



Cummins Inc.

Cummins Inc. is a leading worldwide designer and manufacturer of diesel engines from 55 to 3,500 horsepower and the world's largest producer of commercial diesel engines above 50 horsepower. The company provides products and services for customers in markets worldwide for engines, power generation and filtration, including engine components, natural gas engines, filtration systems and information products and services. In 2000, Cummins reported sales of \$6.6 billion and employed 28,000 people.

Highlights

Financial Highlights

\$ Millions, except per share amounts	2000	1999
Net sales	\$6,597	\$6,639
Gross profit	1,259	1,418
Selling and administrative expenses	776	781
Research and engineering expenses	244	245
Net (income) expense from joint ventures and alliances	(9)	28
Other (income) expense, net	(1)	8
Earnings before interest and taxes (EBIT):		
Before special charges	249	356
As reported	89	296
Net earnings	8	160
Basic earnings per share	.20	4.16
Diluted earnings per share	.20	4.13
Dividends per share	1.20	1.125

Business Unit	Products	Customers & Markets	2000 Highlights
<h3>Power Generation</h3> <p>Global supplier of diesel and natural gas-powered generator sets and generator set components from five kilowatt to multi-megawatt installations. North American market leader in auxiliary generator sets for recreational vehicles (RVs) and recreational marine applications.</p>	<ul style="list-style-type: none"> ■ Power Systems Diesel and natural gas-powered generator sets – rental and installed; digital control systems; paralleling switchgear. ■ Mobile Systems Onan gasoline, liquified propane, and diesel-fueled auxiliary generator sets from 3 kW to 12.5 kW and associated controls. ■ Alternators and Engines Newage synchronous AC alternators and associated control systems. Generator drive engines and digital control systems. 	<ul style="list-style-type: none"> ■ Public- and investor-owned utilities; telecommunications providers; self-generating manufacturers; any business or public facility with a need for self-generated or standby power. ■ RV, specialty vehicle and marine pleasurecraft original equipment manufacturers (OEMs). ■ Alternators and engines for industrial, marine, commercial, construction, telecommunications, mining, generator drive markets and other standby or continuous power applications. 	<ul style="list-style-type: none"> ■ For the second consecutive year, EBIT increased by almost 100 percent. ■ Power Rent, offering temporary rental generator sets, expanded coverage across all of North America through our distributor network. ■ Launched www.funroads.com for our RV customers. ■ Participated in advanced research on ten kW fuel cells in conjunction with the US Department of Energy. ■ Increased penetration into fast growing Internet and telecommunications markets where our digital control systems and ready standby power are critical.

Business Unit

Filtration and Other

Global leader of advanced integrated filtration systems for heavy-duty equipment, both on- and off-highway. Leading North American supplier of filtration and silencing systems for gas turbine, industrial, small engine and passenger car applications.

"Other" includes Holset turbochargers and company-owned distributorships.

Products

■ Heavy-Duty Systems

Air intake filtration, emission and noise reduction, engine filtration and mobile hydraulic filtration systems.

■ Small Engine Systems

Air intake filtration and exhaust systems.

■ Other Systems

Air intake and silencing systems for gas turbine applications, in-tank filtration for passenger cars and hydraulic filtration for industrial applications.

- All integrated systems sold under the Fleetguard and Nelson brand names.

■ Turbochargers

Holset variable geometry, variable wastegate, power turbine, high pressure ratio and multi-stage solutions.

Customers & Markets

- OEMs, distributors, dealers and end users of heavy-duty on- and off-highway diesel-powered equipment.
- OEMs of small engine systems, both gasoline- and diesel-powered, for recreational, lawn and garden equipment.
- OEMs of gas turbine generators, industrial machinery, passenger cars and industrial hydraulic equipment including distribution.
- Turbochargers for Cummins, Cummins' joint ventures and other diesel engine manufacturers.
- Cummins' ownership of 16 distributorships links us closely to our end-use customers in strategic locations worldwide.

