.0	% 100.0	% 100.0

The differences between the actual return on plan assets and expected long-term return on plan assets are recognized in the asset value used to calculate net periodic cost over five years. The table below sets forth the expected return assumptions used to develop our pension cost for the period 2012-2014 and our expected rate of return for 2015.

	Long-term Expected Return Assumptions			
	2015	2014	2013	2012
U.S. plans	7.50	% 7.50	% 8.00	% 8.00
U.K. plans	5.80	% 5.80	% 5.80	% 6.50

A lower expected rate of return will increase our net periodic pension cost and reduce profitability.

GAAP for pensions offers various acceptable alternatives to account for the differences that eventually arise between the estimates used in the actuarial valuations and the actual results. It is acceptable to delay or immediately recognize these differences. Under the delayed recognition alternative, changes in pension obligation (including those resulting from plan amendments) and changes in the value of assets set aside to meet those obligations are not recognized in net periodic pension cost as they occur but are recognized initially in comprehensive income and subsequently amortized as components of net periodic pension cost systematically and gradually over future periods. In addition to this approach, GAAP also allows immediate recognition of actuarial gains or losses. Immediate recognition introduces

volatility in financial results. We have chosen to delay recognition and amortize actuarial differences over future periods. If we adopted the immediate recognition approach, we would record a loss of \$897 million (\$614 million after-tax) from cumulative actuarial net losses for our U.S. and U.K. pension plans.

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The difference between the expected return and the actual return on plan assets is deferred from recognition in our results of operations and, under certain circumstances such as when the difference exceeds 10 percent of the market value of plan assets or the projected benefit obligation (PBO), amortized over future years of service. This is also true of changes to actuarial assumptions. As of December 31, 2014, we had net pension actuarial losses of \$611 million and \$286 million for the U.S. and U.K. pension plans, respectively. Under GAAP, the actuarial gains and losses are recognized and recorded in accumulated other comprehensive loss. Net actuarial losses decreased our shareholders' equity by \$78 million (after-tax) in 2014. The losses were due to liability losses from lower U.S. and U.K. discount rates, partially offset by improved plan asset performance for both the U.S. and U.K. plans. As these amounts exceed 10 percent of our PBO, the excess is amortized over the average remaining service lives of participating employees. The table below sets forth the net periodic pension cost for the period 2012-2014 and our expected cost for 2015.

In millions	2015	2014	2013	2012
Net periodic pension cost	\$58	\$57	\$87	\$64

We expect 2015 net periodic pension cost to remain flat when compared to 2014, due to lower discount rates in the U.S. and U.K. and unfavorable mortality demographics in the U.S., offset by favorable expected return on asset performance in both the U.S. and U.K. The decrease in periodic pension cost in 2014 compared to 2013 was due to reduced loss amortizations resulting from improved U.S. asset performance and a higher discount rate. The increase in periodic pension cost in 2013 compared to 2012 was due to unfavorable impacts of higher service cost due to increased headcount, decreased discount rates and lower expected asset returns for our U.K. plan as we de-risk plan trust assets moving toward more conservative investments. Another key assumption used in the development of the net periodic pension cost is the discount rate. The weighted average discount rates used to develop our net periodic pension cost are set forth in the table below.

	Discount Rates			
	2015	2014	2013	2012
U.S. plans	4.07	4.83	3.97	4.82
U.K. plans	3.80	4.60	4.70	5.20

Changes in the discount rate assumptions will impact the interest cost component of the net periodic pension cost calculation.

The discount rate enables us to state expected future cash payments for benefits as a present value on the measurement date. The guidelines for setting this rate are discussed in GAAP which suggests the use of a high-quality corporate bond rate. We used bond information provided by Moody's Investor Services, Inc. and Standard & Poor's Rating Services. All bonds used to develop our hypothetical portfolio in the U.S. and U.K. were deemed high-quality, non-callable bonds (Aa or better) as of December 31, 2014, by at least one of the bond rating agencies. The average yield of this hypothetical bond portfolio was used as the benchmark for determining the discount rate to be used to value the obligations of the plans subject to GAAP for pensions and other postretirement benefits.

Our model called for projected payments until near extinction for the U.S. and the U.K. For both countries, our model matches the present value of the plan's projected benefit payments to the market value of the theoretical settlement bond portfolio. A single equivalent discount rate is determined to align the present value of the required cash flow with the value of the bond portfolio. The resulting discount rate is reflective of both the current interest rate environment and the plan's distinct liability characteristics.

The table below sets forth the estimated impact on our 2015 net periodic pension cost relative to a change in the discount rate and a change in the expected rate of return on plan assets.

In millions	Impact on Pension Cost Increase/(Decrease)
Discount rate used to value liabilities	
0.25 percent increase	\$(13)
0.25 percent decrease	13
Expected rate of return on assets	
1 percent increase	(41)
1 percent decrease	41

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The above sensitivities reflect the impact of changing one assumption at a time. A higher discount rate decreases the plan obligations and decreases our net periodic pension cost. A lower discount rate increases the plan obligations and increases our net periodic pension cost. It should be noted that economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not necessarily linear. Note 11, "PENSION AND OTHER POSTRETIREMENT BENEFITS," to our Consolidated Financial Statements provides a summary of our pension benefit plan activity, the funded status of our plans and the amounts recognized in our Consolidated Financial Statements.

RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Recently Adopted

In February 2013, the Financial Accounting Standards Board (FASB) amended its standards on comprehensive income by requiring disclosure in the footnotes of information about amounts reclassified out of accumulated other comprehensive income by component. Specifically, the amendment requires disclosure of the line items on net income in which the item was reclassified only if it is reclassified to net income in its entirety in the same reporting period. The new rules became effective for us beginning January 1, 2013 and were adopted prospectively in accordance with the standard. The standard resulted in new disclosures in NOTE 15, "ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)."

Accounting Pronouncements Issued But Not Yet Effective

In May 2014, the FASB amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The standard contains principles that we will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that we will recognize revenue in a manner that depicts the transfer of goods or services to customers at an amount that we expect to be entitled to in exchange for those goods or services. The standard allows either full or modified retrospective adoption. Early adoption is not permitted. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The new rules will become effective for annual and interim periods beginning January 1, 2017. We are in the process of evaluating the impact the amendment will have on our Consolidated Financial Statements, and we are further considering the impact of each method of adoption.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial risk resulting from volatility in foreign exchange rates, commodity prices and interest rates. This risk is closely monitored and managed through the use of financial derivative instruments including foreign currency forward contracts, commodity zero-cost collars and interest rate swaps. These instruments, as further described below, are accounted for as cash flow or fair value hedges or as economic hedges not designated as hedges for accounting purposes. Financial derivatives are used expressly for hedging purposes and under no circumstances are they used for speculative purposes. When material, we adjust the estimated fair value of our derivative contracts for counter-party or our credit risk. None of our derivative instruments are subject to collateral requirements. Substantially all of our derivative contracts are subject to master netting arrangements which provide us with the option to settle certain contracts on a net basis when they settle on the same day with the same currency. In addition, these arrangements provide for a net settlement of all contracts with a given counterparty in the event that the arrangement is terminated due to the occurrence of default or a termination event.

The following describes our risk exposures and provides the results of a sensitivity analysis performed as of December 31, 2014. The sensitivity analysis assumes instantaneous, parallel shifts in foreign currency exchange rates and commodity prices.

Foreign Exchange Rates

As a result of our international business presence, we are exposed to foreign currency exchange risks. We transact business in foreign currencies and, as a result, our income experiences some volatility related to movements in foreign

currency exchange rates. To help manage our exposure to exchange rate volatility, we use foreign currency forward contracts on a regular basis to hedge forecasted intercompany and third-party sales and purchases denominated in non-functional currencies. Our internal policy allows for managing anticipated foreign currency cash flows for up to one year. These foreign currency forward contracts are designated and qualify as foreign currency cash flow hedges under GAAP. For the years ended December 31, 2014 and 2013, there were no circumstances that would have resulted in the discontinuance of a foreign currency cash flow hedge.

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To minimize the income volatility resulting from the remeasurement of net monetary assets and payables denominated in a currency other than the functional currency, we enter into foreign currency forward contracts, which are considered economic hedges. The objective is to offset the gain or loss from remeasurement with the gain or loss from the fair market valuation of the forward contract. These derivative instruments are not designated as hedges under GAAP.

As of December 31, 2014, the potential gain or loss in the fair value of our outstanding foreign currency contracts, assuming a hypothetical 10 percent fluctuation in the currencies of such contracts, would be approximately \$21 million. The sensitivity analysis of the effects of changes in foreign currency exchange rates assumes the notional value to remain constant for the next 12 months. The analysis ignores the impact of foreign exchange movements on our competitive position and potential changes in sales levels. Any change in the value of the contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged items.

Interest Rate Risk

We are exposed to market risk from fluctuations in interest rates. We manage our exposure to interest rate fluctuations through the use of interest rate swaps. The objective of the swaps is to more effectively balance our borrowing costs and interest rate risk.

In February 2014, we settled our November 2005 interest rate swap which previously converted our \$250 million debt issue, due in 2028, from a fixed rate of 7.125 percent to a floating rate based on LIBOR plus a spread. Also, in February 2014, we entered into a series of interest rate swaps to effectively convert our September 2013, \$500 million debt issue, due in 2023, from a fixed rate of 3.65 percent to a floating rate equal to the one-month LIBOR plus a spread. The terms of the swaps mirror those of the debt, with interest paid semi-annually. The swaps were designated, and will be accounted for, as fair value hedges under GAAP. The gain or loss on these derivative instruments, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in current income as "Interest expense." The net swap settlements that accrue each period are also reported in interest expense.

The following table summarizes these gains and losses for the years presented below:

In millions	Years ended December 31,					
	2014		2013		2012	
Income Statement Classification	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings
Interest expense ⁽¹⁾	\$23	\$(19)	\$(39)	\$39	\$6	\$(6)

⁽¹⁾ The difference between the gain/(loss) on swaps and borrowings represents hedge ineffectiveness.

Commodity Price Risk

We are exposed to fluctuations in commodity prices due to contractual agreements with component suppliers. In order to protect ourselves against future price volatility and, consequently, fluctuations in gross margins, we periodically enter into commodity zero-cost collar contracts with designated banks to fix the cost of certain raw material purchases with the objective of minimizing changes in inventory cost due to market price fluctuations. We have commodity zero-cost collar contracts that represent an economic hedge, but are not designated for hedge accounting and are marked to market through earnings. Our internal policy allows for managing our cash flow hedges for up to three years.

As of December 31, 2014, the potential gain or loss related to the outstanding commodity zero-cost collar contracts, assuming a hypothetical 10 percent fluctuation in the price of such commodities, was \$2 million. The sensitivity analysis of the effects of changes in commodity prices assumes the notional value to remain constant for the next 12 months. The analysis ignores the impact of commodity price movements on our competitive position and potential changes in sales levels. Any change in the value of the zero-cost collar contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged items.

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Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012

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Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012

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MANAGEMENT'S REPORT TO SHAREHOLDERS

Management's Report on Financial Statements and Practices

The accompanying Consolidated Financial Statements of Cummins Inc. were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in the annual report is consistent with that in the financial statements.

Management also recognizes its responsibility for conducting our affairs according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in key policy statements issued from time to time regarding, among other things, conduct of its business activities within the laws of the host countries in which we operate, within The Foreign Corrupt Practices Act and potentially conflicting interests of its employees. We maintain a systematic program to assess compliance with these policies.

To comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we designed and implemented a structured and comprehensive compliance process to evaluate our internal control over financial reporting across the enterprise.

Management's Report on Internal Control Over Financial Reporting

The management of Cummins Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of our Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Management assessed the effectiveness of our internal control over financial reporting and concluded it was effective as of December 31, 2014. In making its assessment, management utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013).

The effectiveness of our internal control over financial reporting as of December 31, 2014, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Officer Certifications

Please refer to Exhibits 31(a) and 31(b) attached to this report for certifications required under Section 302 of the Sarbanes-Oxley Act of 2002.

/s/ N. THOMAS LINEBARGER

Chairman and Chief Executive Officer

/s/ PATRICK J. WARD

Vice President and Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Cummins Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Cummins Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Indianapolis, Indiana

February 17, 2015

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CONSOLIDATED STATEMENTS OF INCOME

In millions, except per share amounts	Years ended December 31,		
	2014	2013	2012
NET SALES ^(a)	\$19,221	\$17,301	\$17,334
Cost of sales (Note 1)	14,360	13,021	12,918
GROSS MARGIN	4,861	4,280	4,416
OPERATING EXPENSES AND INCOME			
Selling, general and administrative expenses (Note 1)	2,095	1,817	1,808
Research, development and engineering expenses	754	713	728
Equity, royalty and interest income from investees (Note 3)	370	361	384
Other operating income (expense), net	(17)	(10)	(10)
OPERATING INCOME	2,365	2,101	2,254
Interest income	23	27	25
Interest expense (Note 9)	64	41	32
Other income (expense), net	110	32	24
INCOME BEFORE INCOME TAXES	2,434	2,119	2,271
Income tax expense (Note 4)	698	531	533
CONSOLIDATED NET INCOME	1,736	1,588	1,738
Less: Net income attributable to noncontrolling interests	85	105	93
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$1,651	\$1,483	\$1,645
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.			
(Note 18)			
Basic	\$9.04	\$7.93	\$8.69
Diluted	\$9.02	\$7.91	\$8.67

^(a) Includes sales to nonconsolidated equity investees of \$2,063 million, \$2,319 million and \$2,427 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The accompanying notes are an integral part of our Consolidated Financial Statements.

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CUMMINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In millions	Years ended December 31,			
	2014	2013	2012	
CONSOLIDATED NET INCOME	\$1,736	\$1,588	\$1,738	
Other comprehensive (loss) income, net of tax (Note 15)				
Foreign currency translation adjustments	(234	) (46	) 29
Unrealized (loss) gain on derivatives	(1	) (1	) 20
Change in pension and other postretirement defined benefit plans	(58) 183	(70)
Unrealized (loss) gain on marketable securities	(12) 1	2	
Total other comprehensive (loss) income, net of tax	(305) 137	(19)
COMPREHENSIVE INCOME	1,431	1,725	1,719	
Less: Comprehensive income attributable to noncontrolling interests	74	76	86	
COMPREHENSIVE INCOME ATTRIBUTABLE TO CUMMINS INC.	\$1,357	\$1,649	\$1,633	

The accompanying notes are an integral part of our Consolidated Financial Statements.

Table of ContentsCUMMINS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

In millions, except par value	December 31,	
	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	\$2,301	\$2,699
Marketable securities (Note 5)	93	150
Total cash, cash equivalents and marketable securities	2,394	2,849
Accounts and notes receivable, net		
Trade and other	2,744	2,362
Nonconsolidated equity investees	202	287
Inventories (Note 6)	2,866	2,381
Prepaid expenses and other current assets	849	760
Total current assets	9,055	8,639
Long-term assets		
Property, plant and equipment, net (Note 7)	3,686	3,156
Investments and advances related to equity method investees (Note 3)	981	931
Goodwill (Note 8)	479	461
Other intangible assets, net (Note 8)	343	357
Prepaid pensions (Note 11)	637	514
Other assets	595	670
Total assets	\$15,776	\$14,728
LIABILITIES		
Current liabilities		
Loans payable (Note 9)	\$86	\$17
Accounts payable (principally trade)	1,881	1,557
Current maturities of long-term debt (Note 9)	23	51
Current portion of accrued product warranty (Note 10)	363	360
Accrued compensation, benefits and retirement costs	508	433
Deferred revenue	401	285
Taxes payable (including taxes on income)	70	99
Other accrued expenses	689	566
Total current liabilities	4,021	3,368
Long-term liabilities		
Long-term debt (Note 9)	1,589	1,672
Pensions (Note 11)	289	232
Postretirement benefits other than pensions (Note 11)	369	356
Other liabilities and deferred revenue (Note 12)	1,415	1,230
Total liabilities	\$7,683	\$6,858
Commitments and contingencies (Note 13)		
EQUITY		
Cummins Inc. shareholders' equity (Note 14)		
Common stock, \$2.50 par value, 500 shares authorized, 222.3 and 222.3 shares issued	\$2,139	\$2,099
Retained earnings	9,545	8,406
Treasury stock, at cost, 40.1 and 35.6 shares	(2,844	) (2,195
Common stock held by employee benefits trust, at cost, 1.1 and 1.3 shares	(13) (16

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Accumulated other comprehensive loss (Note 15)		
Defined benefit postretirement plans	(669) (611)
Other	(409	) (173)
Total accumulated other comprehensive loss	(1,078	) (784)
Total Cummins Inc. shareholders' equity	7,749	7,510
Noncontrolling interests (Note 17)	344	360
Total equity	\$8,093	\$7,870
Total liabilities and equity	\$15,776	\$14,728

The accompanying notes are an integral part of our Consolidated Financial Statements.