2000 Highlights

- Identified by an independent survey as number one in brand preference for oil, air, fuel and coolant filters in the United States.
- Remained solidly profitable as synergy among Cummins engines, filters, and exhaust systems took hold with OEMs.
- First to market with variable geometry turbocharger from Holset.
- Led aftertreatment research in support of future exhaust emissions requirements.
- Released new air-intake technology that provides for smaller and lighter, yet longer lasting, air filter elements thus reducing cost to the end user.
- Introduced multiple new filtration and exhaust products that have favorable environmental impacts by reducing used product disposal and providing cleaner exhaust emissions.

Business Unit

Engine Business

Leading global supplier of diesel and alternate fuel engines for heavy-duty trucks, medium-duty trucks, buses and RVs. Exclusive supplier of diesel engines for the Dodge Ram pickup truck.

A leading global supplier of engines for the agriculture, construction, government, mining, rail and marine markets.

Products

■ Medium-duty engines

ISB and ISC for light commercial automotive, truck, transit bus, RVs and specialty vehicles. Automotive applications are available in diesel and alternate-fueled versions from 175 horsepower to 350 horsepower. B3.3, B3.9, B5.9, QSB, QSC for agriculture, construction and marine applications from 60 to 340 horsepower.

■ Heavy-duty engines

ISL, ISM, N14, ISX and Signature Series for trucking applications from 280 to 650 horsepower. QSM, M11, N14 and QSX15 for construction, mining, marine and agriculture applications from 225 to 600 horsepower.

■ High horsepower engines

QSK19, V903, QST30, K38/50, QSK45, QSK60 and QSK78 for marine, rail, mining and government applications from 295 to 3,500 horsepower.

Customers & Markets

- Two broad classes of customers: OEMs who install Cummins engines in their vehicles and equipment; and end-use customers who use Cummins-powered equipment in their business endeavors.

2000 Highlights

- Signed a long-term exclusive supply agreement with Volvo Trucks of North America for heavy-duty truck engines
- Set another record for engine shipments to Chrysler for the Dodge Ram pickup truck.
- Established the ISX engine as the fuel economy and performance leader in its class.
- Introduced the 78 liter engine which was jointly designed by Cummins and Komatsu. It is the world's largest diesel engine used for mobile off-highway equipment.
- An exclusivity agreement was signed between Cummins and Komatsu Mining Systems.
- Marine engine sales dollars grew by 18 percent over 1999.
- Record sales in commercial workboats (oilfield / tugs / fishing) with KV38/50 engines.

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Fellow Shareholders

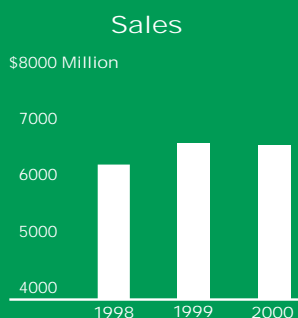
2000 was a distinctly different year from the first to the second half. In the first half of the year, we posted profit after taxes of \$103 million and earned \$2.70 per share; in the second half, profit after taxes was \$8 million and earnings per share fell to 21 cents, excluding a pre-tax charge of \$160 million in the fourth quarter. The erosion in profit was due to a sudden and pronounced downturn in a number of markets, reflecting the overall uncertainty of today's economy.

Heavy-duty engine shipments in North America fell 39 percent from the first to the second half of the year. In the fourth quarter, shipments of our midrange engine to DaimlerChrysler were 25,000 units, down from an average of 31,000 units for the first three quarters of the year, as DaimlerChrysler cut production of its Dodge Ram pickup truck. In North America, shipments of medium-duty truck engines declined 24 percent from the first to the second half of the year. During that same period, shipments of engines to the North American construction market declined 28 percent, and sales of engines to the recreational vehicle market were down 18 percent. The decline in the heavy-duty engine business also affected exhaust systems sales in our Filtration Business, which fell 13 percent from the first to the second half.

In past years, this kind of downturn would have meant large losses for the Company. However, we broke even in the fourth quarter on an EBIT* basis. We are a much different company than we were even a year ago, and are now seeing the benefits of the diversification and cost reduction strategies we have pursued. The businesses and markets which account for over 80 percent of our revenues are profitable and growing, and we are working to ensure that the remaining 20 percent will be profitable in the future. Let me review our businesses with you.

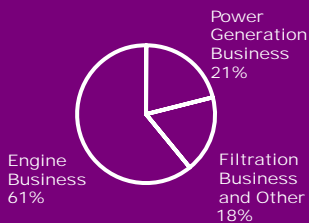
Business Overview

- Power Generation (21 percent of revenue, 41 percent of EBIT*) has moved from a break-even business just three years ago to one that was able to nearly double its profits over 1999. We project 10 to 15 percent growth in Power Generation over the next few years, fueled by rising global demand for power from ready sources. The energy issues in California highlight even more the need for reliable power and full service support.
- Filtration and Other Business (18 percent of revenue, 49 percent of EBIT*) remained solidly profitable, despite being affected by a depressed heavy-duty engine market. We are gaining market share as original equipment manufacturers (OEMs) respond favorably to the natural synergy among our engine, filtration, and exhaust products.



* Earnings Before Interest and Taxes (EBIT), excluding special charges.

Sales by Segment
2000 Sales \$6.6 Billion



- The "Other" in this category refers to our 16 company-owned distributors across the globe, which represent strategic growth opportunities for Cummins. This year, we added three new distributors, two in Latin America and one in South Africa. As a group, we expect them to continue to grow by 10 percent each year over the next several years.

- Also included in this category is our turbocharger business, Holset. It grew 26 percent in sales and doubled in profits over the year. Holset continues to play a critical role in our emissions technology research and development.

- Together, these two businesses provide the best return on assets of all of our businesses.

■ The Engine Business (61 percent of revenue, 10 percent of EBIT*) posted operating earnings of \$24 million for the full year, reflecting strong segments in the group:

- High-horsepower engine sales for mining, rail equipment and government applications are 18 percent higher than a year ago, and growing.

- Despite the recent slump in the light-duty automotive business, our 13-year relationship with DaimlerChrysler has never been better. DaimlerChrysler acknowledges that Cummins is one of its best suppliers. We have also continued to improve our performance in quality and in reducing costs.

- Although down in the second half, shipments to construction, agriculture and marine markets were still four percent higher than a year ago.


- Shipments of heavy-duty and medium-duty truck engines in international markets increased 18 percent.

- This brings us to the heavy-duty truck engine market in North America, which fell 39 percent in 2000. The Engine Business worked diligently throughout the year to mitigate the effects of the downturn in that market by consolidating facilities, reducing its workforce, and continuing to reduce costs.

2001 and Beyond

As I write this letter, we've had only a few weeks to view our performance for 2001. We expect the first quarter of 2001 to be worse than the fourth quarter of 2000. The truck market will likely be down another 20 percent, and other consumer markets are also softening. To address this immediate issue, we will continue to reduce our costs through streamlining and consolidating production and reducing our workforce.





Over the next several years, our focus will be on improving cash flow, implementing our restructuring plan in the heavy-duty truck market, and growing our profitable businesses.

This focus will position us for strong financial performance as we emerge from the economic slump.

To improve our cash flow, we continue to reduce our direct and indirect material costs, and have already delivered approximately \$275 million worth of improvements in our gross purchase costs since our work began in 1998. Reducing the amount we pay for quality issues associated with some of our new products is also a focus, and we have implemented a quality improvement program called Six Sigma. Led by project leaders called Black Belts and Green Belts, Six Sigma uses statistical tools and a disciplined, logical approach to drive rapid process improvement. We now have more than 100 Black Belts and 170 Green Belts working on improvement projects. The completed projects have already resulted in an additional \$27 million to the bottom line, exceeding our first-year goal by \$2 million.

Throughout 2000, I have highlighted the need to change the way we participate in the North American heavy-duty truck engine market. The problems in the business are inherent in the structure and are not only the result of the current downturn.

For more than a decade, we have been caught between discounts in pursuit of market share and the need for significant investment in technology over shorter and shorter product cycles driven by increasingly stringent emissions standards. Late in 2000 and early in 2001 Cummins concluded three long term strategic agreements as part of a strategy that will enable us to remove redundant selling costs, improve our installed quality and reduce the technical and manufacturing cost of proliferation over time.