Table of ContentsCUMMINS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions	Years ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net income	\$1,736	\$1,588	\$1,738
Adjustments to reconcile consolidated net income to net cash provided by operating activities			
Depreciation and amortization	455	407	361
Gain on fair value adjustment for consolidated investees (Note 2)	(73)	(12)	(7)
Deferred income taxes (Note 4)	31	100	116
Equity in income of investees, net of dividends	(100)	(62)	(15)
Pension contributions in excess of expense (Note 11)	(148)	(82)	(68)
Other post-retirement benefits payments in excess of expense (Note 11)	(28)	(25)	(21)
Stock-based compensation expense	36	37	36
Translation and hedging activities	(13)	17	—
Changes in current assets and liabilities, net of acquisitions			
Accounts and notes receivable	(89)	(148)	87
Inventories	(256)	(46)	(32)
Other current assets	1	212	(60)
Accounts payable	244	163	(256)
Accrued expenses	168	(246)	(514)
Changes in other liabilities and deferred revenue	282	211	214
Other, net	20	(25)	(47)
Net cash provided by operating activities	2,266	2,089	1,532
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(743)	(676)	(690)
Investments in internal use software	(55)	(64)	(87)
Investments in and advances to equity investees	(60)	(42)	(70)
Acquisitions of businesses, net of cash acquired (Note 2)	(436)	(147)	(215)
Investments in marketable securities—acquisitions (Note 5)	(275)	(418)	(561)
Investments in marketable securities—liquidations (Note 5)	336	525	585
Purchases of other investments	—	(40)	—
Cash flows from derivatives not designated as hedges	(14)	1	12
Other, net	13	15	44
Net cash used in investing activities	(1,234)	(846)	(982)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings (Note 9)	55	1,004	64
Payments on borrowings and capital lease obligations	(94)	(90)	(145)
Distributions to noncontrolling interests	(83)	(75)	(62)
Dividend payments on common stock (Note 14)	(512)	(420)	(340)
Repurchases of common stock (Note 15)	(670)	(381)	(256)
Other, net	(39)	14	45
Net cash (used in) provided by financing activities	(1,343)	52	(694)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
Net (decrease) increase in cash and cash equivalents	(398)	1,330	(115)
Cash and cash equivalents at beginning of year	2,699	1,369	1,484
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$2,301	\$2,699	\$1,369

The accompanying notes are an integral part of our Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

In millions	Common Stock	Additional paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Common Stock Held in Trust	Total Cummins In- Shareholders' Equity	Noncontrolling Interests	Total Equity
BALANCE AT DECEMBER 31, 2011	\$ 555	\$ 1,446	\$ 6,038	\$ (938)	\$(1,587)	\$(22)	\$ 5,492	\$ 339	\$ 5,831
Net income			1,645				1,645	93	1,738
Other comprehensive income (loss)				(12)			(12)	(7)	(19)
Issuance of shares	1	6					7	—	7
Employee benefits trust activity		27				4	31	—	31
Acquisition of shares					(256)		(256)	—	(256)
Cash dividends on common stock			(340)				(340)	—	(340)
Distributions to noncontrolling interests							—	(76)	(76)
Stock based awards					13		13	—	13
Other shareholder transactions		23					23	22	45
BALANCE AT DECEMBER 31, 2012	\$ 556	\$ 1,502	\$ 7,343	\$ (950)	\$(1,830)	\$(18)	\$ 6,603	\$ 371	\$ 6,974
Net income			1,483				1,483	105	1,588
Other comprehensive income (loss)				166			166	(29)	137
Issuance of shares		8					8	—	8
Employee benefits trust activity		24				2	26	—	26
Acquisition of shares					(381)		(381)	—	(381)
Cash dividends on common stock			(420)				(420)	—	(420)
Distributions to noncontrolling interests							—	(75)	(75)
Stock based awards		1			16		17	—	17
Other shareholder transactions		8					8	(12)	(4)
BALANCE AT DECEMBER 31, 2013	\$ 556	\$ 1,543	\$ 8,406	\$ (784)	\$(2,195)	\$(16)	\$ 7,510	\$ 360	\$ 7,870
Net income			1,651				1,651	85	1,736
Other comprehensive income (loss)				(294)			(294)	(11)	(305)
Issuance of shares		9					9	—	9
Employee benefits trust activity		24				3	27	—	27
Acquisition of shares					(670)		(670)	—	(670)

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Cash dividends on common stock		(512)			(512)	—		(512)	
Distributions to noncontrolling interests						—	(83)	(83)	
Stock based awards	(5)			21		16	—	16	
Other shareholder transactions		12				12	(7)	5	
BALANCE AT DECEMBER 31, 2014	\$ 556	\$ 1,583	\$ 9,545	\$ (1,078)	\$ (2,844)	\$ (13)	\$ 7,749	\$ 344	\$ 8,093

The accompanying notes are an integral part of our Consolidated Financial Statements.

CUMMINS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Cummins Inc. was founded in 1919 as a corporation in Columbus, Indiana, as one of the first diesel engine manufacturers. We are a global power leader that designs, manufactures, distributes and services diesel and natural gas engines and engine-related component products, including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems and electric power generation systems. We sell our products to original equipment manufacturers (OEMs), distributors and other customers worldwide. We serve our customers through a network of approximately 600 company-owned and independent distributor locations and approximately 7,200 dealer locations in more than 190 countries and territories.

Principles of Consolidation

Our Consolidated Financial Statements include the accounts of all wholly-owned and majority-owned domestic and foreign subsidiaries where our ownership is more than 50 percent of outstanding equity interests except for majority-owned subsidiaries that are considered variable interest entities (VIEs) where we are not deemed to have a controlling financial interest. In addition, we also consolidate, regardless of our ownership percentage, VIEs for which we are deemed to have a controlling financial interest. Intercompany balances and transactions are eliminated in consolidation. Where our ownership interest is less than 100 percent, the noncontrolling ownership interests are reported in our Consolidated Balance Sheets. The noncontrolling ownership interest in our income, net of tax, is classified as "Net income attributable to noncontrolling interests" in our Consolidated Statements of Income. Certain amounts for 2013 and 2012 have been reclassified to conform to the current classifications.

We have variable interests in several businesses accounted for under the equity method of accounting that are deemed to be VIEs and are subject to the provisions of accounting principles generally accepted in the United States of America (GAAP) for variable interest entities. Most of these VIEs are unconsolidated.

Reclassification Adjustments

We revised the classification of certain amounts for "Cost of sales" and "Selling, general and administrative expenses" for 2013 and 2012. In connection with the integration of recently acquired North American distributors and anticipating the future acquisition and integration of the entire North American channel, our Distribution segment has developed a framework against which Distribution management intends to measure the performance of the distribution channel. The segment EBIT (defined as earnings before interest expense, taxes and noncontrolling interests) performance measure is unchanged, however, certain activities that were previously classified in "Selling, general and administrative expenses" are now classified as "Cost of sales" to align with the new framework and allow for consistent treatment across the channel. We revised the expense presentation of our Consolidated Statements of Income for the periods presented to follow the new cost framework. The reclassifications for the years ended December 31, 2013 and 2012, were \$103 million and \$92 million, respectively. The revision had no impact on reported net income, cash flows or the balance sheet.

Investments in Equity Investees

We use the equity method to account for our investments in joint ventures, affiliated companies and alliances in which we have the ability to exercise significant influence, generally represented by equity ownership or partnership equity of at least 20 percent but not more than 50 percent. Generally, under the equity method, original investments in these entities are recorded at cost and subsequently adjusted by our share of equity in income or losses after the date of acquisition. Investment amounts in excess of our share of an investee's net assets are amortized over the life of the related asset creating the excess. If the excess is goodwill, then it is not amortized. Equity in income or losses of each investee is recorded according to our level of ownership; if losses accumulate, we record our share of losses until our investment has been fully depleted. If our investment has been fully depleted, we recognize additional losses only when we are the primary funding source. We eliminate (to the extent of our ownership percentage) in our Consolidated Financial Statements the profit in inventory held by our equity method investees that has not yet been sold to a third-party. Our investments are classified as "Investments and advances related to equity method investees" in our Consolidated Balance Sheets. Our share of the results from joint ventures, affiliated companies and alliances is

reported in our Consolidated Statements of Income as "Equity, royalty and interest income from investees," and is reported net of all applicable income taxes.

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Our foreign equity investees are presented net of applicable foreign income taxes in our Consolidated Statements of Income. Our remaining United States (U.S.) equity investees are partnerships (non-taxable), thus there is no difference between gross or net of tax presentation as the investees are not taxed. See NOTE 3, "INVESTMENTS IN EQUITY INVESTEES," for additional information.

Use of Estimates in the Preparation of the Financial Statements

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts presented and disclosed in our Consolidated Financial Statements. Significant estimates and assumptions in these Consolidated Financial Statements require the exercise of judgment and are used for, but not limited to, allowance for doubtful accounts, estimates of future cash flows and other assumptions associated with goodwill and long-lived asset impairment tests, useful lives for depreciation and amortization, warranty programs, determination of discount and other assumptions for pension and other postretirement benefit costs, restructuring costs, income taxes and deferred tax valuation allowances, lease classification and contingencies. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates.

Revenue Recognition

We recognize revenue, net of estimated costs of returns, allowances and sales incentives, when it is realized or realizable, which generally occurs when:

- Persuasive evidence of an arrangement exists;
- The product has been shipped and legal title and all risks of ownership have been transferred;
- The sales price is fixed or determinable; and
- Payment is reasonably assured.

Products are generally sold on open account under credit terms customary to the geographic region of distribution. We perform ongoing credit evaluations of our customers and generally do not require collateral to secure our accounts receivable. For engines, service parts, service tools and other items sold to independent distributors and to partially-owned distributors accounted for under the equity method, revenues are recorded when title and risk of ownership transfers. This transfer is based on the agreement in effect with the respective distributor, which in the U.S. and most international locations, generally occurs when the products are shipped. To the extent of our ownership percentage, margins on sales to distributors accounted for under the equity method are deferred until the distributor sells the product to unrelated parties.

We provide various sales incentives to both our distribution network and our OEM customers. These programs are designed to promote the sale of our product in the channel or encourage the usage of our products by OEM customers.

Sales incentives primarily fall into three categories:

- Volume rebates;
- Market share rebates; and
- Aftermarket rebates.

For volume rebates, we provide certain customers with rebate opportunities for attaining specified volumes during a particular quarter or year. We accrue for the expected amount of these rebates at the time of the original sale and update our accruals quarterly based on our best estimate of the volume levels the customer will reach during the measurement period. For market share rebates, we provide certain customers with rebate opportunities based on the percentage of their production that utilizes our product. These rebates are typically measured either quarterly or annually and are accrued at the time of the original sale based on the current market shares, with adjustments made as the level changes. For aftermarket rebates we provide incentives to promote sales to certain dealers and end-markets. These rebates are typically paid on a quarterly, or more frequent, basis and estimates are made at the end of each quarter as to the amount yet to be paid. These estimates are based on historical experience with the particular program. The incentives are classified as a reduction in sales in our Consolidated Statements of Income.

Rights of return do not exist for the majority of our sales, other than for quality issues. We do offer certain return rights in our aftermarket business, where some aftermarket customers are permitted to return small amounts of parts and filters each year and in our power generation business, which sells portable generators to retail customers. An estimate of future returns is accrued at the time of sale based on historical return rates.

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Foreign Currency Transactions and Translation

We translate assets and liabilities of foreign entities to U.S. dollars, where the local currency is the functional currency, at year-end exchange rates. We translate income and expenses to U.S. dollars using weighted-average exchange rates for the year. We record adjustments resulting from translation in a separate component of accumulated other comprehensive income (loss) and include the adjustments in net income only upon sale, loss of controlling financial interest or liquidation of the underlying foreign investment.

Foreign currency transaction gains and losses are included in current net income. For foreign entities where the U.S. dollar is the functional currency, including those operating in highly inflationary economies when applicable, we remeasure non-monetary balances and the related income statement using historical exchange rates. We include in income the resulting gains and losses, including the effect of derivatives in our Consolidated Statements of Income, which combined with transaction gains and losses amounted to a net loss of \$6 million in 2014, net loss of \$27 million in 2013 and net loss of \$14 million in 2012.

Derivative Instruments

We make use of derivative instruments in foreign exchange, commodity price and interest rate hedging programs. Derivatives currently in use are foreign currency forward contracts, commodity zero-cost collars and interest rate swaps. These contracts are used strictly for hedging and not for speculative purposes.

We are exposed to market risk from fluctuations in interest rates. We manage our exposure to interest rate fluctuations through the use of interest rate swaps. The objective of the swaps is to more effectively balance our borrowing costs and interest rate risk. The gain or loss on these derivative instruments as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current income as "Interest expense." For more detail on our interest rate swaps see NOTE 9, "DEBT."

Due to our international business presence, we are exposed to foreign currency exchange risk. We transact in foreign currencies and have assets and liabilities denominated in foreign currencies. Consequently, our income experiences some volatility related to movements in foreign currency exchange rates. In order to benefit from global diversification and after considering naturally offsetting currency positions, we enter into foreign currency forward contracts to minimize our existing exposures (recognized assets and liabilities) and hedge forecasted transactions. Foreign currency forward contracts are designated and qualify as foreign currency cash flow hedges under GAAP. The effective portion of the unrealized gain or loss on the forward contract is deferred and reported as a component of "Accumulated other comprehensive loss" (AOCL). When the hedged forecasted transaction (sale or purchase) occurs, the unrealized gain or loss is reclassified into income in the same line item associated with the hedged transaction in the same period or periods during which the hedged transaction affects income. Foreign currency contracts have been deemed immaterial for additional disclosure.

We are exposed to fluctuations in commodity prices due to contractual agreements with component suppliers. In order to protect ourselves against future price volatility and, consequently, fluctuations in gross margins, we periodically enter into commodity zero-cost collar contracts with designated banks to fix the cost of certain raw material purchases with the objective of minimizing changes in inventory cost due to market price fluctuations. We have commodity zero-cost collar contracts that represent an economic hedge, but are not designated for hedge accounting and are marked to market through earnings. Commodity swap contracts have been deemed immaterial for additional disclosure.

Income Tax Accounting

We determine our income tax expense using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax effects of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax benefits of tax loss and credit carryforwards are also recognized as deferred tax assets. We evaluate the recoverability of our deferred tax assets each quarter by assessing the likelihood of future profitability and available tax planning strategies that could be implemented to realize our net deferred tax assets. A valuation allowance is recorded to reduce the tax assets to the net value management believes is more likely than not to be realized. In the event our operating performance deteriorates, future assessments could conclude that a larger valuation allowance will be needed to further reduce the deferred tax assets. In addition, we operate within multiple taxing jurisdictions and are subject to tax audits in these jurisdictions.

These audits can involve complex issues, which may require an extended period of time to resolve. We accrue for the estimated additional tax and interest that may result from tax authorities disputing uncertain tax positions we have taken and we believe we have made adequate provision for income taxes for all years that are subject to audit based upon the latest information available. A more complete description of our income taxes and the future benefits of our tax loss and credit carryforwards is disclosed in NOTE 4, "INCOME TAXES."

Table of Contents**Cash and Cash Equivalents**

Cash equivalents are defined as short-term, highly liquid investments with an original maturity of 90 days or less at the time of purchase. The carrying amounts reflected in our Consolidated Balance Sheets for cash and cash equivalents approximate fair value due to the short-term maturity of these investments.

In millions	Years ended December 31,		
	2014	2013	2012
Cash payments for income taxes, net of refunds	\$659	\$380	\$691
Cash payments for interest, net of capitalized interest	65	30	32

Marketable Securities

We account for marketable securities in accordance with GAAP for investments in debt and equity securities. We determine the appropriate classification of all marketable securities as "held-to-maturity," "available-for-sale" or "trading" at the time of purchase, and re-evaluate such classifications at each balance sheet date. At December 31, 2014 and 2013, all of our investments were classified as available-for-sale.

Available-for-sale (AFS) securities are carried at fair value with the unrealized gain or loss, net of tax, reported in other comprehensive income. Unrealized losses considered to be "other-than-temporary" are recognized currently in income. The cost of securities sold is based on the specific identification method. The fair value of most investment securities is determined by currently available market prices. Where quoted market prices are not available, we use the market price of similar types of securities that are traded in the market to estimate fair value. See NOTE 5, "MARKETABLE SECURITIES," for a detailed description of our investments in marketable securities.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount, which approximates net realizable value, and generally do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on our historical collection experience and by performing an analysis of our accounts receivable in light of the current economic environment. We review our allowance for doubtful accounts on a regular basis. In addition, when necessary, we provide an allowance for the full amount of specific accounts deemed to be uncollectible. Account balances are charged off against the allowance in the period in which we determine that it is probable the receivable will not be recovered. The allowance for doubtful accounts balances for the years ended December 31, 2014 and 2013 were \$12 million and \$14 million, respectively.

Inventories

Our inventories are stated at the lower of cost or market. For the years ended December 31, 2014 and 2013, approximately 14 percent and 14 percent, respectively, of our consolidated inventories (primarily heavy-duty and high-horsepower engines and parts) were valued using the last-in, first-out (LIFO) cost method. The cost of other inventories is generally valued using the first-in, first-out (FIFO) cost method. Our inventories at interim and year-end reporting dates include estimates for adjustments related to annual physical inventory results and for inventory cost changes under the LIFO cost method. Due to significant movements of partially-manufactured components and parts between manufacturing plants, we do not internally measure, nor do our accounting systems provide, a meaningful segregation between raw materials and work-in-process. See NOTE 6, "INVENTORIES," for additional information.