I am confident of our future as we move into 2001, despite the challenges of 2000. Our strengths remain. We are a diversified company. We continue to lead the industry in emissions technology with expertise in: fuel systems, filtration, exhaust systems, turbochargers, electronics and combustion research. We have manufacturing, engineering and marketing alliances that not only cross our organizational structure, but which cross the globe, including ten businesses in India and eight in China. We have the strongest distribution system among any of our competitors, which enables us to be first to market with the best products. We intend to capitalize and build upon these strengths.



Members of the Policy Committee: (from left to right) John Wall, Christine Vujovich, Rick Mills, Jack Edwards, Tim Solso, Jean Blackwell, Joe Loughrey, Tom Linebarger, Mark Gerstle, Frank McDonald

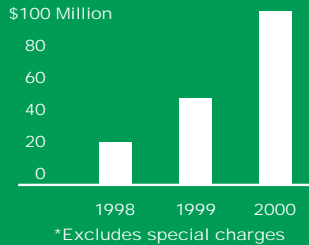
The year 2000 was an important year for Cummins. We took action to address the short-term financial issues facing us, worked to strengthen our growth businesses and established a new vision and mission which resulted in changing our name to Cummins Inc. to reflect the true nature of the company. These actions, combined with a focus on our strengths over the long term, mean that we are well poised to deliver on our promise to perform for all our stakeholders in 2001 and beyond.

Tim Solso
Chairman and Chief Executive Officer
Cummins Inc.
February 28, 2001



Power Generation Business

Earnings Before Interest & Tax*



Cummins Power Generation enjoyed another great year with EBIT* almost doubling for the second consecutive year on modest sales growth.

Continued strong growth is expected as the "new economy" of high tech companies, heavily reliant on uninterrupted sources of power, rapidly increases its demand for electrical consumption. The fast growing Internet and telecommunication sectors continue to rely on our unmatched high technology in the form of digital control systems and sophisticated back-up power for immediate, seamless solutions.

The growth in distributed power generation, which is a move to put electrical generating capacity closer to utility customers rather than solely in large, centralized utility plants, also creates new business opportunities, especially in North America.

Our growth is diversified across many fronts with special emphasis on increasing our value-added services.

Cummins is participating in a U.S. Department of Energy project for advanced research on ten kilowatt fuel cells, another emerging technology. This segment of the fuel cell market complements Cummins' small genset business.

In addition to providing traditional prime power to developing countries, the demand has increased for Cummins to provide entire power plants which includes all facets of the process from building...to operating and maintenance.

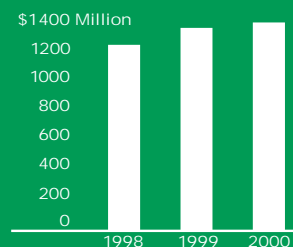
Sales from our Power Rent business, providing temporary rental generator sets to a wide range of customers, more than tripled in 2000. Product is available across all of North America.

www.funroads.com was launched to offer our recreational vehicle (RV) customers, with whom we enjoy an 80 percent market share, a variety of information and services from campgrounds to cookbooks.

Newage, our United Kingdom-based alternator subsidiary, enjoyed another impressive performance with strong profits and improved market share. Newage's successful joint venture in China has expanded to serve as a low cost, regional export base for Asia.

Major process changes were other important contributors to Power Generation's improved performance. In 2000, we capped a three-year effort to change how we deal with suppliers which resulted in lower costs and improved quality. We also initiated a three-year Six Sigma quality effort and the first year's results were even better than we expected.

Sales

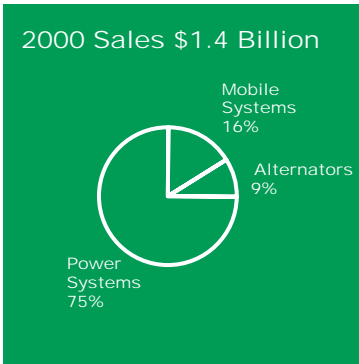




The explosion in Internet traffic has created new opportunities for Cummins Power Generation to provide back-up power to Internet infrastructure facilities, such as this Cable & Wireless Network Center in Birmingham, England.

The Cummins Power Generation Business has emerged from our major restructuring as an agile and profitable business, well positioned, and taking advantage of the rapidly growing global demand for cost effective, reliable power.

Jack K. Edwards
 Executive Vice President
 President, Power Generation

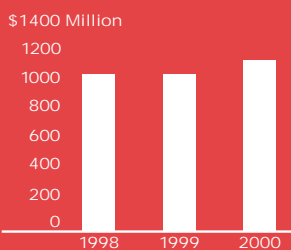


Filtration Business and Other

New technologies from Fleetguard and Holset offer unique market opportunities for products that contribute to a cleaner environment.



Sales



The Filtration Business and Other ended a challenging year with solid growth and profitability. Sales rose by nine percent while EBIT* remained strong, approaching nearly 11 percent for the year.

In North America, the Fleetguard filtration business continued to see growth even as the heavy-duty truck market turned down in the second half of 2000. The Nelson exhaust business, which is more sensitive to OEM market cycles, was directly affected by the truck market slowdown and softness in some other key markets caused by a slowing economy.

Growth in international markets had a positive impact on overall sales, supported by new plants in Brazil and Mexico as well as the completion of a Nelson exhaust system joint venture in India. These results were achieved despite the adverse effects of a strong U.S. currency.

Our three subsidiaries—Kuss, Universal Silencer and Separation Technologies—operate in related markets such as automotive fuel filtration, noise control and air filtration for power generation equipment and industrial hydraulic filtration. Together, they grew sales and earnings in excess of 25 percent.



In 2000, our Kuss subsidiary achieved high level recognition in the Ohio Quality Excellence Award.

The launch of Six Sigma was a key focus area for the Filtration Business in 2000, with annualized savings from current projects likely to reach \$4.5 million. In response to a slowing economy, we have implemented several cost reduction initiatives focused on direct and indirect material cost reductions, manufacturing and distribution facility consolidations and workforce reductions.

The synergies from the combination of Nelson, Fleetguard and Cummins have provided us with unique market opportunities for products that contribute to a cleaner environment. For example, we are applying filtration to exhaust systems in aftertreatment solutions that remove soot from diesel exhaust to meet increasingly stringent emissions standards. In addition, our new high efficiency closed crankcase ventilation systems significantly reduce oil aerosol emissions to the atmosphere.

We also lead the industry in innovative technologies that meet end user needs for extended service life and reduced waste. Our new centrifugal filtration system with the patented ConeStaC™ inner element offers longer service intervals and an incinerable plastic filter element. Our next generation air intake system – Openflow™ – provides longer air filter life while using less component material.

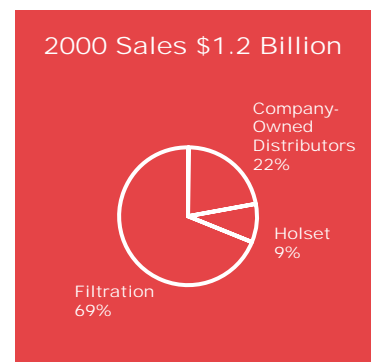
In 2000, a leading independent market research company surveyed 2,000 fleets in North America for brand preference. Fleetguard ranked highest among industry competitors for air, coolant, fuel and lube filtration.

The Filtration Business is well positioned for increased growth and profitability as well as consistent year-over-year performance. Its balanced approach in filtration, exhaust and related subsidiaries provides customers with an unmatched range of product and service solutions. Our diversification – across technologies, products, markets and geographies – is a source of strength that points to a bright future.

Rick Mills
Vice President
President, Filtration & Fleetguard, Inc.

Distributors and Holset

Cummins' 16 international distributors allow us to interface with our end user customers worldwide. Total retail sales exceeded plan for the year. Asian and South American outlets in particular achieved superior results. The Holset turbocharger business continued profitable growth. Holset was first to market with heavy-duty variable geometry turbochargers, power turbines and titanium compressors for ultra-high pressure ratio applications. The development of new products was focused on improving engine performance to meet higher environmental emission standards.

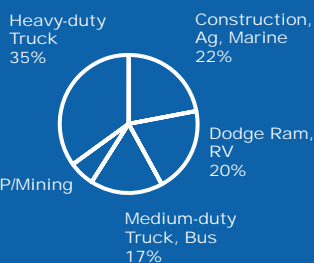


Engine Business

Komatsu and Cummins jointly developed the world's largest diesel engine for mining trucks, which is being launched in 2001. In 2000, Komatsu Mining Systems chose Cummins as its exclusive diesel engine supplier.