Property, Plant and Equipment

We record property, plant and equipment, inclusive of assets under capital leases, at cost. We depreciate the cost of the majority of our equipment using the straight-line method with depreciable lives ranging from 20 to 40 years for buildings and 3 to 20 years for machinery, equipment and fixtures. Capital lease amortization is recorded in depreciation expense. We expense normal maintenance and repair costs as incurred. Depreciation expense totaled \$351 million, \$318 million and \$287 million for the years ended December 31, 2014, 2013 and 2012, respectively. See NOTE 7, "PROPERTY, PLANT AND EQUIPMENT," for additional information.

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Long-Lived Assets

We review our long-lived assets for possible impairment whenever events or circumstances indicate that the carrying value of an asset or asset group may not be recoverable. We assess the recoverability of the carrying value of the long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. An impairment of a long-lived asset or asset group exists when the expected future pre-tax cash flows (undiscounted and without interest charges) estimated to be generated by the asset or asset group is less than its carrying value. If these cash flows are less than the carrying value of such asset or asset group, an impairment loss is measured based on the difference between the estimated fair value and carrying value of the asset or asset group. Assumptions and estimates used to estimate cash flows in the evaluation of impairment and the fair values used to determine the impairment are subject to a degree of judgment and complexity. Any changes to the assumptions and estimates resulting from changes in actual results or market conditions from those anticipated may affect the carrying value of long-lived assets and could result in a future impairment charge.

Goodwill

Under GAAP for goodwill, we have the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value as a basis for determining whether it is necessary to perform an annual two-step goodwill impairment test. We have elected this option on certain reporting units. The two-step impairment test is now only required if an entity determines through this qualitative analysis that it is more likely than not that the fair value of the reporting unit is less than its carrying value. In addition, the carrying value of goodwill must be tested for impairment on an interim basis in certain circumstances where impairment may be indicated. When we are required or opt to perform the two-step impairment test, the fair value of each reporting unit is estimated by discounting the after tax future cash flows less requirements for working capital and fixed asset additions. Our reporting units are generally defined as one level below an operating segment. However, there are two situations where we have aggregated two or more components which share similar economic characteristics and thus are aggregated into a single reporting unit for testing purposes. These two situations are described further below. This analysis has resulted in the following reporting units for our goodwill testing:

- Within our Components segment, our emission solutions and filtration businesses have been aggregated into a single reporting unit.

- Also within our Components segment, our turbo technologies business is considered a separate reporting unit.

- Within our Power Generation segment, our alternators business is considered a separate reporting unit.

- Within our Engine segment, our new and recon parts business is considered a separate reporting unit. This reporting unit is in the business of selling new parts and remanufacturing and reconditioning engines and certain engine components.

- Our Distribution segment is considered a single reporting unit as it is managed geographically and all regions share similar economic characteristics and provide similar products and services.

No other reporting units have goodwill. Our valuation method requires us to make projections of revenue, operating expenses, working capital investment and fixed asset additions for the reporting units over a multi-year period.

Additionally, management must estimate a weighted-average cost of capital, which reflects a market rate, for each reporting unit for use as a discount rate. The discounted cash flows are compared to the carrying value of the reporting unit and, if less than the carrying value, a separate valuation of the goodwill is required to determine if an impairment loss has occurred. In addition, we also perform a sensitivity analysis to determine how much our forecasts can fluctuate before the fair value of a reporting unit would be lower than its carrying amount. We performed the required procedures as of the end of our fiscal third quarter and determined that our goodwill was not impaired. At December 31, 2014, our recorded goodwill was \$479 million, approximately 82 percent of which resided in the emission solutions plus filtration reporting unit. For this reporting unit, the fair value exceeded its carrying value by a substantial margin when we performed step one of the two-step impairment test in the current year. Changes in our projections or estimates, a deterioration of our operating results and the related cash flow effect or a significant increase in the discount rate could decrease the estimated fair value of our reporting units and result in a future impairment of goodwill. See NOTE 8, "GOODWILL AND OTHER INTANGIBLE ASSETS," for additional information.

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Software

We capitalize certain costs for software that are developed or obtained for internal use. Software costs are amortized on a straight-line basis over their estimated useful lives generally ranging from 3 to 12 years. Software assets are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets. Upgrades and enhancements are capitalized if they result in significant modifications that enable the software to perform tasks it was previously incapable of performing. Software maintenance, training, data conversion and business process reengineering costs are expensed in the period in which they are incurred. See NOTE 8, "GOODWILL AND OTHER INTANGIBLE ASSETS," for additional information.

Warranty

We charge the estimated costs of warranty programs, other than product recalls, to cost of sales at the time products are sold and revenue is recognized. We use historical experience to develop the estimated liability for our various warranty programs. As a result of the uncertainty surrounding the nature and frequency of product recall programs, the liability for such programs is recorded when we commit to a recall action or when a recall becomes probable and estimable, which generally occurs when it is announced. The liability for these programs is reflected in the provision for warranties issued. We review and assess the liability for these programs on a quarterly basis. We also assess our ability to recover certain costs from our suppliers and record a receivable when we believe a recovery is probable. In addition to costs incurred on warranty and recall programs, from time to time we also incur costs related to customer satisfaction programs for items not covered by warranty. We accrue for these costs when agreement is reached with a specific customer. These costs are not included in the provision for warranties but are included in cost of sales. In addition, we sell extended warranty coverage on most of our engines. The revenue collected is initially deferred and is recognized as revenue in proportion to the costs expected to be incurred in performing services over the contract period. We compare the remaining deferred revenue balance quarterly to the estimated amount of future claims under extended warranty programs and provide an additional accrual when the deferred revenue balance is less than expected future costs. See NOTE 10, "PRODUCT WARRANTY LIABILITY," for additional information.

Research and Development

Our research and development program is focused on product improvements, innovations and cost reductions for our customers. Research and development expenditures include salaries, contractor fees, building costs, utilities, administrative expenses and allocation of corporate costs and are expensed, net of contract reimbursements, when incurred. From time to time, we enter into agreements with customers to fund a portion of the research and development costs of a particular project. We generally account for these reimbursements as an offset to the related research and development expenditure. Research and development expenses, net of contract reimbursements, were \$737 million in 2014, \$700 million in 2013 and \$721 million in 2012. Contract reimbursements were \$121 million in 2014, \$76 million in 2013 and \$86 million in 2012.

Related Party Transactions

In accordance with the provisions of various joint venture agreements, we may purchase products and components from our joint ventures, sell products and components to our joint ventures and our joint ventures may sell products and components to unrelated parties. Joint venture transfer prices may differ from normal selling prices. Certain joint venture agreements transfer product at cost, some transfer product on a cost-plus basis, and others transfer product at market value. Our related party sales are presented on the face of our Consolidated Statements of Income. Our related party purchases were not material to our financial position or results of operations.

RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Recently Adopted

In February 2013, the Financial Accounting Standards Board (FASB) amended its standards on comprehensive income by requiring disclosure in the footnotes of information about amounts reclassified out of accumulated other comprehensive income by component. Specifically, the amendment requires disclosure of the line items on net income in which the item was reclassified only if it is reclassified to net income in its entirety in the same reporting period. The new rules became effective for us beginning January 1, 2013 and were adopted prospectively in accordance with the standard. The standard resulted in new disclosures in NOTE 15, "ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)."

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Accounting Pronouncements Issued But Not Yet Effective

In May 2014, the FASB amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The standard contains principles that we will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that we will recognize revenue in a manner that depicts the transfer of goods or services to customers at an amount that we expect to be entitled to in exchange for those goods or services. The standard allows either full or modified retrospective adoption. Early adoption is not permitted. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The new rules will become effective for annual and interim periods beginning January 1, 2017. We are in the process of evaluating the impact the amendment will have on our Consolidated Financial Statements, and we are further considering the impact of each method of adoption.

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NOTE 2. ACQUISITIONS

In September 2013, we announced our intention to acquire the equity that we do not already own in most of our partially-owned United States and Canadian distributors over the next three to five years.

The Distribution segment joint venture acquisitions for the years ended December 31, 2014, 2013 and 2012 were as follows:

Entity Acquired (Dollars in millions)	Date of Acquisition	Additional Percent Interest Acquired	Payments to Former Owners	Acquisition Related Debt Retirements	Total Purchase Consideration	Type of Acquisition ⁽¹⁾	Gain Recognized	Goodwill Acquired	Intangible Assets Recognized	Net Sales Previous Fiscal Year Ended ⁽³⁾
2014										
Cummins Bridgeway LLC (Bridgeway) ⁽⁴⁾	11/03/14	54%	\$22	\$45	\$77	⁽⁵⁾ COMB	\$13	\$4	\$15	\$331
Cummins Npower LLC (Npower)	09/29/14	50%	33	34	73	⁽⁵⁾ COMB	15	7	8	374
Cummins Power South LLC (Power South)	09/29/14	50%	17	16	35	⁽⁵⁾ COMB	7	8	1	239
Cummins Eastern Canada LP (Eastern Canada)	08/04/14	50%	29	32	62	⁽⁵⁾ COMB	18	5	4	228
Cummins Power Systems LLC (Power Systems)	05/05/14	30%	14	—	14	EQUITY	—	—	—	—
Cummins Southern Plains LLC (Southern Plains)	03/31/14	50%	43	48	92	⁽⁵⁾ COMB	13	1	11	433
Cummins Mid-South LLC (Mid-South)	02/14/14	62.2%	55	61	118	⁽⁵⁾ COMB	7	4	8	368
2013										
Cummins Western Canada LP (Western Canada)	12/31/13	35%	\$32	\$—	\$32	EQUITY	\$—	\$—	\$—	\$—
Cummins Rocky Mountain LLC (Rocky Mountain)	05/06/13	67%	62	74	136	COMB	5	10	8	384
Cummins Northwest LLC (Northwest)	07/01/13	20.01%	4	—	4	EQUITY	—	—	—	—
Cummins Northwest LLC (Northwest) ⁽⁶⁾	01/31/13	50%	18	—	18	COMB	7	3	2	137
2012										
Cummins Central Power LLC (Central Power) ⁽⁷⁾	07/02/12	45%	\$26	\$—	\$26	COMB	\$7	\$—	\$4	\$209

All results from acquired entities were included in Distribution segment results subsequent to the acquisition date. Previously consolidated entities were accounted for as equity transactions (EQUITY). Newly consolidated entities

⁽¹⁾ were accounted for as business combinations (COMB) with gains recognized based on the requirement to remeasure our pre-existing ownership to fair value in accordance with GAAP and are included in the Consolidated Statements of Income as "Other income (expense), net."

- (2) Intangible assets acquired in business combinations were mostly customer related, the majority of which will be amortized over a period of up to five years from the date of the acquisition.
- (3) Sales amounts are not fully incremental to our consolidated sales as the amount would be reduced by the elimination of sales to the previously unconsolidated entity.
- (4) Purchase accounting for this acquisition is preliminary awaiting customary adjustment to purchase price in accordance with the purchase agreements.

The "Total Purchase Consideration" represents the total amount that will or is estimated to be paid to complete the acquisition. In some instances a portion of the acquisition payment has not yet been made and will be paid in future periods in accordance with the purchase contract. The total outstanding consideration at December 31, 2014, was \$22 million.

Prior to our decision to acquire the remaining interest in our North American and Canadian distributors, we acquired the remaining ownership interest in Northwest and immediately formed a new partnership with a new distributor principal and sold 20.01 percent to the new distributor principal. We retained a new ownership in Northwest of 79.99 percent. We subsequently repurchased the remaining outstanding interest under the new contract in July 2013.

(7) After the acquisition, Cummins owned a 79.99 percent interest in Central Power.

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The final purchase allocations for the largest acquisitions for 2014 and 2013 were as follows:

In millions	Southern Plains	Mid-South	Rocky Mountain	
Accounts receivable	\$ 63	\$ 71	\$ 48	
Inventory	59	70	100	
Fixed assets	47	37	34	
Intangible assets	11	8	8	
Goodwill	1	4	10	
Other current assets	8	10	8	
Current liabilities	(53) (43) (41)
Other long-term liability	—	(4) —)
Total business valuation	136	153	167	
Fair value of pre-existing interest	(44) (35) (31)
Total purchase consideration	\$ 92	\$ 118	\$ 136	

North American distributor acquisitions excluded from the table were deemed immaterial individually and in the aggregate for additional disclosure.

Hilite Germany GmbH

In July 2012, we purchased the doser technology and business assets from Hilite Germany GmbH (Hilite) in a cash transaction. Dosers are products that enable compliance with emission standards in certain aftertreatment systems and complement our current product offerings. The purchase price was \$176 million and is summarized below. There was no contingent consideration associated with this transaction. During 2012, we expensed approximately \$4 million of acquisition related costs.

The acquisition of Hilite was accounted for as a business combination with the results of the acquired entity and the goodwill included in the Components operating segment beginning in the third quarter of 2012. The majority of the purchase price was allocated to technology and customer related intangible assets and goodwill.

Intangible assets by asset class, including weighted average amortization life, were as follows:

Dollars in millions	Purchase price allocation	Weighted average amortization life in years
Technology	\$52	10.6
Customer	23	4.5
License arrangements	8	6.0
Total intangible assets	\$83	8.5

The purchase allocation was as follows:

In millions		
Inventory	\$5	
Fixed assets	5	
Intangible assets	83	
Goodwill	91	
Liabilities	(8)
Total purchase consideration	\$176	

Net sales for Hilite were \$104 million for 2012, of which \$46 million was included in our Consolidated Statements of Income.

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NOTE 3. INVESTMENTS IN EQUITY INVESTEES

Investments in and advances to equity investees and our ownership percentage was as follows:

In millions	Ownership %	December 31,	
		2014	2013
Komatsu alliances	20-50%	\$160	\$132
Dongfeng Cummins Engine Company, Ltd.	50%	136	135
Beijing Foton Cummins Engine Co., Ltd. ⁽¹⁾	50%	117	103
Chongqing Cummins Engine Company, Ltd.	50%	92	67
Cummins-Scania XPI Manufacturing, LLC	50%	85	71
Tata Cummins, Ltd.	50%	57	50
North American distributors ⁽²⁾	49-50%	41	114
Other	Various	293	259
Total		\$981	\$931

⁽¹⁾ Includes both the light-duty and the heavy-duty businesses.

⁽²⁾ Current ownership percentage of North American distributor investments as of December 31, 2014.

Equity, royalty and interest income from investees, net of applicable taxes, was as follows:

In millions	Years ended December 31,		
	2014	2013	2012
Distribution Entities			
North American distributors	\$107	\$129	\$147
Komatsu Cummins Chile, Ltda.	29	25	26
All other distributors	4	1	4
Manufacturing Entities			
Dongfeng Cummins Engine Company, Ltd.	67	63	52
Chongqing Cummins Engine Company, Ltd.	51	58	61
Beijing Foton Cummins Engine Co., Ltd. (Light-duty)	28	17	5
Beijing Foton Cummins Engine Co., Ltd. (Heavy-duty)	(30	) (21	) (13
All other manufacturers	74	53	65
Cummins share of net income	330	325	347
Royalty and interest income	40	36	37
Equity, royalty and interest income from investees	\$370	\$361	\$384
Distribution Entities			

We have an extensive worldwide distributor and dealer network through which we sell and distribute our products and services. Generally, our distributors are divided by geographic region with some of our distributors being wholly-owned by Cummins, some partially-owned and the majority independently owned. We consolidate all wholly-owned distributors and partially-owned distributors where we are the primary beneficiary and account for other partially-owned distributors using the equity method of accounting.

North American Distributors - As of December 31, 2014, our distribution channel in North America included three unconsolidated partially-owned distributors. Our equity interests in these nonconsolidated entities ranged from 49 percent to 50 percent. We also had more than a 50 percent ownership interest in two partially owned distributors which we consolidate. While each distributor is a separate legal entity, the business of each is substantially the same as that of our wholly-owned distributors based in other parts of the world. All of our distributors, irrespective of their legal structure or ownership, offer the full range of our products and services to customers and end-users in their respective markets.

Komatsu Cummins Chile, Ltda. - Komatsu Cummins Chile, Ltda. is a joint venture with Komatsu America Corporation. The joint venture is a distributor that offers the full range of our products and services to customers and end-users in the Chilean and Peruvian markets.

We also have 50 percent equity interests in five other international distributors.

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We are contractually obligated to repurchase new engines, parts and components, special tools and signage from our North American distributors following an ownership transfer or termination of the distributor. In addition, in certain cases where we own a partial interest in a distributor, we are obligated to purchase the other equity holders' interests if certain events occur (such as the death or resignation of the distributor principal or a change in control of Cummins Inc.). The purchase consideration of the equity interests is determined based on the fair value of the distributor's assets. Outside of North America, repurchase obligations and practices vary by region. All distributors that are partially-owned are considered to be related parties in our Consolidated Financial Statements.

Manufacturing Entities

Our manufacturing joint ventures have generally been formed with customers and generally are intended to allow us to increase our market penetration in geographic regions, reduce capital spending, streamline our supply chain management and develop technologies. Our largest manufacturing joint ventures are based in China and are included in the list below. Our engine manufacturing joint ventures are supplied by our Components segment in the same manner as it supplies our wholly-owned Engine segment and Power Generation segment manufacturing facilities. Our Components segment joint ventures and wholly owned entities provide fuel systems, filtration, aftertreatment systems and turbocharger products that are used in our engines as well as some competitors' products. The results and investments in our joint ventures in which we have 50 percent or less ownership interest are included in "Equity, royalty and interest income from investees" and "Investments and advances related to equity method investees" in our Consolidated Statements of Income and Consolidated Balance Sheets, respectively.

Dongfeng Cummins Engine Company, Ltd. - Dongfeng Cummins Engine Company, Ltd. (DCEC) is a joint venture in China with Dongfeng Automotive Co. Ltd., a subsidiary of Dongfeng Motor Corporation (Dongfeng), one of the largest medium-duty and heavy-duty truck manufacturers in China. DCEC produces Cummins 4- to 13-liter mechanical engines, full-electric diesel engines, with a power range from 125 to 545 horsepower, and natural gas engines.

Chongqing Cummins Engine Company, Ltd. - Chongqing Cummins Engine Company, Ltd. (CCEC) is a joint venture in China with Chongqing Machinery and Electric Co. Ltd. This joint venture manufactures several models of our heavy-duty and high-horsepower diesel engines, primarily serving the industrial and stationary power markets in China.

Beijing Foton Cummins Engine Co., Ltd. - Beijing Foton Cummins Engine Co., Ltd. is a joint venture in China with Beiqi Foton Motor Co., Ltd., a commercial vehicle manufacturer, which consists of two distinct lines of business, a light-duty business and a heavy-duty business. The light-duty business produces ISF 2.8 liter and ISF 3.8 liter families of our high performance light-duty diesel engines in Beijing. These engines are used in light-duty commercial trucks, pickup trucks, buses, multipurpose and sport utility vehicles with main markets in China, Brazil and Russia. Certain types of marine, small construction equipment and industrial applications are also served by these engine families. The heavy-duty business has been in the development stage for the past several years but started production of ISG 10.5 liter and ISG 11.8 liter families of our high performance heavy-duty diesel engines in the second quarter of 2014 in Beijing. These engines are used in heavy-duty commercial trucks in China and will be used in world wide markets. Certain types of construction equipment and industrial applications will also be served by these engine families in the future.

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Equity Investee Financial Summary

We have approximately \$489 million in our investment account at December 31, 2014, that represents cumulative undistributed income in our equity investees. Dividends received from our unconsolidated equity investees were \$227 million, \$271 million and \$329 million in 2014, 2013 and 2012, respectively. Summary financial information for our equity investees was as follows:

In millions	As of and for the years ended December 31,		
	2014	2013	2012
Net sales	\$7,426	\$7,799	\$8,296
Gross margin	1,539	1,719	1,870
Net income	630	690	747
Cummins share of net income	\$330	\$325	\$347
Royalty and interest income	40	36	37
Total equity, royalty and interest from investees	\$370	\$361	\$384
Current assets	\$2,476	\$2,742	
Non-current assets	1,667	1,794	
Current liabilities	(1,875)	(2,090))
Non-current liabilities	(420)	(541))
Net assets	\$1,848	\$1,905	
Cummins share of net assets	\$956	\$967	

NOTE 4. INCOME TAXES

In millions	Years ended December 31,		
	2014	2013	2012
Income before income taxes			
U.S. income	\$1,407	\$1,058	\$998
Foreign income	1,027	1,061	1,273
Total	\$2,434	\$2,119	\$2,271

Income tax expense consists of the following:

In millions	Years ended December 31,		
	2014	2013	2012
Current			
U.S. federal and state	\$470	\$239	\$118
Foreign	197	192	299
Total current	667	431	417
Deferred			
U.S. federal and state	39	67	108
Foreign	(8)) 33	8
Total deferred	31	100	116
Income tax expense	\$698	\$531	\$533

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A reconciliation of the statutory U.S. federal income tax rate to the effective tax rate was as follows:

	Years ended December 31,					
	2014		2013		2012	
Statutory U.S. federal income tax rate	35.0	%	35.0	%	35.0	%
State income tax, net of federal effect	1.1		0.2		1.0	
Differences in rates and taxability of foreign subsidiaries and joint ventures	(5.7	)	(6.0	)	(12.1)
Research tax credits	(1.5	)	(3.7	)	(0.4)
Other, net	(0.2	)	(0.4)	—	
Effective tax rate	28.7	%	25.1	%	23.5	%

Our income tax rates are generally less than the 35 percent U.S. statutory income tax rate primarily because of lower taxes on foreign earnings and research tax credits. Our effective tax rate for 2014 was 28.7 percent compared to 25.1 percent for 2013. The 3.6 percent increase in the effective tax rate from 2013 to 2014 is partially due to a 1.2 percent net tax benefit for one-time items in 2013 that did not repeat in 2014. These 2013 one-time items consisted primarily of the 2012 federal research tax credit that was reinstated during 2013. The additional 2.4 percent increase in tax rate from 2013 to 2014 is attributable primarily to the following unfavorable items that occurred in 2014: a tax law change in the United Kingdom (U.K.) resulting in a higher limitation on the deductibility of interest; unfavorable changes in the jurisdictional mix of pretax income; and increases in state valuation allowances.

Retained earnings of our U.K. domiciled subsidiaries and certain Singapore, German, Indian and Mexican subsidiaries are considered to be permanently reinvested. During 2013, we released \$12 million of U.S. deferred tax liabilities related to prior years unremitted income of certain Indian and Mexican subsidiaries considered to be permanently reinvested starting in 2013. In addition, earnings of our China operations generated after December 31, 2011, are considered to be permanently reinvested. U.S. deferred tax is not provided on these permanently reinvested earnings. Our permanently reinvested foreign earnings are expected to be used for items such as capital expenditures and to fund joint ventures outside of the U.S. The total permanently reinvested retained earnings and related cumulative translation adjustment balances for these entities were \$3.8 billion, \$3.1 billion and \$2.3 billion for the years ended December 31, 2014, 2013, and 2012, respectively. These amounts were determined primarily based on book retained earnings balances for these subsidiaries translated at historical rates. The determination of the deferred tax liability related to these retained earnings and cumulative translation adjustment balances which are considered to be permanently reinvested outside the U.S. is not practicable.

For our remaining subsidiary companies and joint ventures outside the U.S., we provide for the additional taxes that would be due upon the dividend distribution of the income of those foreign subsidiaries and joint ventures assuming the full utilization of foreign tax credits. Deferred tax liabilities on unremitted earnings of foreign subsidiaries and joint ventures, including those in China generated in years prior to 2012, were \$204 million and \$201 million at December 31, 2014 and 2013, respectively. We have \$661 million of retained earnings and related cumulative translation adjustments in our China operations generated prior to December 31, 2011, for which we have provided a U.S. deferred tax liability of \$155 million. We anticipate that these earnings will be distributed to the U.S. within the next five years.

Income before income taxes included equity income of foreign joint ventures of \$212 million, \$203 million and \$192 million for the years ended December 31, 2014, 2013 and 2012, respectively. This equity income is recorded net of foreign taxes. Additional U.S. income taxes of \$14 million, \$13 million and \$9 million for the years ended December 31, 2014, 2013 and 2012, respectively, were provided for the additional U.S. taxes that will ultimately be due upon the distribution of the foreign joint venture equity income.

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Carryforward tax benefits and the tax effect of temporary differences between financial and tax reporting that give rise to net deferred tax assets were as follows:

In millions	December 31,	
	2014	2013
Deferred tax assets		
U.S. state carryforward benefits	\$ 124	\$ 124
Foreign carryforward benefits	66	63
Employee benefit plans	367	328
Warranty expenses	354	332
Accrued expenses	89	70
Other	45	51
Gross deferred tax assets	1,045	968
Valuation allowance	(144)	(101)
Total deferred tax assets	901	867
Deferred tax liabilities		
Property, plant and equipment	(329)	(304)
Unremitted income of foreign subsidiaries and joint ventures	(204)	(201)
Employee benefit plans	(161)	(158)
Other	(23)	(27)
Total deferred tax liabilities	(717)	(690)
Net deferred tax assets	\$ 184	\$ 177

Our 2014 U.S. carryforward benefits include \$124 million of state credit and net operating loss carryforward benefits that begin to expire in 2015. Our foreign carryforward benefits include \$66 million of net operating loss carryforwards that begin to expire in 2015. A valuation allowance is recorded to reduce the gross deferred tax assets to an amount we believe is more likely than not to be realized. The valuation allowance increased in 2014 by a net \$43 million and increased in 2013 by a net \$6 million. The valuation allowance is primarily attributable to the uncertainty regarding the realization of a portion of the U.S. state and foreign net operating loss and tax credit carryforward benefits. Prepaid and other current assets include deferred tax assets of \$274 million and \$232 million for the years ended December 31, 2014 and 2013, respectively. In addition, prepaid and other current assets include refundable income taxes of \$170 million and \$152 million for the years ended December 31, 2014 and 2013, respectively. Other assets include deferred tax assets of \$40 million and \$61 million for the years ended December 31, 2014 and 2013, respectively. In addition, other assets include \$24 million and \$59 million of long-term refundable income taxes for the years ended December 31, 2014 and 2013, respectively. Other liabilities and deferred revenue included deferred tax liabilities of \$130 million and \$116 million for the years ended December 31, 2014 and 2013, respectively.

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A reconciliation of unrecognized tax benefits for the years ended December 31, 2014, 2013 and 2012 was as follows:

In millions

Balance at December 31, 2011	\$86	
Additions based on tax positions related to the current year	4	
Additions based on tax positions related to the prior years	57	
Reductions for tax positions related to prior years	(2))
Balance at December 31, 2012	145	
Additions based on tax positions related to the current year	10	
Additions based on tax positions related to the prior years	21	
Reductions for tax positions related to prior years	(6))
Reductions for tax positions relating to lapse of statute of limitations	(1))
Balance at December 31, 2013	169	
Additions based on tax positions related to the current year	8	
Additions based on tax positions related to the prior years	5	
Reductions for tax positions related to prior years	(2))
Reductions for tax positions relating to settlements with taxing authorities	(5))
Reductions for tax positions relating to lapse of statute of limitations	(1))
Balance at December 31, 2014	\$174	

Included in the December 31, 2014 and 2013, balances are \$114 million and \$107 million related to tax positions that, if recognized, would favorably impact the effective tax rate in future periods. Also, we had accrued interest expense related to the unrecognized tax benefits of \$7 million, \$3 million and \$2 million as of December 31, 2014, 2013 and 2012, respectively. We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. For the years ended December 31, 2014, 2013 and 2012, we recognized \$4 million, \$1 million and \$(3) million in net interest expense, respectively.

Audit outcomes and the timing of audit settlements are subject to significant uncertainty. Although we believe that adequate provision has been made for such issues, there is the possibility that the ultimate resolution of such issues could have an adverse effect on our earnings. Conversely, if these issues are resolved favorably in the future, the related provision would be reduced, thus having a positive impact on earnings.

In January 2015, we resolved tax matters related primarily to certain tax credits that were under examination. We estimate that unrecognized tax benefits will decrease in an amount ranging from \$60 million to \$70 million in the first quarter of 2015 due to the resolution of these issues. We expect this resolution to result in a tax benefit ranging from \$10 million to \$20 million in the first quarter of 2015. We do not expect any other significant changes in our unrecognized tax benefits in the next 12 months.

As a result of our global operations, we file income tax returns in various jurisdictions including U.S. federal, state and foreign jurisdictions. We are routinely subject to examination by taxing authorities throughout the world, including Australia, Belgium, Brazil, Canada, China, France, India, Mexico, the U.K. and the U.S. With few exceptions, our U.S. federal, major state and foreign jurisdictions are no longer subject to income tax assessments for years before 2011. The U.S. examinations related to tax years 2011-2012 commenced during 2014.

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NOTE 5. MARKETABLE SECURITIES

A summary of marketable securities, all of which are classified as current, was as follows:

In millions	December 31,			2013		
	2014			2013		
	Cost	Gross unrealized gains/(losses)	Estimated fair value	Cost	Gross unrealized gains/(losses)	Estimated fair value
Available-for-sale						
Level 1 ^{(1) (2)}						
Equity securities ⁽³⁾	\$—	\$—	\$—	\$10	\$13	\$23
Total Level 1	—	—	—	10	13	23
Level 2 ^{(2) (4)}						
Debt mutual funds	75	1	76	99	2	101
Equity mutual funds	9	—	9	—	—	—
Bank debentures	6	—	6	2	—	2
Certificates of deposit	—	—	—	22	—	22
Government debt securities	2	—	2	3	(1)	2
Total Level 2	92	1	93	126	1	127
Total marketable securities	\$92	\$1	\$93	\$136	\$14	\$150

(1) The fair value of Level 1 securities is estimated primarily by referencing quoted prices in active markets for identical assets.

(2) We revised 2013 balances to classify \$72 million as Level 2 assets instead of Level 1.

(3) In the first quarter of 2013, we realized a \$9 million gain on the sale of equity securities.

(4) The fair value of Level 2 securities is estimated primarily using actively quoted prices for similar instruments from brokers and observable inputs, including market transactions and third-party pricing services. We do not currently have any Level 3 securities, and there were no transfers between Level 2 or 3 during 2014 and 2013.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and utilize the best available information. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We are able to classify fair value balances based on the observability of those inputs. The fair value hierarchy prioritizes the inputs used to measure fair value giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). At December 31, 2014, we did not have any Level 1 or Level 3 financial assets or liabilities.

A description of the valuation techniques and inputs used for our Level 2 fair value measures was as follows:

Debt mutual funds— Assets in Level 2 consist of exchange traded mutual funds that lack sufficient trading volume to be classified at Level 1. The fair value measure for these investments is the daily net asset value published on a regulated governmental website. Daily quoted prices are available from the issuing brokerage and are used on a test basis to corroborate this Level 2 input.

Bank debentures and Certificates of deposit— These investments provide us with a fixed rate of return and generally range in maturity from six months to five years. The counter-parties to these investments are reputable financial institutions with investment grade credit ratings. Since these instruments are not tradable and must be settled directly by us with the respective financial institution, our fair value measure is the financial institutions' month-end statement.

Government debt securities-non-U.S. and Corporate debt securities— The fair value measure for these securities are broker quotes received from reputable firms. These securities are infrequently traded on a national stock exchange and these values are used on a test basis to corroborate our Level 2 input measure.

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The proceeds from sales and maturities of marketable securities and gross realized gains from the sale of AFS securities were as follows:

In millions	Years ended December 31,		
	2014	2013	2012
Proceeds from sales and maturities of marketable securities	\$336	\$525	\$585
Gross realized gains from the sale of available-for-sale securities ⁽¹⁾	14	14	3

⁽¹⁾ Gross realized losses from the sale of available-for-sale securities were immaterial.

At December 31, 2014, the fair value of available-for-sale investments in debt securities that utilize a Level 2 fair value measure is shown by contractual maturity below:

Maturity date	(in millions)
1 year or less	\$77
1 - 5 years	6
5 - 10 years	1
Total	\$84

NOTE 6. INVENTORIES

Inventories are stated at the lower of cost or market. Inventories included the following:

In millions	December 31,	
	2014	2013
Finished products	\$1,859	\$1,487
Work-in-process and raw materials	1,129	1,005
Inventories at FIFO cost	2,988	2,492
Excess of FIFO over LIFO	(122	) (111
Total inventories	\$2,866	\$2,381

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

Details of our property, plant and equipment balance were as follows:

In millions	December 31,	
	2014	2013
Land and buildings	\$1,822	\$1,427
Machinery, equipment and fixtures	4,722	4,174
Construction in process ⁽¹⁾	579	809
Property, plant and equipment, gross	7,123	6,410
Less: Accumulated depreciation	(3,437	) (3,254
Property, plant and equipment, net	\$3,686	\$3,156

⁽¹⁾ Construction in process included \$14 million in 2014 and \$188 million in 2013 related to our light-duty diesel engine platform.

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NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the changes in the carrying amount of goodwill for the years ended December 31, 2014 and 2013:

In millions	Components	Distribution	Power Generation	Engine	Total	
Balance at December 31, 2012	\$408	\$19	\$12	\$6	\$445	
Acquisitions	—	13	—	—	13	
Translation and other	3	(1	) 1	—	3
Balance at December 31, 2013	411	31	13	6	461	
Acquisitions	—	31	—	—	31	
Translation and other	(11) —	(2) —	(13)
Balance at December 31, 2014	\$400	\$62	\$11	\$6	\$479	

Intangible assets that have finite useful lives are amortized over their estimated useful lives. The following table summarizes our other intangible assets with finite useful lives that are subject to amortization:

In millions	December 31,		
	2014	2013	
Software	\$472	\$494	
Less: Accumulated amortization	(218) (218)
Net software	254	276	
Trademarks, patents and other	164	135	
Less: Accumulated amortization	(75) (54)
Net trademarks, patents and other	89	81	
Total	\$343	\$357	

Amortization expense for software and other intangibles totaled \$99 million, \$86 million and \$64 million for the years ended December 31, 2014, 2013 and 2012, respectively. Internal and external software costs (excluding those related to research, re-engineering and training), trademarks and patents are amortized generally over a 3 to 12 year period. The projected amortization expense of our intangible assets, assuming no further acquisitions or dispositions, is as follows:

In millions	2015	2016	2017	2018	2019
Projected amortization expense	\$86	\$75	\$56	\$36	\$25

NOTE 9. DEBT

Loans Payable

Loans payable at December 31, 2014 and 2013 were \$86 million and \$17 million, respectively, and consisted primarily of notes payable to financial institutions. The weighted-average interest rate for notes payable, bank overdrafts and current maturities of long-term debt at December 31, 2014, 2013 and 2012, was as follows:

	2014	2013	2012	
Weighted average interest rate	3.70	% 2.59	% 3.21	%
Interest				

For the years ended December 31, 2014, 2013 and 2012, total interest incurred was \$71 million, \$48 million and \$39 million, respectively, and interest capitalized was \$7 million, \$7 million and \$7 million, respectively.