2000 Sales \$4.0 Billion



In 2000, the Engine Business posted earnings before interest and tax* of \$24 million. Even before market conditions declined mid-year, we initiated actions to redefine our participation in the North American heavy-duty truck market in order to improve profitability over the business cycle. By first quarter 2001, we had negotiated three long-term supply agreements with original equipment manufacturers (OEMs) as part of that strategy.

Mining

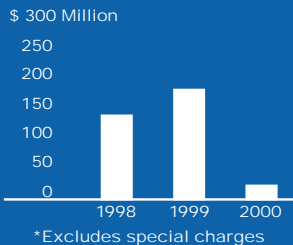
The QSK engine has increased our success in the mining market. The engine's outstanding 98 percent availability rating led to an agreement with Komatsu to be the exclusive

supplier of engines to its mining equipment division. By the end of the year, the success of the 2700 horsepower QSK60 helped increase our penetration from 26 percent in 1999 to 47 percent for mining applications above 2000 horsepower.

Dodge Ram, Recreational Vehicles

Cummins shipped 119,000 engines for the Dodge Ram, setting another record despite DaimlerChrysler's production slowdown in all vehicle categories at the end of the year. A decline in consumer demand was reflected in lower shipments of engines for recreational vehicles, but Cummins continued to be the market share leader.

Earnings Before Interest & Tax*



Medium-duty Truck & Bus

Overall, shipments of engines for medium-duty trucks declined five percent from 1999 levels, as stronger European and Latin American sales offset the weakened North American markets. Ford recognized our product quality with its Q1 supplier designation for the engines we shipped to its plant in Mexico.

Cummins maintained its #1 position in the transit bus market, and Blue Bird Corporation selected the ISB engine as standard power in its conventional school bus.

Construction, Agriculture, Marine

Sales for these industrial markets were up four percent over last year. The QSM11 marine engine continued to draw excellent reviews throughout 2000. Worldwide construction markets softened slightly through the year, as North American business declined but Asian markets improved.

Heavy-duty Truck

The North American market for heavy-duty engines declined dramatically from the record levels of 1999—driven by an oversupply of new and used trucks and a general economic slowdown. The falling volumes forced significant reductions in our work force. Outside of the U.S. and Canadian markets, sales of truck engines grew steadily, most notably in Mexico, Europe and Latin America. Cummins is the market leader in the United Kingdom, Australia and Mexico.

Improvements and Investments

The corporate-wide Six Sigma process improvement program was central to efforts to address quality issues. In 2000, our participants completed projects with an annualized value of almost \$16 million.

We also benefited from the work of direct and indirect purchasing teams, which helped us reduce costs significantly by consolidating purchases and negotiating deeper discounts.

With more stringent environmental rules on the horizon, we invested in research for advanced solutions to emissions control. One such investment is a minority interest in a privately held manufacturer and developer of catalytic products for air pollution control and fuel cell systems.

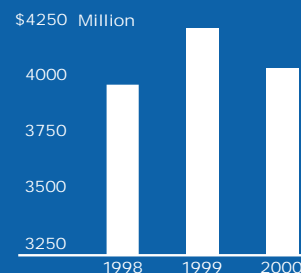
We also invested in a common information technology platform across all our distributors in North America. That platform gives us greater inventory control, customer satisfaction and productivity measurement, as well as a database of best practices in customer care.

Looking ahead

We are leveraging our OEM partnerships, new product lines, technical strength, production scale, global network and exceptional people to attract new customers. With these assets, and a strategy to reshape our approach to the global truck engine market, we can effectively meet the challenges and capture the opportunities ahead.

Joe Loughrey
Executive Vice President
President, Engine Business

Sales



Financial Overview

Net sales were \$6.6 billion in 2000, essentially flat with \$6.6 billion reported in 1999 and 5 percent higher than in 1998.