Revolving Credit Facility

On November 9, 2012, we entered into a five-year revolving credit agreement with a syndicate of lenders. The credit agreement provides us with a \$1.75 billion senior unsecured revolving credit facility, the proceeds of which are to be used for working capital or other general corporate purposes. In the fourth quarter of 2014, we exercised our option to extend the maturity date of our revolving credit agreement by one year from November 9, 2017, to November 9, 2018.

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Amounts payable under our revolving credit facility will rank pro rata with all of our unsecured, unsubordinated indebtedness. Up to \$200 million under our credit facility is available for swingline loans denominated in U.S. dollars. Advances under the facility bear interest at (i) a base rate or (ii) a rate equal to the LIBOR rate plus an applicable margin based on the credit ratings of our outstanding senior unsecured long-term debt. Based on our current long-term debt ratings, the applicable margin on LIBOR rate loans was 0.875 percent per annum as of December 31, 2014. Advances under the facility may be prepaid without premium or penalty, subject to customary breakage costs. The credit agreement includes various covenants, including, among others, maintaining a leverage ratio of no more than 3.25 to 1.0. As of December 31, 2014, we were in compliance with the covenants.

There were no outstanding borrowings under this facility at December 31, 2014. A reconciliation of the maximum capacity of our revolver to the amount available under the facility was as follows:

In millions	December 31, 2014
Maximum credit capacity of the revolving credit facility	\$1,750
Less: Letters of credit against revolving credit facility	24
Amount available for borrowing under the revolving credit facility	\$1,726

As of December 31, 2014, we also had \$261 million available for borrowings under our international and other domestic credit facilities. Borrowings against the other domestic and international short-term facilities were \$86 million as of December 31, 2014 and \$17 million at the end of 2013.

Long-term Debt

	December 31,	
In millions	2014	2013
Long-term debt		
Senior notes, 3.65%, due 2023	\$500	\$500
Debentures, 6.75%, due 2027	58	58
Debentures, 7.125%, due 2028	250	250
Senior notes, 4.875%, due 2043	500	500
Debentures, 5.65%, due 2098 (effective interest rate 7.48%)	165	165
Credit facilities related to consolidated joint ventures	3	92
Other debt	31	65
Unamortized discount	(47	) (48
Fair value adjustments due to hedge on indebtedness	65	49
Capital leases	87	92
Total long-term debt	1,612	1,723
Less: Current maturities of long-term debt	(23	) (51
Long-term debt	\$1,589	\$1,672

Principal payments required on long-term debt during the next five years are as follows:

In millions	2015	2016	2017	2018	2019
Principal payments	\$23	\$28	\$12	\$16	\$11

As a well-known seasoned issuer, we filed an automatic shelf registration for an undetermined amount of debt and equity securities with the Securities and Exchange Commission on September 16, 2013. Under this shelf registration we may offer, from time to time, debt securities, common stock, preferred and preference stock, depositary shares, warrants, stock purchase contracts and stock purchase units.

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In September 2013, we issued \$1 billion aggregate principal amount of senior notes consisting of \$500 million aggregate principal amount of 3.65% senior unsecured notes due in 2023 and \$500 million aggregate principal amount of 4.875% senior unsecured notes due in 2043. We received net proceeds of \$979 million. The senior notes pay interest semi-annually on April 1 and October 1, commencing on April 1, 2014. The indenture governing the senior notes contains covenants that, among other matters, limit (i) our ability to consolidate or merge into, or sell, assign, convey, lease, transfer or otherwise dispose of all or substantially all of our and our subsidiaries' assets to another person, (ii) our and certain of our subsidiaries' ability to create or assume liens and (iii) our and certain of our subsidiaries' ability to engage in sale and leaseback transactions.

Interest on the 6.75% debentures is payable on February 15 and August 15 each year.

Interest on the \$250 million 7.125% debentures and \$165 million 5.65% debentures is payable on March 1 and September 1 of each year. The debentures are unsecured and are not subject to any sinking fund requirements. We can redeem the 7.125% debentures and the 5.65% debentures at any time prior to maturity at the greater of par plus accrued interest or an amount designed to ensure that the debenture holders are not penalized by the early redemption. Our debt agreements contain several restrictive covenants. The most restrictive of these covenants applies to our revolving credit facility which will upon default, among other things, limit our ability to incur additional debt or issue preferred stock, enter into sale-leaseback transactions, sell or create liens on our assets, make investments and merge or consolidate with any other person. In addition, we are subject to a maximum debt-to-EBITDA ratio financial covenant. As of December 31, 2014, we were in compliance with all of the covenants under our borrowing agreements.

Interest Rate Risk

We are exposed to market risk from fluctuations in interest rates. We manage our exposure to interest rate fluctuations through the use of interest rate swaps. The objective of the swaps is to more effectively balance our borrowing costs and interest rate risk.

In February 2014, we settled our November 2005 interest rate swap which previously converted our \$250 million debt issue, due in 2028, from a fixed rate to a floating rate based on LIBOR spread. We are amortizing the \$52 million gain realized upon settlement over the remaining 14-year term of related debt.

Also, in February 2014, we entered into a series of interest rate swaps to effectively convert our September 2013, \$500 million debt issue, due in 2023, from a fixed rate of 3.65 percent to a floating rate equal to the one-month LIBOR plus a spread. The terms of the swaps mirror those of the debt, with interest paid semi-annually. The swaps were designated, and will be accounted for, as fair value hedges under GAAP. The gain or loss on these derivative instruments, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in current income as "Interest expense." The net swap settlements that accrue each period are also reported in interest expense.

The following table summarizes these gains and losses for the years presented below:

In millions	Years ended December 31,					
	2014		2013		2012	
Income Statement Classification	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings
Interest expense ⁽¹⁾	\$23	\$ (19)	\$ (39)	\$ 39	\$6	\$ (6)

⁽¹⁾ The difference between the gain/(loss) on swaps and borrowings represents hedge ineffectiveness.

Fair Value of Debt

Based on borrowing rates currently available to us for bank loans with similar terms and average maturities, considering our risk premium, the fair value and carrying value of total debt, including current maturities, was as follows:

In millions	December 31, 2014	December 31, 2013
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Fair value of total debt ⁽¹⁾	\$1,993	\$1,877
Carrying value of total debt	1,698	1,740

⁽¹⁾ The fair value of debt is derived from Level 2 inputs.

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A tabular reconciliation of the product warranty liability, including the deferred revenue related to our extended warranty coverage and accrued recall programs was as follows:

In millions	December 31,	
	2014	2013
Balance, beginning of year	\$1,129	\$1,088
Provision for warranties issued	411	431
Deferred revenue on extended warranty contracts sold	263	189
Payments	(404)	(427)
Amortization of deferred revenue on extended warranty contracts	(148)	(115)
Changes in estimates for pre-existing warranties	41	(35)
Foreign currency translation	(9)	(2)
Balance, end of year	\$1,283	\$1,129

Warranty related deferred revenue, supplier recovery receivables and the long-term portion of the warranty liability on our Consolidated Balance Sheets were as follows:

In millions	December 31,		Balance Sheet Location
	2014	2013	
Deferred revenue related to extended coverage programs			
Current portion	\$170	\$145	Deferred revenue
Long-term portion	438	349	Other liabilities and deferred revenue
Total	\$608	\$494	
Receivables related to estimated supplier recoveries			
Current portion	\$12	\$5	Trade and other receivables
Long-term portion	4	5	Other assets
Total	\$16	\$10	
Long-term portion of warranty liability	\$312	\$275	Other liabilities and deferred revenue

NOTE 11. PENSION AND OTHER POSTRETIREMENT BENEFITS**Pension Plans**

We sponsor several contributory and noncontributory pension plans covering substantially all employees. Generally, hourly employee pension benefits are earned based on years of service and compensation during active employment while future benefits for salaried employees are determined using a cash balance formula. However, the level of benefits and terms of vesting may vary among plans. Pension plan assets are administered by trustees and are principally invested in fixed income securities and equity securities. It is our policy to make contributions to our various qualified plans in accordance with statutory and contractual funding requirements and any additional contributions we determine are appropriate.

Obligations, Assets and Funded Status

Benefit obligation balances presented below reflect the projected benefit obligation (PBO) for our pension plans. The changes in the benefit obligations, the various plan assets, the funded status of the plans and the amounts recognized in our Consolidated Balance Sheets for our significant pension plans were as follows:

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In millions	Qualified and Non-Qualified Pension Plans			
	U.S. Plans		U.K. Plans	
	2014	2013	2014	2013
Change in benefit obligation				
Benefit obligation at the beginning of the year	\$2,261	\$2,454	\$1,429	\$1,269
Service cost	66	70	24	21
Interest cost	105	93	63	57
Actuarial loss (gain)	301	(193)	139	96
Benefits paid from fund	(143)	(150)	(48)	(50)
Benefits paid directly by employer	(11)	(13)	—	—
Exchange rate changes	—	—	(85)	37
Other	—	—	—	(1)
Benefit obligation at end of year	\$2,579	\$2,261	\$1,522	\$1,429
Change in plan assets				
Fair value of plan assets at beginning of year	\$2,445	\$2,327	\$1,516	\$1,324
Actual return on plan assets	311	168	254	142
Employer contributions	100	100	94	56
Benefits paid	(143)	(150)	(48)	(50)
Exchange rate changes	—	—	(92)	44
Fair value of plan assets at end of year	\$2,713	\$2,445	\$1,724	\$1,516
Funded status (including underfunded and nonfunded plans) at end of year	\$134	\$184	\$202	\$87
Amounts recognized in consolidated balance sheets				
Prepaid pensions - long-term assets	\$435	\$427	\$202	\$87
Accrued compensation, benefits and retirement costs - current liabilities	(12)	(11)	—	—
Pensions - long-term liabilities	(289)	(232)	—	—
Net amount recognized	\$134	\$184	\$202	\$87
Amounts recognized in accumulated other comprehensive loss consist of:				
Net actuarial loss	\$611	\$478	\$286	\$361
Prior service credit	(1)	(1)	—	—
Net amount recognized	\$610	\$477	\$286	\$361

In addition to the pension plans in the above table, we also maintain less significant defined benefit pension plans primarily in 14 other countries outside of the U.S. and the U.K. that comprise approximately 3 percent and 5 percent of our pension plan assets and obligations, respectively. These plans are reflected in "Other liabilities and deferred revenue" on our Consolidated Balance Sheets.

The following table presents information regarding total accumulated benefit obligation, PBO's and underfunded pension plans that are included in the preceding table:

In millions	Qualified and Non-Qualified Pension Plans			
	U.S. Plans		U.K. Plans	
	2014	2013	2014	2013
Total accumulated benefit obligation	\$2,539	\$2,231	\$1,402	\$1,309
Plans with accumulated benefit obligation in excess of plan assets				
Accumulated benefit obligation	261	212	—	—
Plans with projected benefit obligation in excess of plan assets				
Projected benefit obligation	301	243	—	—

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Components of Net Periodic Pension Cost

The following table presents the net periodic pension cost under our plans:

In millions	Qualified and Non-Qualified Pension Plans					
	U.S. Plans			U.K. Plans		
	2014	2013	2012	2014	2013	2012
Service cost	\$66	\$70	\$58	\$24	\$21	\$21
Interest cost	105	93	103	63	57	59
Expected return on plan assets	(173)	(167)	(157)	(84)	(72)	(81)
Amortization of prior service (credit) cost	(1)	(1)	(1)	—	—	1
Recognized net actuarial loss	31	62	47	26	24	14
Net periodic pension cost	\$28	\$57	\$50	\$29	\$30	\$14

Other changes in benefit obligations and plan assets recognized in other comprehensive income in 2014, 2013 and 2012 were as follows:

In millions	2014	2013	2012
Amortization of prior service (cost) credit	\$1	\$1	\$(1)
Recognized actuarial loss	(57)	(86)	(61)
Incurred prior service cost	—	—	1
Incurred actuarial (gain) loss	133	(168)	124
Foreign exchange translation adjustments	(18)	10	16
Total recognized in other comprehensive income	\$59	\$(243)	\$79

Total recognized in net periodic pension cost and other comprehensive income \$116 \$(156) \$143

The amount in accumulated other comprehensive loss expected to be recognized as a component of net periodic pension cost during the next fiscal year is a net actuarial loss of \$71 million.

Assumptions

The table below presents various assumptions used in determining the pension benefit obligation for each year and reflects weighted-average percentages for the various plans as follows:

	Qualified and Non-Qualified Pension Plans				
	U.S. Plans		U.K. Plans		
	2014	2013	2014	2013	
Discount rate	4.07	% 4.83	% 3.80	% 4.60	%
Compensation increase rate	4.88	% 4.91	% 4.25	% 4.50	%

The table below presents various assumptions used in determining the net periodic pension cost and reflects weighted-average percentages for the various plans as follows:

	Qualified and Non-Qualified Pension Plans						
	U.S. Plans			U.K. Plans			
	2014	2013	2012	2014	2013	2012	
Discount rate	4.83	% 3.97	% 4.82	% 4.60	% 4.70	% 5.20	%
Expected return on plan assets	7.50	% 8.00	% 8.00	% 5.80	% 5.80	% 6.50	%
Compensation increase rate	4.91	% 4.91	% 4.00	% 4.50	% 4.00	% 4.25	%

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Plan Assets

Our investment policies in the U.S. and U.K. provide for the rebalancing of assets to maintain our long-term strategic asset allocation. We are committed to its long-term strategy and do not attempt to time the market given empirical evidence that asset allocation is more critical than individual asset or investment manager selection. Rebalancing of the assets has and continues to occur. The rebalancing is critical to having the proper weighting of assets to achieve the expected total portfolio returns. We believe that our portfolio is highly diversified and does not have any significant exposure to concentration risk. The plan assets for our defined benefit pension plans do not include any of our common stock.

U.S. Plan Assets

For the U.S. qualified pension plans, our assumption for the expected return on assets was 7.5 percent in 2014. Projected returns are based primarily on broad, publicly traded equity and fixed income indices and forward-looking estimates of active portfolio and investment management. We expect additional positive returns from this active investment management. Based on the historical returns and forward-looking return expectations, we have elected to continue using our assumption of 7.5 percent in 2015.

The primary investment objective is to exceed, on a net-of-fee basis, the rate of return of a policy portfolio comprised of the following:

Asset Class	Target	Range
U.S. equities	9.0	% +/-5.0%
Non-U.S. equities	3.0	% +/-3.0%
Global equities	10.0	% +/-3.0%
Total equities	22.0	%
Real estate	7.0	% +3.0/-7.0%
Private equity	7.0	% +3.0/-7.0%
Fixed income	64.0	% +/-5.0%
Total	100.0	%

The fixed income component is structured to represent a custom bond benchmark that will closely hedge the change in the value of our liabilities. This component is structured in such a way that its benchmark covers approximately 95 percent of the plan's exposure to changes in its discount rate (AA corporate bond yields). In order to achieve a hedge on more than the targeted 64 percent of plan assets invested in fixed income securities, our Benefits Policy Committee (BPC) permits the fixed income managers, other managers or the custodian/trustee to utilize derivative securities, as part of a liability driven investment strategy to further reduce the plan's risk of declining interest rates. However, all managers hired to manage assets for the trust are prohibited from using leverage unless specifically discussed with the BPC and approved in their guidelines.

U.K. Plan Assets

For the U.K. qualified pension plans, our assumption for the expected return on assets was 5.8 percent in 2014. The methodology used to determine the rate of return on pension plan assets in the U.K. was based on establishing an equity-risk premium over current long-term bond yields adjusted based on target asset allocations. Our strategy with respect to our investments in these assets is to be invested in a suitable mixture of return-seeking assets (equities and real estate) and liability matching assets (bonds) with a long-term outlook. Therefore, the risk and return balance of our U.K. asset portfolio should reflect a long-term horizon. To achieve these objectives we have established the following targets:

Asset Class	Target	
Global equities	25.5	%
Real estate	7.5	%
Re-insurance	5.0	%
Private equity	7.5	%
Corporate credit instruments	4.5	%
Fixed income	50.0	%
Total	100.0	%

As part of our strategy in the U.K. we have not prohibited the use of any financial instrument, including derivatives. Based on the above discussion, we have elected to continue using our assumption of 5.8 percent in 2015.

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Fair Value of U.S. Plan Assets

The fair values of U.S. pension plan assets by asset category were as follows:

In millions	Fair Value Measurements as of December 31, 2014			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Equities				
U.S.	\$103	\$297	\$—	\$400
Non-U.S.	137	82	—	219
Fixed Income				
Government debt	—	886	—	886
Corporate debt				
U.S.	—	724	—	724
Non-U.S.	—	87	—	87
Asset/mortgaged backed securities	—	45	—	45
Net cash equivalents ⁽¹⁾	28	2	—	30
Derivative instruments ⁽²⁾	—	2	—	2
Private equity and real estate ⁽³⁾	—	—	306	306
Total	\$268	\$2,125	\$306	\$2,699
Pending trade/purchases/sales				5
Accruals ⁽⁴⁾				9
Total				\$2,713
In millions	Fair Value Measurements as of December 31, 2013			Total
	Quoted prices in active markets for identical assets (Level 1) ⁽⁵⁾	Significant other observable inputs (Level 2) ⁽⁵⁾	Significant unobservable inputs (Level 3)	
Equities				
U.S.	\$96	\$387	\$—	\$483
Non-U.S.	143	126	—	269
Fixed Income				
Government debt	—	780	—	780
Corporate debt				
U.S.	—	523	—	523
Non-U.S.	—	64	—	64
Asset/mortgaged backed securities	—	12	—	12
Net cash equivalents ⁽¹⁾	33	3	—	36
Derivative instruments ⁽²⁾	—	2	—	2
Private equity and real estate ⁽³⁾	—	—	296	296
Total	\$272	\$1,897	\$296	\$2,465
Pending trade/purchases/sales				(28)
Accruals ⁽⁴⁾				8
Total				\$2,445

(1) Cash equivalents include commercial paper, short-term government/agency, mortgage and credit instruments.

(2) Derivative instruments include interest rate swaps and credit default swaps.

(3) The instruments in private equity and real estate funds, for which quoted market prices are not available, are valued at their estimated fair value as determined by applicable investment managers or by audited financial statement of

the funds.

(4) Interest or dividends that had not been settled as of the year ended December 31.

(5) We revised 2013 balances to classify \$683 million as Level 2 assets instead of Level 1.

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The reconciliation of Level 3 assets was as follows:

In millions	Fair Value Measurements as of December 31, Using Significant Unobservable Inputs (Level 3)		
	Private Equity	Real Estate	Total
Balance at December 31, 2012	\$ 156	\$ 130	\$ 286
Actual return on plan assets			
Unrealized (losses) gains on assets still held at the reporting date	20	10	30
Purchases, sales and settlements, net	(23	) 3	(20
Balance at December 31, 2013	153	143	296
Actual return on plan assets			
Unrealized (losses) gains on assets still held at the reporting date	22	11	33
Purchases, sales and settlements, net	(27	) 4	(23
Balance at December 31, 2014	\$ 148	\$ 158	\$ 306

Fair Value of U.K. Plan Assets

In July 2012, the U.K. pension plan purchased an insurance contract that will guarantee payment of specified pension liabilities. The contract defers payment for 10 years. This is included in the table below in Level 3 for years ended December 31, 2014 and 2013 at a value of \$462 million and \$440 million, respectively.

The fair values of U.K. pension plan assets by asset category were as follows:

In millions	Fair Value Measurements as of December 31, 2014			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Equities				
U.S.	\$—	\$ 153	\$—	\$ 153
Non-U.S.	—	399	—	399
Fixed Income				
Corporate debt				
U.S.	—	321	—	321
Non-U.S.	—	158	—	158
Net cash equivalents ⁽¹⁾	24	—	—	24
Re-insurance	—	65	—	65
Private equity, real estate & insurance ⁽²⁾	—	—	604	604
Total	\$ 24	\$ 1,096	\$ 604	\$ 1,724
In millions	Fair Value Measurements as of December 31, 2013			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Equities				
U.S.	\$—	\$ 270	\$—	\$ 270
Non-U.S.	—	328	—	328
Fixed Income				
Government debt	—	120	—	120
Corporate debt non-U.S.	—	138	—	138
Net cash equivalents ⁽¹⁾	13	—	—	13
Derivative instruments ⁽³⁾	—	24	—	24
Re-insurance	—	66	—	66

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Private equity, real estate & insurance ⁽²⁾	—	—	557	557
Total	\$13	\$946	\$557	\$1,516

⁽¹⁾ Cash equivalents include commercial paper, short-term government/agency, mortgage and credit instruments.

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The instruments in private equity and real estate funds, for which quoted market prices are not available, are valued

(2) at their estimated fair value as determined by applicable investment managers or by audited financial statement of the funds.

(3) Derivative instruments consist of interest rate swaps.

The reconciliation of Level 3 assets was as follows:

In millions	Fair Value Measurements as of December 31, Using Significant Unobservable Inputs (Level 3)			
	Insurance	Real Estate	Private Equity	Total
Balance at December 31, 2012	\$424	\$34	\$28	\$486
Actual return on plan assets				
Unrealized (losses) gains on assets still held at the reporting date	29	2	5	36
Purchases, sales and settlements, net	(13	) 33	15	35
Balance at December 31, 2013	440	69	48	557
Actual return on plan assets				
Unrealized (losses) gains on assets still held at the reporting date	42	(3	) 11	50
Purchases, sales and settlements, net	(20	) (5	) 22	(3
Balance at December 31, 2014	\$462	\$61	\$81	\$604

Level 3 Assets

The investments in an insurance contract, private equity and real estate funds, for which quoted market prices are not available, are valued at their estimated fair value as determined by applicable investment managers or by quarterly financial statements of the funds. These financial statements are audited at least annually. In conjunction with our investment consultant, we monitor the fair value of the insurance contract as periodically reported by our insurer and their counterparty risk. The fair value of all real estate properties, held in the partnerships, are valued at least once per year by an independent professional real estate valuation firm. Fair value generally represents the fund's proportionate share of the net assets of the investment partnerships as reported by the general partners of the underlying partnerships. Some securities with no readily available market are initially valued at cost, utilizing independent professional valuation firms as well as market comparisons with subsequent adjustments to values which reflect either the basis of meaningful third-party transactions in the private market or the fair value deemed appropriate by the general partners of the underlying investment partnerships. In such instances, consideration is also given to the financial condition and operating results of the issuer, the amount that the investment partnerships can reasonably expect to realize upon the sale of the securities and any other factors deemed relevant. The estimated fair values are subject to uncertainty and therefore may differ from the values that would have been used had a ready market for such investments existed and such differences could be material.

Estimated Future Contributions and Benefit Payments

We plan to contribute approximately \$175 million to our defined benefit pension plans in 2015. The table below presents expected future benefit payments under our pension plans:

In millions	Qualified and Non-Qualified Pension Plans					
	2015	2016	2017	2018	2019	2020 - 2024
Expected benefit payments	\$231	\$232	\$238	\$243	\$247	\$1,283

Other Pension Plans

We also sponsor defined contribution plans for certain hourly and salaried employees. Our contributions to these plans were \$73 million, \$66 million and \$74 million for the years ended December 31, 2014, 2013 and 2012.

Other Postretirement Benefits

Our other postretirement benefit plans provide various health care and life insurance benefits to eligible employees, who retire and satisfy certain age and service requirements, and their dependents. The plans are contributory and contain cost-sharing features such as caps, deductibles, coinsurance and spousal contributions. Employer contributions are limited by formulas in each plan. Retiree contributions for health care benefits are adjusted annually and we reserve the right to change benefits covered under these plans. There were no plan assets for the postretirement benefit

plans as our policy is to fund benefits and expenses for these plans as claims and premiums are incurred.

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Obligations and Funded Status

Benefit obligation balances presented below reflect the accumulated postretirement benefit obligations (APBO) for our other postretirement benefit plans. The changes in the benefit obligations, the funded status of the plans and the amounts recognized in our Consolidated Balance Sheets for our significant other postretirement benefit plans were as follows:

In millions	2014	2013	
Change in benefit obligation			
Benefit obligation at the beginning of the year	\$398	\$478	
Interest cost	17	17	
Plan participants' contributions	10	10	
Actuarial loss (gain)	38	(49))
Benefits paid directly by employer	(55)	(58))
Benefit obligation at end of year	\$408	\$398	
Funded status at end of year	\$ (408)	\$ (398))
Amounts recognized in consolidated balance sheets			
Accrued compensation, benefits and retirement costs - current liabilities	\$ (39)	\$ (42))
Postretirement benefits other than pensions-long-term liabilities	(369)	(356))
Net amount recognized	\$ (408)	\$ (398))

Amounts recognized in accumulated other comprehensive loss consist of:

Net actuarial loss	\$65	\$27	
Prior service credit	(5)	(5))
Net amount recognized	\$60	\$22	

In addition to the other postretirement plans in the above table, we also maintain less significant postretirement plans in four other countries outside the U.S. that comprise less than 7 percent of our postretirement obligations. These plans are reflected in "Other liabilities and deferred revenue" in our Consolidated Balance Sheets.

Components of Net Periodic Other Postretirement Benefits Cost

The following table presents the net periodic other postretirement benefits cost under our plans:

In millions	2014	2013	2012
Interest cost	\$17	\$17	\$21
Amortization of prior service credit	—	—	(5)
Recognized net actuarial loss	—	6	3
Other	—	—	1
Net periodic other postretirement benefit cost	\$17	\$23	\$20

Other changes in benefit obligations recognized in other comprehensive income in 2014, 2013 and 2012 were as follows:

In millions	2014	2013	2012
Amortization of prior service credit	\$—	\$—	\$5
Recognized actuarial loss	—	(6)	(3)
Incurred actuarial (gain) loss	38	(49)	20
Incurred prior service credit	—	—	(4)
Other	—	—	(1)
Total recognized in other comprehensive income	\$38	\$ (55)	\$17

Total recognized in net periodic other postretirement benefit cost and other comprehensive income

\$55 \$ (32) \$37

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The amount in accumulated other comprehensive loss expected to be recognized as a component of net periodic other postretirement benefit cost during the next fiscal year is \$5 million.

Assumptions

The table below presents assumptions used in determining the other postretirement benefit obligation for each year and reflects weighted-average percentages for our other postretirement plans as follows:

	2014		2013	
Discount rate	3.90	%	4.55	%

The table below presents assumptions used in determining the net periodic other postretirement benefits cost and reflects weighted-average percentages for the various plans as follows:

	2014		2013		2012	
Discount rate	4.55	%	3.70	%	4.70	%

Our consolidated other postretirement benefit obligation is determined by application of the terms of health care and life insurance plans, together with relevant actuarial assumptions and health care cost trend rates. For measurement purposes, a 7.00 percent annual rate of increase in the per capita cost of covered health care benefits was assumed in 2014. The rate is assumed to decrease on a linear basis to 5.00 percent through 2019 and remain at that level thereafter. An increase in the health care cost trends of 1 percent would increase our APBO by \$22 million as of December 31, 2014 and the net periodic other postretirement benefit cost for 2015 by \$1 million. A decrease in the health care cost trends of 1 percent would decrease our APBO by \$18 million as of December 31, 2014 and the net periodic other postretirement benefit cost for 2015 by \$1 million.

Estimated Benefit Payments

The table below presents expected benefit payments under our other postretirement benefit plans:

In millions	2015	2016	2017	2018	2019	2020 - 2024
Expected benefit payments	\$40	\$38	\$36	\$33	\$31	\$134

NOTE 12. OTHER LIABILITIES AND DEFERRED REVENUE

Other liabilities and deferred revenue included the following:

	December 31,	
In millions	2014	2013
Deferred revenue	\$513	\$414
Accrued warranty	312	275
Accrued compensation	215	184
Other long-term liabilities	375	357
Other liabilities and deferred revenue	\$1,415	\$1,230

NOTE 13. COMMITMENTS AND CONTINGENCIES

We are subject to numerous lawsuits and claims arising out of the ordinary course of our business, including actions related to product liability; personal injury; the use and performance of our products; warranty matters; patent, trademark or other intellectual property infringement; contractual liability; the conduct of our business; tax reporting in foreign jurisdictions; distributor termination; workplace safety; and environmental matters. We also have been identified as a potentially responsible party at multiple waste disposal sites under U.S. federal and related state environmental statutes and regulations and may have joint and several liability for any investigation and remediation costs incurred with respect to such sites. We have denied liability with respect to many of these lawsuits, claims and proceedings and are vigorously defending such lawsuits, claims and proceedings. We carry various forms of commercial, property and casualty, product liability and other forms of insurance; however, such insurance may not be applicable or adequate to cover the costs associated with a judgment against us with respect to these lawsuits, claims and proceedings. We do not believe that these lawsuits are material individually or in the aggregate. While we believe we have also established adequate accruals for our expected future liability with respect to pending lawsuits, claims and proceedings, where the nature and extent of any such liability can be reasonably estimated based upon then presently available information, there can be no assurance that the final resolution of any existing or future lawsuits,

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claims or proceedings will not have a material adverse effect on our business, results of operations, financial condition or cash flows.

We conduct significant business operations in Brazil that are subject to the Brazilian federal, state and local labor, social security, tax and customs laws. While we believe we comply with such laws, they are complex, subject to varying interpretations and we are often engaged in litigation regarding the application of these laws to particular circumstances.

U.S. Distributor Commitments

Our distribution agreements with independent and partially-owned distributors generally have a renewable three-year term and are restricted to specified territories. Our distributors develop and maintain a network of dealers with which we have no direct relationship. Our distributors are permitted to sell other, noncompetitive products only with our consent. We license all of our distributors to use our name and logo in connection with the sale and service of our products, with no right to assign or sublicense the trademarks, except to authorized dealers, without our consent. Products are sold to the distributors at standard domestic or international distributor net prices, as applicable. Net prices are wholesale prices we establish to permit our distributors an adequate margin on their sales. Subject to local laws, we can generally refuse to renew these agreements upon expiration or terminate them upon written notice for inadequate sales, change in principal ownership and certain other reasons. Distributors also have the right to terminate the agreements upon 60-day notice without cause, or 30-day notice for cause. Upon termination or failure to renew, we are required to purchase the distributor's current inventory, signage and special tools and may, at our option purchase other assets of the distributor, but are under no obligation to do so.

Other Guarantees and Commitments

In addition to the matters discussed above, from time to time we enter into other guarantee arrangements, including guarantees of non-U.S. distributor financings, residual value guarantees on equipment under operating leases and other miscellaneous guarantees of third-party obligations. As of December 31, 2014, the maximum potential loss related to these other guarantees was \$5 million.

We have arrangements with certain suppliers that require us to purchase minimum volumes or be subject to monetary penalties. The penalty amounts are less than our purchase commitments and essentially allow the supplier to recover their tooling costs in most instances. As of December 31, 2014, if we were to stop purchasing from each of these suppliers, the aggregate amount of the penalty would be approximately \$79 million, of which \$41 million relates to a contract with an engine parts supplier that extends to 2016. These arrangements enable us to secure critical components. We do not currently anticipate paying any penalties under these contracts.

During the second quarter of 2014, we began entering into physical forward contracts with suppliers of platinum and palladium to purchase minimum volumes of the commodities at contractually stated prices for various periods, not to exceed two years. As of December 31, 2014, the total commitments under these contracts were \$96 million. These arrangements enable us to fix the prices of these commodities, which otherwise are subject to market volatility.

We have guarantees with certain customers that require us to satisfactorily honor contractual or regulatory obligations, or compensate for monetary losses related to nonperformance. These performance bonds and other performance-related guarantees were \$76 million and \$66 million as of December 31, 2014 and 2013, respectively.

Indemnifications

Periodically, we enter into various contractual arrangements where we agree to indemnify a third-party against certain types of losses. Common types of indemnities include:

- product liability and license, patent or trademark indemnifications;
- asset sale agreements where we agree to indemnify the purchaser against future environmental exposures related to the asset sold; and
- any contractual agreement where we agree to indemnify the counter-party for losses suffered as a result of a misrepresentation in the contract.

We regularly evaluate the probability of having to incur costs associated with these indemnities and accrue for expected losses that are probable. Because the indemnifications are not related to specified known liabilities and due to their uncertain nature, we are unable to estimate the maximum amount of the potential loss associated with these indemnifications.

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Leases

We lease certain manufacturing equipment, facilities, warehouses, office space and equipment, aircraft and automobiles for varying periods under lease agreements. Most of the leases are non-cancelable operating leases with fixed rental payments, expire over the next 10 years and contain renewal provisions. Rent expense under these leases was as follows:

In millions	Years ended December 31,		
	2014	2013	2012
Rent expense	\$ 195	\$ 186	\$ 176

The following is a summary of the leased property under capital leases by major classes:

In millions	December 31,			
	2014	2013		
Building	\$ 105	\$ 103		
Equipment	98	97		
Other	15	16		
Less: Accumulated depreciation	(105)	(96)
Total	\$ 113	\$ 120		

Following is a summary of the future minimum lease payments due under capital and operating leases, including leases in our rental business, with terms of more than one year at December 31, 2014, together with the net present value of the minimum payments due under capital leases:

In millions	Capital Leases	Operating Leases
2015	\$ 23	\$ 152
2016	22	119
2017	13	104
2018	11	81
2019	8	71
After 2019	41	105
Total minimum lease payments	\$ 118	\$ 632
Interest	(31)
Present value of net minimum lease payments	\$ 87	

In addition, we have subleased certain facilities under operating leases to third parties. The future minimum lease payments due from lessees under those arrangements are less than \$2 million per year for the years 2015 through 2018.