Earnings before interest and taxes in 2000 were \$249 million, or 3.8 percent of sales, excluding a \$160 million pretax charge in connection with certain restructuring actions and asset impairment write-downs. This compares to \$356 million in 1999, excluding charges of \$60 million pretax in connection with the dissolution of the Cummins Wartsila joint venture. As reported, earnings before interest and taxes were \$89 million in 2000, \$296 million in 1999 and \$65 million in 1998. Net earnings in 2000 were \$8 million or \$.20 per share compared to \$160 million or \$4.13 per share in 1999 and a net loss of \$21 million or \$(.55) per share in 1998.

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

Net Sales:

In 2000, the Company's sales totaled \$6.6 billion. Revenues from sales of engines were 52 percent of the Company's net sales in 2000, with engine revenues 5 percent lower than in 1999 and flat compared to 1998. The Company shipped 421,800 engines in 2000, compared to 426,100 engines in 1999 and 403,300 in 1998 as follows:

Unit shipments	2000	1999	1998
Midrange engine	318,200	298,400	287,400
Heavy-duty engines	91,900	117,900	106,100
High-horsepower engines	11,700	9,800	9,800
	421,800	426,100	403,300

Revenues from non-engine products, which were 48 percent of net sales in 2000, were 5 percent higher than in 1999 and 11 percent higher than in 1998. The major increases within non-engine revenues were achieved in parts sales, company-owned distributors and the Holset turbocharger operations. Sales of the remaining non-engine products, in the aggregate, were essentially level with 1999.

The Company's net sales for each of its key segments during the last three years were:

\$ Millions	2000	1999	1998
Automotive markets	\$2,936	\$3,203	\$2,928
Industrial markets	1,114	1,022	1,054
Engine Business	4,050	4,225	3,982
Power Generation Business	1,395	1,356	1,230
Filtration Business and Other	1,152	1,058	1,054
	\$6,597	\$6,639	\$6,266

Cummins' Engine Business, the Company's largest business segment, produces engines and parts for sale to customers in both automotive and industrial markets. Engine Business customers are serviced through the Company's worldwide distributor network. The engines are used in trucks of all sizes, buses and recreational vehicles, as well as a variety of industrial applications including construction, mining, agriculture, marine, rail and military. Engine Business revenues were \$4.0 billion in 2000, a 4 percent decrease from 1999 and a 2 percent increase over 1998. The 2000 discussion and analysis of results has been aligned to reflect the organization structure of the Engine Business in addressing its markets.

Sales of \$2.1 billion in the bus and truck markets were 13 percent lower than in 1999 and 5 percent lower than in 1998. In 2000, heavy-duty truck engine revenues of \$1.4 billion were 19 percent lower than 1999 and 7 percent lower than 1998, reflecting the downturn in the North American heavy-duty truck market, where shipments were down 35 percent from 1999. This was partially offset by increases in international heavy-duty markets, where shipments increased 34 percent from 1999.

Medium-duty truck and bus engine revenues of \$662 million were 4 percent higher than in 1999 and flat compared to 1998. In 2000, medium-duty truck engine volumes were 5 percent lower than in 1999 and reflect a 29 percent decline in North American volumes. This decline was partially offset by a 14 percent shipment increase in international medium-duty truck markets. Bus engine shipments were 41 percent higher than in 1999.

Sales of \$830 million in the light commercial vehicle market were 7 percent higher than in 1999 and 16 percent higher than in 1998, reflecting an increase in engine shipments from 1999. Record unit shipments in 2000 to Daimler-Chrysler for the Dodge Ram pickup, while including a sharp downturn in the fourth quarter, were 16 percent higher than in 1999 for the full year.

Sales of \$873 million to the construction, agriculture and marine markets were 4 percent higher than in 1999 and 3 percent higher than in 1998. In 2000, shipments were 4 percent higher than in 1999, driven by increases in the construction and marine markets. Shipment declines in North America were more than offset by increases in international markets.

Sales of \$241 million to the high horsepower/mining market were 32 percent higher than in 1999 and 16 percent higher than in 1998. Engine shipments were 36 percent higher than in 1999, with higher demand in international markets accounting for much of the increase.

Revenues of \$1.4 billion in 2000 for the Power Generation Business were 3 percent higher than in 1999 and 13 percent higher than in 1998. Sales of the Company's generator sets in 2000 were flat compared to 1999. Engine sales to generator set assemblers were up 17 percent from the prior year. Alternator sales decreased 7 percent as compared to 1999. Sales of small generator sets for recreational vehicles and other consumer applications were flat compared to last year.