NOTE 14. SHAREHOLDERS' EQUITY

Preferred and Preference Stock

We are authorized to issue one million shares each of zero par value preferred and preference stock with preferred shares being senior to preference shares. We can determine the number of shares of each series, and the rights, preferences and limitations of each series. At December 31, 2014, there was no preferred or preference stock outstanding.

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Common Stock

Changes in shares of common stock, treasury stock and common stock held in trust for employee benefit plans are as follows:

In millions	Common Stock	Treasury Stock	Common Stock Held in Trust
Balance at December 31, 2011	222.2	30.2	1.8
Shares acquired	—	2.6	—
Shares issued	0.4	(0.2	) (0.3
Other shareholder transactions	(0.2) —	—
Balance at December 31, 2012	222.4	32.6	1.5
Shares acquired	—	3.3	—
Shares issued	0.1	(0.3	) (0.2
Other shareholder transactions	(0.2) —	—
Balance at December 31, 2013	222.3	35.6	1.3
Shares acquired	—	4.8	—
Shares issued	0.1	(0.3	) (0.2
Other shareholder transactions	(0.1) —	—
Balance at December 31, 2014	222.3	40.1	1.1

Treasury Stock

Shares of common stock repurchased by us are recorded at cost as treasury stock and result in a reduction of shareholders' equity in our Consolidated Balance Sheets. Treasury shares may be reissued as part of our stock-based compensation programs. When shares are reissued, we use the weighted-average cost method for determining cost. The gains between the cost of the shares and the issuance price are added to additional paid-in-capital. The losses are deducted from additional paid-in capital to the extent of the gains. Thereafter, the losses are deducted from retained earnings. Treasury stock activity for the three-year period ended December 31, 2014, consisting of shares issued and repurchased is presented in our Consolidated Statements of Changes in Equity.

In December 2012, the Board of Directors authorized the acquisition of up to \$1 billion of our common stock upon completion of the 2011 repurchase program. In 2014, quarterly purchases under the repurchase program were as follows:

In millions (except per share amounts) For each quarter ended	2014 Shares Purchased	Average Cost Per Share	Total Cost of Repurchases	Remaining Authorized Capacity ⁽¹⁾
December 2012, \$1 billion repurchase program				
March 30	3.0	\$139.70	\$419	\$425
June 29	0.1	148.11	11	415
September 28	1.2	139.76	175	240
December 31	0.5	132.66	65	174
Total	4.8	139.12	\$670	174

⁽¹⁾ The remaining authorized capacity is calculated based on the cost to purchase the shares, but excludes commission expenses according to the Board of Directors authorization.

In July 2014, our Board of Directors authorized the acquisition of up to \$1 billion of additional common stock upon the completion of the 2012 repurchase plan.

Quarterly Dividends

Total dividends paid to common shareholders in 2014, 2013 and 2012 were \$512 million, \$420 million and \$340 million, respectively. Declaration and payment of dividends in the future depends upon our income and liquidity position, among other factors, and is subject to declaration by our Board of Directors, who meet quarterly to consider our dividend payment. We expect to fund dividend payments with cash from operations.

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In July 2014, the Board of Directors authorized a dividend increase of 25 percent from \$0.625 per share to \$0.78 per share on a quarterly basis effective in the third quarter. In July 2013, the Board of Directors authorized a 25 percent increase to our quarterly cash dividend on our common stock from \$0.50 per share to \$0.625 per share. In July 2012, the Board of Directors approved a 25 percent increase to our quarterly cash dividend on our common stock from \$0.40 per share to \$0.50 per share. Cash dividends per share paid to common shareholders for the last three years were as follows:

	Quarterly Dividends		
	2014	2013	2012
First quarter	\$0.625	\$0.50	\$0.40
Second quarter	0.625	0.50	0.40
Third quarter	0.78	0.625	0.50
Fourth quarter	0.78	0.625	0.50
Total	\$2.81	\$2.25	\$1.80

Employee Benefits Trust

In 1997, we established the Employee Benefits Trust (EBT) funded with common stock for use in meeting our future obligations under employee benefit and compensation plans. The primary sources of cash for the EBT are dividends received on unallocated shares of our common stock held by the EBT. The EBT may be used to fund matching contributions to employee accounts in the 401(k) Retirement Savings Plan (RSP) made in proportion to employee contributions under the terms of the RSP. In addition, we may direct the trustee to sell shares of the EBT on the open market to fund other non-qualified employee benefit plans. Matching contributions charged to income for the years ended December 31, 2014, 2013 and 2012 were \$24 million, \$24 million and \$27 million, respectively.

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NOTE 15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Following are the changes in accumulated other comprehensive income (loss) by component:

In millions	Change in pensions and Foreign other currency postretirement defined benefit plans	Unrealized gain (loss) on translation adjustment securities	Unrealized gain (loss) on marketable securities	Unrealized gain (loss) on derivatives	Total attributable to Cummins Inc.	Noncontrolling interests	Total
Balance at December 31, 2011	\$ (724)	\$ (198)	\$ 4	\$ (20)	\$ (938)		
Other comprehensive income before reclassifications							
Before tax amount	(164)	51	6	16	(91)	\$ (8)	\$(99)
Tax (expense) benefit	54	(14)	(2)	(4)	34	—	34
After tax amount	(110)	37	4	12	(57)	(8)	(65)
Amounts reclassified from accumulated other comprehensive income ⁽¹⁾	40	—	(3)	8	45	1	46
Net current period other comprehensive income (loss)	(70)	37	1	20	(12)	\$ (7)	\$(19)
Balance at December 31, 2012	\$ (794)	\$ (161)	\$ 5	\$ —	\$ (950)		
Other comprehensive income before reclassifications							
Before tax amount	206	(31)	16	(6)	185	\$ (28)	\$157
Tax (expense) benefit	(87)	13	(9)	3	(80)	—	(80)
After tax amount	119	(18)	7	(3)	105	(28)	77
Amounts reclassified from accumulated other comprehensive income ⁽¹⁾⁽²⁾	64	—	(5)	2	61	(1)	60
Net current period other comprehensive income (loss)	183	(18)	2	(1)	166	\$ (29)	\$137
Balance at December 31, 2013	\$ (611)	\$ (179)	\$ 7	\$ (1)	\$ (784)		
Other comprehensive income before reclassifications							
Before tax amount	(196)	(241)	2	2	(433)	\$ (7)	\$(440)
Tax (expense) benefit	92	14	(1)	(1)	104	—	104
After tax amount	(104)	(227)	1	1	(329)	(7)	(336)
Amounts reclassified from accumulated other comprehensive income ⁽¹⁾⁽²⁾	46	—	(9)	(2)	35	(4)	31
Net current period other comprehensive income (loss)	(58)	(227)	(8)	(1)	(294)	\$ (11)	\$(305)
Balance at December 31, 2014	\$ (669)	\$ (406)	\$ (1)	\$ (2)	\$ (1,078)		

⁽¹⁾ Amounts are net of tax.⁽²⁾ See reclassifications out of accumulated other comprehensive income (loss) disclosure below for further details.

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Following are the items reclassified out of accumulated other comprehensive income (loss) and the related tax effects:

In millions	Years ended December 31,		Statement of Income Location
(Gain)/Loss Components	2014	2013	
Realized (gain) loss on marketable securities	\$(14	) \$(13	) Other income (expense), net
Income tax expense	1	7	Income tax expense
Net realized (gain) loss on marketable securities	\$(13	) \$(6)
Realized (gain) loss on derivatives			
Foreign currency forward contracts	\$(5	) \$2	Net sales
Commodity swap contracts	2	1	Cost of sales
Total before taxes	(3	) 3	
Income tax expense (benefit)	1	(1	) Income tax expense
Net realized (gain) loss on derivatives	\$(2	) \$2	
Change in pension and other postretirement defined benefit plans			
Recognized actuarial loss	\$63	\$95	(1)
Total before taxes	63	95	
Income tax expense (benefit)	(17	) (31	) Income tax expense
Net change in pensions and other postretirement defined benefit plans	\$46	\$64	
Total reclassifications for the period	\$31	\$60	

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 11, "PENSION AND OTHER POSTRETIREMENT BENEFITS").

NOTE 16. STOCK INCENTIVE AND STOCK OPTION PLANS

In May 2012, our shareholders approved the 2012 Omnibus Plan (the Plan), which replaced and succeeded the 2003 Stock Incentive Plan. The Plan allows for the granting of equity awards covering up to 3.5 million shares to executives, employees and non-employee directors. Awards available for grant under the Plan include, but are not limited to, stock options, stock appreciation rights, performance shares and other stock awards. Shares issued under the Plan may be newly issued shares or reissued treasury shares.

Stock options are generally granted with a strike price equal to the fair market value of the stock on the date of grant and a life of 10 years. Stock options granted in 2014 have a three-year vesting period whereas stock options granted prior to 2014 had a two-year vesting period. The strike price may be higher than the fair value of the stock on the date of the grant, but cannot be lower. Compensation expense is recorded on a straight-line basis over the vesting period beginning on the grant date. The compensation expense is based on the fair value of each option grant using the Black-Scholes option pricing model. Options granted to employees eligible for retirement under our retirement plan are fully expensed as of the grant date.

Stock options are also awarded through the Key Employee Stock Investment Plan (KESIP) which allows certain employees, other than officers, to purchase shares of common stock on an installment basis up to an established credit limit. For every even block of 100 KESIP shares purchased by the employee 50 stock options are granted. The options granted through the KESIP program are considered awards under the Plan and are vested immediately. Compensation expense for stock options granted through the KESIP program is recorded based on the fair value of each option grant using the Black-Scholes option pricing model.

Performance shares are granted as target awards and are earned based on our return on equity (ROE) performance. A payout factor has been established ranging from 0 to 200 percent of the target award based on our actual ROE performance. Shares have a three-year performance period. Employees leaving the company prior to the end of the

three-year performance period forfeit shares granted to them. The fair value of the award is equal to the average market price, adjusted for the present value of dividends over the vesting period, of our stock on the grant date. Compensation expense is recorded ratably over the period beginning on the grant date until the shares become unrestricted and is based on the amount of the award that is expected to be earned under the plan formula, adjusted each reporting period based on current information.

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Restricted common stock is awarded from time to time at no cost to certain employees. Participants are entitled to cash dividends and voting rights. Restrictions limit the sale or transfer of the shares during a defined period.

Generally, one-third of the shares become vested and free from restrictions after two years and one-third of the shares issued become vested and free from restrictions each year thereafter on the anniversary of the grant date, provided the participant remains an employee. The fair value of the award is equal to the average market price of our stock on the grant date. Compensation expense is determined at the grant date and is recognized over the four-year restriction period on a straight-line basis.

Employee compensation expense (net of estimated forfeitures) related to our share-based plans for the year ended December 31, 2014, 2013 and 2012, was approximately \$35 million, \$34 million and \$35 million, respectively. The excess tax benefit associated with our share-based plans for the years ended December 31, 2014, 2013 and 2012, was \$5 million, \$13 million and \$14 million, respectively. The total unrecognized compensation expense (net of estimated forfeitures) related to nonvested awards was approximately \$32 million at December 31, 2014, and is expected to be recognized over a weighted-average period of less than two years.

The tables below summarize the activity in the Plan:

	Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Balance at December 31, 2011	1,243,037	\$ 59.02		
Granted	321,945	119.34		
Exercised	(241,815)	31.73		
Forfeited	(13,999)	67.86		
Balance at December 31, 2012	1,309,168	78.80		
Granted	432,370	112.07		
Exercised	(265,528)	40.48		
Forfeited	(13,674)	105.19		
Balance at December 31, 2013	1,462,336	95.35		
Granted	350,630	148.98		
Exercised	(175,526)	82.06		
Forfeited	(10,716)	102.56		
Balance at December 31, 2014	1,626,724	\$ 108.30	7.22	\$62
Exercisable, December 31, 2012	785,869	\$ 51.40	6.26	\$44
Exercisable, December 31, 2013	758,936	\$ 76.85	5.94	\$48
Exercisable, December 31, 2014	903,059	\$ 92.18	6.05	\$48

The weighted-average grant date fair value of options granted during the years ended December 31, 2014, 2013 and 2012, was \$49.16, \$48.00 and \$54.25, respectively. The total intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012, was approximately \$12 million, \$22 million and \$19 million, respectively.

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The weighted-average grant date fair value of performance and restricted shares was as follows:

Nonvested	Performance Shares		Restricted Shares	
	Shares	Weighted-average Fair Value	Shares	Weighted-average Fair Value
Balance at December 31, 2011	525,391	\$62.05	81,845	\$61.49
Granted	325,590	89.92	3,150	91.68
Vested	(194,484)	25.46	(22,766)	52.16
Forfeited	(26,413)	91.94	—	—
Balance at December 31, 2012	630,084	86.49	62,229	66.43
Granted	176,649	106.40	7,506	114.56
Vested	(303,882)	61.48	(26,901)	62.03
Forfeited	(26,938)	85.07	(10,293)	65.41
Balance at December 31, 2013	475,913	109.93	32,541	81.49
Granted	206,031	130.38	—	—
Vested	(207,093)	107.64	(21,266)	65.88
Forfeited	(8,158)	121.18	—	—
Balance at December 31, 2014	466,693	\$119.78	11,275	\$110.94

The total vesting date fair value of performance shares vested during the years ended December 31, 2014, 2013 and 2012 was \$30 million, \$35 million and \$24 million, respectively. The total fair value of restricted shares vested was \$3 million, \$3 million and \$3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The fair value of each option grant was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	2014	2013	2012	
Expected life (years)	5	5	5	
Risk-free interest rate	1.80	% 0.79	% 1.05	%
Expected volatility	41.17	% 56.59	% 58.98	%
Dividend yield	1.61	% 1.55	% 1.30	%

Expected life—The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding based upon our historical data.

Risk-free interest rate—The risk-free interest rate assumption is based upon the observed U.S. treasury security rate appropriate for the expected life of our employee stock options.

Expected volatility—The expected volatility assumption is based upon the weighted-average historical daily price changes of our common stock over the most recent period equal to the expected option life of the grant, adjusted for activity which is not expected to occur in the future.

Dividend yield—The dividend yield assumption is based on our history and expectation of dividend payouts.

NOTE 17. NONCONTROLLING INTERESTS

Noncontrolling interests in the equity of consolidated subsidiaries were as follows:

In millions	December 31,	
	2014	2013
Cummins India Ltd.	\$252	\$252
Wuxi Cummins Turbo Technologies Co. Ltd.	67	81
Other	25	27
Total	\$344	\$360

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NOTE 18. EARNINGS PER SHARE

We calculate basic earnings per share (EPS) of common stock by dividing net income attributable to Cummins Inc. by the weighted-average number of common shares outstanding for the period. The calculation of diluted EPS assumes the issuance of common stock for all potentially dilutive share equivalents outstanding. We exclude shares of common stock held in the EBT (see Note 14, "SHAREHOLDERS' EQUITY") from the calculation of the weighted-average common shares outstanding until those shares are distributed from the EBT to the RSP. Following are the computations for basic and diluted earnings per share:

Dollars in millions, except per share amounts	Years ended December 31,		
	2014	2013	2012
Net income attributable to Cummins Inc.	\$ 1,651	\$ 1,483	\$ 1,645
Weighted-average common shares outstanding			
Basic	182,637,568	186,994,382	189,286,821
Dilutive effect of stock compensation awards	441,727	423,459	381,883
Diluted	183,079,295	187,417,841	189,668,704
Earnings per common share attributable to Cummins Inc.			
Basic	\$9.04	\$7.93	\$8.69
Diluted	9.02	7.91	8.67

The weighted-average diluted common shares outstanding for 2014, 2013 and 2012 excludes the effect of 165,840, 359,641 and 453,893 weighted-average shares, respectively, of common stock options, since such options had an exercise price in excess of the monthly average market value of our common stock during that year.

NOTE 19. OPERATING SEGMENTS

Operating segments under GAAP are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Cummins' chief operating decision-maker (CODM) is the Chief Executive Officer.

Our reportable operating segments consist of the following: Engine, Distribution, Components and Power Generation. This reporting structure is organized according to the products and markets each segment serves. The Engine segment produces engines and parts for sale to customers in on-highway and various industrial markets. Our engines are used in trucks of all sizes, buses and recreational vehicles, as well as in various industrial applications, including construction, mining, agriculture, marine, oil and gas, rail and military equipment. The Distribution segment includes wholly-owned and partially-owned distributorships engaged in wholesaling engines, generator sets and service parts, as well as performing service and repair activities on our products and maintaining relationships with various OEMs throughout the world. The Components segment sells filtration products, aftertreatment systems, turbochargers and fuel systems. The Power Generation segment is an integrated provider of power systems, which sells engines, generator sets and alternators.

We use segment EBIT (defined as earnings before interest expense, taxes and noncontrolling interests) as a primary basis for the CODM to evaluate the performance of each of our operating segments. Segment amounts exclude certain expenses not specifically identifiable to segments.

The accounting policies of our operating segments are the same as those applied in our Consolidated Financial Statements. We prepared the financial results of our operating segments on a basis that is consistent with the manner in which we internally disaggregate financial information to assist in making internal operating decisions. We have allocated certain common costs and expenses, primarily corporate functions, among segments differently than we would for stand-alone financial information prepared in accordance with GAAP. These include certain costs and expenses of shared services, such as information technology, human resources, legal and finance. We also do not allocate debt-related items, actuarial gains or losses, prior service costs or credits, changes in cash surrender value of corporate owned life insurance or income taxes to individual segments. Segment EBIT may not be consistent with measures used by other companies.

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Summarized financial information regarding our reportable operating segments at December 31, is shown in the table below:

In millions	Engine	Distribution	Components	Power Generation	Non-segment Items ⁽¹⁾	Total
2014						
External sales	\$8,437	\$5,135	\$3,791	\$1,858	\$—	\$19,221
Intersegment sales	2,525	39	1,327	1,038	(4,929)	—
Total sales	10,962	5,174	5,118	2,896	(4,929)	19,221
Depreciation and amortization ⁽²⁾	207	86	106	53	—	452
Research, development and engineering expenses	438	9	230	77	—	754
Equity, royalty and interest income from investees	147	148	36	39	—	370
Interest income	12	4	4	3	—	23
Segment EBIT	1,225	491	⁽³⁾ 684	168	(70)	2,498
Net assets	3,450	2,441	2,152	1,694	—	9,737
Investments and advances to equity investees	468	209	164	140	—	981
Capital expenditures	395	89	162	97	—	743
2013						
External sales	\$8,270	\$3,726	\$3,151	\$2,154	\$—	\$17,301
Intersegment sales	1,743	23	1,191	877	(3,834)	—
Total sales	10,013	3,749	4,342	3,031	(3,834)	17,301
Depreciation and amortization ⁽²⁾	205	54	96	50	—	405
Research, development and engineering expenses	416	6	218	73	—	713
Equity, royalty and interest income from investees	136	165	28	32	—	361
Interest income	16	2	3	6	—	27
Segment EBIT ⁽³⁾	1,041	388	⁽³⁾ 527	218	(14)	2,160
Net assets	4,323	1,637	1,885	1,801	—	9,646
Investments and advances to equity investees	419	262	140	110	—	931
Capital expenditures	372	57	141	106	—	676
2012						
External sales	\$9,101	\$3,261	\$2,809	\$2,163	\$—	\$17,334
Intersegment sales	1,632	16	1,203	1,105	(3,956)	—
Total sales	10,733	3,277	4,012	3,268	(3,956)	17,334
Depreciation and amortization ⁽²⁾	192	34	82	47	—	355
Research, development and engineering expenses	433	6	213	76	—	728
Equity, royalty and interest income from investees	127	188	29	40	—	384
Interest income	11	2	3	9	—	25
Segment EBIT	1,248	369	⁽³⁾ 426	285	(25)	2,303
Net assets	3,373	1,392	1,830	1,582	—	8,177
Investments and advances to equity investees	401	281	127	88	—	897
Capital expenditures	399	62	134	95	—	690

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- Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the years ended December 31, 2014 and 2013. The year ended
- (1) December 31, 2012, included a \$20 million charge (\$12 million after-tax) related to legal matters. The charge was excluded from segment results as it was not considered in our evaluation of operating results for the year ended December 31, 2012.
- (2) Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount and deferred costs that are included in the Consolidated Statements of Income as "Interest expense." The amortization of debt discount and deferred costs were \$3 million, \$2 million and \$6 million for the years ended December 31, 2014, 2013 and 2012, respectively.
- (3) Distribution segment EBIT included gains on the fair value adjustment resulting from the acquisition of controlling interests in North American distributors of \$73 million, \$12 million and \$7 million for the periods ended December 31, 2014, 2013, and 2012, respectively. See Note 2, "ACQUISITIONS," for additional information.

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A reconciliation of our segment information to the corresponding amounts in the Consolidated Statements of Income is shown in the table below:

In millions	Years ended December 31,		
	2014	2013	2012
Total EBIT	\$2,498	\$2,160	\$2,303
Less: Interest expense	64	41	32
Income before income taxes	\$2,434	\$2,119	\$2,271

In millions	December 31,		
	2014	2013	2012
Net assets for operating segments	\$9,737	\$9,646	\$8,177
Liabilities deducted in arriving at net assets	6,009	5,103	4,913
Pension and other postretirement benefit adjustments excluded from net assets	(319	) (346	) (977
Deferred tax assets not allocated to segments	314	292	410
Debt-related costs not allocated to segments	35	33	25
Total assets	\$15,776	\$14,728	\$12,548

The tables below present certain segment information by geographic area. Net sales attributed to geographic areas were based on the location of the customer. Long-lived assets include property, plant and equipment, net of depreciation, investments and advances to equity investees and other assets, excluding deferred tax assets, refundable taxes and deferred debt expenses.

In millions	Years ended December 31,		
	2014	2013	2012
Net Sales			
United States	\$10,058	\$8,382	\$8,107
China	1,446	1,194	1,056
Canada	771	655	642
Brazil	730	882	798
India	546	630	757
Mexico	561	556	692
United Kingdom	479	453	660
Other foreign countries	4,630	4,549	4,622
Total net sales	\$19,221	\$17,301	\$17,334

In millions	December 31,		
	2014	2013	2012
Long-lived assets			
United States	\$2,949	\$2,606	\$2,440
China	692	646	589
India	391	330	243
United Kingdom	339	319	339
Brazil	161	172	170
Netherlands	156	138	130
Canada	126	68	69
Mexico	96	87	77
Germany	79	69	49
Korea	34	37	37
Romania	31	27	15
Turkey	30	28	29
Australia	17	18	25
United Arab Emirates	16	15	16
Singapore	13	17	16

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France	12	13	13
Other foreign countries	42	34	33
Total long-lived assets	\$5,184	\$4,624	\$4,290

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Our largest customer is PACCAR Inc. Worldwide sales to this customer were \$2,706 million in 2014, \$2,085 million in 2013 and \$2,232 million in 2012, representing 14 percent, 12 percent and 13 percent, respectively, of our consolidated net sales. No other customer accounted for more than 10 percent of consolidated net sales.

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UNAUDITED

	First Quarter 2014	Second Quarter	Third Quarter	Fourth Quarter
In millions, except per share amounts				
Net sales	\$4,406	\$4,835	\$4,890	\$5,090
Gross margin ⁽¹⁾	1,099	1,205	1,284	1,273
Net income attributable to Cummins Inc.	338	446	423	444
Earnings per common share attributable to Cummins Inc.—basic	\$1.83	\$2.44	\$2.32	\$2.45
Earnings per common share attributable to Cummins Inc.—diluted	1.83	2.43	2.32	2.44
Cash dividends per share	0.625	0.625	0.78	0.78
Stock price per share				
High	\$148.60	\$161.03	\$158.25	\$151.25
Low	122.64	139.01	132.63	124.30
	2013			
Net sales	\$3,922	\$4,525	\$4,266	\$4,588
Gross margin ⁽¹⁾	934	1,128	1,081	1,137
Net income attributable to Cummins Inc.	282	414	355	432
Earnings per common share attributable to Cummins Inc.—basic ⁽²⁾	\$1.50	\$2.20	\$1.91	\$2.33
Earnings per common share attributable to Cummins Inc.—diluted	1.49	2.20	1.90	2.32
Cash dividends per share	0.50	0.50	0.625	0.625
Stock price per share				
High	\$122.54	\$122.32	\$136.50	\$141.39
Low	109.19	103.41	107.51	122.52

We revised the classification of certain amounts for "Cost of sales" and "Selling, general and administrative expenses" for the first and second quarters of 2014 and all four quarters in 2013. The segment EBIT performance measure is unchanged, however, certain activities that were previously classified in "Selling, general and administrative expenses" are now classified as "Cost of sales". The reclassifications for 2014 were \$17 million and \$22 million for the first and second quarters, respectively, while the reclassifications for 2013 were \$23 million, \$25 million, \$28 million and \$27 million for each sequential quarter, respectively. The revision had no impact on reported net income, cash flows or the balance sheet. See NOTE 1, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," to our Consolidated Financial Statements for additional detail.

Earnings per share in each quarter is computed using the weighted-average number of shares outstanding during that quarter while earnings per share for the full year is computed using the weighted-average number of shares outstanding during the year. Thus, the sum of the four quarters earnings per share may not equal the full year earnings per share.

At December 31, 2014, there were approximately 3,731 holders of record of Cummins Inc.'s \$2.50 par value common stock.

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ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The information required by Item 9A relating to Management's Annual Report on Internal Control Over Financial Reporting and Attestation Report of the Registered Public Accounting Firm is incorporated herein by reference to the information set forth under the captions "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm," respectively, under Item 8.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is incorporated by reference to the relevant information under the captions "Corporate Governance," "Election of Directors" and "Other Information—Section 16(a) Beneficial Ownership Reporting Compliance" in our 2015 Proxy Statement, which will be filed within 120 days after the end of 2014. Information regarding our executive officers may be found in Part 1 of this annual report under the caption "Executive Officers of the Registrant." Except as otherwise specifically incorporated by reference, our Proxy Statement is not deemed to be filed as part of this annual report.

ITEM 11. Executive Compensation

The information required by Item 11 is incorporated by reference to the relevant information under the caption "Executive Compensation" in our 2015 Proxy Statement, which will be filed within 120 days after the end of 2014.

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ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
Information concerning our equity compensation plans at December 31, 2014, was as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights ⁽¹⁾	Weighted-average exercise price of outstanding options, warrants and rights ⁽²⁾	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	2,104,692	\$108.30	2,434,746
Equity compensation plans not approved by security holders	—	—	—
Total	2,104,692	\$108.30	2,434,746

The number is comprised of 1,626,724 stock options, 466,693 performance shares and 11,275 restricted shares.

(1) Refer to NOTE 16, "STOCK INCENTIVE AND STOCK OPTION PLANS," to the Consolidated Financial Statements for a description of how options and shares are awarded.

(2) The weighted-average exercise price relates only to the 1,626,724 stock options. Performance and restricted shares do not have an exercise price and, therefore, are not included in this calculation.

The remaining information required by Item 12 is incorporated by reference to the relevant information under the caption "Stock Ownership of Directors, Management and Others" in our 2015 Proxy Statement, which will be filed within 120 days after the end of 2014.

ITEM 13. Certain Relationships, Related Transactions and Director Independence

The information required by Item 13 is incorporated by reference to the relevant information under the captions "Corporate Governance" and "Other Information—Related Party Transactions" in our 2015 Proxy Statement, which will be filed within 120 days after the end of 2014.

ITEM 14. Principal Accounting Fees and Services

The information required by Item 14 is incorporated by reference to the relevant information under the caption "Selection of Independent Public Accountants" in our 2015 Proxy Statement, which will be filed within 120 days after the end of 2014.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

The following Consolidated Financial Statements and schedules filed as part of this report can be found in Item 8 (a) "Financial Statements and Supplementary Data":

Management's Report to Shareholders

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Income for the years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012

Consolidated Balance Sheets at December 31, 2014 and 2013

Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Changes in Equity for the years ended December 31, 2014, 2013 and 2012

Notes to Consolidated Financial Statements

Selected Quarterly Financial Data (Unaudited)

(b) See Exhibit Index at the end of this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CUMMINS INC.

By: /s/ PATRICK J. WARD
 Patrick J. Ward
 Vice President and Chief Financial Officer
 (Principal Financial Officer)

By: /s/ MARSHA L. HUNT
 Marsha L. Hunt
 Vice President—Corporate Controller
 (Principal Accounting Officer)

Date: February 17, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ N. THOMAS LINEBARGER N. Thomas Linebarger	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	February 17, 2015
/s/ PATRICK J. WARD Patrick J. Ward	Vice President and Chief Financial Officer (Principal Financial Officer)	February 17, 2015
/s/ MARSHA L. HUNT Marsha L. Hunt	Vice President—Corporate Controller (Principal Accounting Officer)	February 17, 2015
*		
Robert J. Bernhard	Director	February 17, 2015
*		
Franklin R. Chang-Diaz	Director	February 17, 2015
*		
Stephen B. Dobbs	Director	February 17, 2015
*		
Robert K. Herdman	Director	February 17, 2015
*		
Alexis M. Herman	Director	February 17, 2015
*		
William I. Miller	Director	February 17, 2015
*		
Georgia R. Nelson	Director	February 17, 2015

*By: /s/ PATRICK J. WARD
 Patrick J. Ward
 Attorney-in-fact

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 EXHIBIT INDEX

Exhibit No.	Description of Exhibit
3 (a)	Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 3(a) to Cummins Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 28, 2009).
3 (b)	By-laws, as amended and restated effective as of May 8, 2012 (incorporated by reference to Exhibit 3(b) to Cummins Inc.'s Quarterly Report on Form 10-Q for the quarter ended July 1, 2012).
4 (a)	Indenture, dated as of September 16, 2013, by and between Cummins Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-3 filed with the Securities and Exchange Commission on September 26, 2013 (Registration Statement No. 333-191189)).
4 (b)	First Supplemental Indenture, dated as of September 24, 2013, between Cummins Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of the Current Report on 8-K, filed by Cummins Inc. with the Securities and Exchange Commission on September 24, 2013 (File No. 001-04949)).
4 (c)	Second Supplemental Indenture, dated as of September 24, 2013, between Cummins Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.2 of the Current Report on 8-K, filed by Cummins Inc. with the Securities and Exchange Commission on September 24, 2013 (File No. 001-04949)).
10 (a)#	2003 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10(a) to Cummins Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009).
10 (b)#	Target Bonus Plan (incorporated by reference to Exhibit 10(b) to Cummins Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009).
10 (c)#	Deferred Compensation Plan, as amended (incorporated by reference to Exhibit 10(c) to Cummins Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 28, 2014).
10 (d)#	Supplemental Life Insurance and Deferred Income Plan, as amended (incorporated by reference to Exhibit 10(d) to Cummins Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011).
10 (e)#	Credit Agreement, dated as of November 9, 2012, by and among Cummins Inc., Cummins Ltd., Cummins Power Generation Ltd., Cummins Generator Technologies Limited, certain other subsidiaries referred to therein and the Lenders party thereto. (incorporated by reference to Exhibit 10.1 to Cummins Inc.'s Current Report on Form 8-K dated November 9, 2012).
10 (f)#	Amendment No. 1 to Credit Agreement, dated as of October 30, 2014, among Cummins Inc., Cummins Ltd., Cummins Power Generation Ltd., Cummins Generator Technologies Limited, certain other subsidiaries referred to therein, the lenders party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to Cummins Inc.'s Current Report on Form 8-K dated November 4, 2014).
10 (g)#	Deferred Compensation Plan for Non-Employee Directors, as amended (incorporated by reference to Exhibit 10(f) to Cummins Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013).
10 (h)#	Excess Benefit Retirement Plan, as amended (incorporated by reference to Exhibit 10(g) to Cummins Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 28, 2014).
10 (i)#	Employee Stock Purchase Plan, as amended (incorporated by reference to Annex B to Cummins Inc.'s definitive proxy statement filed with the Securities and Exchange Commission on Schedule 14A on March 27, 2012 (File No. 001-04949)).
10 (j)#	Longer Term Performance Plan (incorporated by reference to Exhibit 10(i) to Cummins Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009).
10 (k)#	2006 Executive Retention Plan, as amended (incorporated by reference to Exhibit 10(j) to Cummins Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011).
10 (l)#	

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- Senior Executive Target Bonus Plan (incorporated by reference to Exhibit 10(k) to Cummins Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009).
- 10 (m)# Senior Executive Longer Term Performance Plan (incorporated by reference to Exhibit 10(l) to Cummins Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009).
- 10 (n)# Form of Stock Option Agreement under the 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10(m) to Cummins Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009).
- 10 (o)# Form of Performance Share Award Agreement under the 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10(n) to Cummins Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009).
- 10 (p)# 2012 Omnibus Incentive Plan (incorporated by reference to Annex A to Cummins Inc.'s definitive proxy statement filed with the Securities and Exchange Commission on Schedule 14A on March 27, 2012 (File No. 001-04949)).
- 10 (q)# Form of Stock Option Agreement under the 2012 Omnibus Incentive Plan (incorporated by reference to Exhibit 10(p) to Cummins Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013).
- 10 (r)# Key Employee Stock Investment Plan (incorporated by reference to Exhibit 10(q) to Cummins Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 28, 2014).
- 12 Calculation of Ratio of Earnings to Fixed Charges (filed herewith).
- 21 Subsidiaries of the Registrant (filed herewith).
- 23 Consent of PricewaterhouseCoopers LLP (filed herewith).
- 24 Powers of Attorney (filed herewith).
- 31 (a) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31 (b) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32 Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 101 .INS XBRL Instance Document.

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- 101 .SCH XBRL Taxonomy Extension Schema Document.
- 101 .CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101 .DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101 .LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101 .PRE XBRL Taxonomy Extension Presentation Linkbase Document.

A management contract or compensatory plan or arrangement.

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