Sales of \$1.2 billion in 2000 for the Filtration Business and Other were 9 percent higher than in 1999 and 1998. In 2000, Fleetguard/Nelson revenues increased 2 percent, but reflected a drop in demand for OEM truck and construction equipment products as well as reduced sales to consumer-oriented small engine and equipment manufacturers. International distributor sales included in this segment increased 13 percent from 1999, while sales of Holset turbochargers increased 26 percent as compared to a year ago.

Net sales by marketing territory for each of the last three years were:

\$ Millions	2000	1999	1998
United States	\$3,775	\$4,064	\$3,595
Asia/Australia	905	818	806
Europe/CIS	860	800	791
Mexico/Latin America	451	375	468
Canada	418	473	459
Africa/Middle East	188	109	147
	\$6,597	\$6,639	\$6,266

In total, international markets accounted for 43 percent of the Company's revenues in 2000. Europe and the CIS, representing 13 percent of the Company's sales in 2000, were 8 percent higher than in 1999 and 9 percent higher than in 1998. Sales to Canada, representing 6 percent of sales in 2000, were 12 percent lower than in 1999. Asian and Australian markets, in total, represented 14 percent of the Company's sales in 2000, with increases in sales to Asia from 1999. In Asia, sales to Southeast Asia increased 14 percent, sales to Korea increased 23 percent, sales to China increased 25 percent and sales to Japan and India were slightly higher than 1999 levels. Business in Mexico and Latin America, representing 7 percent of sales in 2000, was 20 percent higher than in 1999. Sales to Africa/Middle East, representing 3 percent of sales in 2000, increased 72 percent from 1999.

Gross Margin:

The Company's gross margin percentage was 19.1 percent in 2000, 21.4 percent in 1999 and 21.4 percent in 1998, excluding the special charges recorded for product coverage and inventory write-downs in 1998. The gross margin percent in 1998 including the special charges was 19.9 percent. Gross margins in 2000 were impacted by lower cost absorption in the Company's heavy-duty plants, changes in product mix, foreign exchange and higher product coverage costs. Product coverage costs were 4.2 percent of net sales in 2000, compared to 3.7 percent in 1999, and 3.3 percent in 1998, excluding the special charges. Including special charges, product coverage costs were 4.5 percent of net sales in 1998.

Operating Expenses:

Selling and administrative expenses were 11.8 percent of net sales in 2000, compared to 11.8 percent in 1999 and 12.5 percent in 1998.

Research and engineering expenses were 3.7 percent of net sales in 2000, compared to 3.7 percent in 1999 and 4.1 percent in 1998.

The Company's income from joint ventures and alliances was \$9 million in 2000, compared to losses of \$28 million in 1999 and losses of \$30 million in 1998. This improvement resulted from the dissolution of the Wärtsilä joint venture at the end of 1999.

In the past three years, Cummins has recorded restructuring and other charges to reflect business improvement initiatives committed to by the Company's management.

As disclosed in Note 4 to the Consolidated Financial Statements, the Company recorded charges of \$160 million (\$103 million after tax, or \$2.71 per share) reflecting restructuring actions, asset impairments and other activities largely focused in the Engine Business. These actions are taken in response to the downturn in the North American heavy-duty truck market and related conditions. The charges include \$42 million attributable to employee severance actions, \$72 million for impairment of equipment and other assets, \$30 million for impairment of software developed for internal use where the programs were cancelled prior to implementation and \$16 million associated with exit costs to close or consolidate a number of smaller business operations. Of the \$160 million charge, \$131 million was assigned to the Engine Business, \$19 million to the Power Generation Business and \$10 million to the Filtration Business and Other.

Workforce reduction actions included overall cutbacks in staffing levels plus the impacts of closing and consolidating operations. Restructuring charges for workforce reductions included the severance costs and related benefits of terminating 600 salaried employees and 830 hourly employees. Costs for workforce reductions were based on amounts pursuant to benefit programs or statutory requirements of the affected operations.

The asset impairment loss of \$72 million was calculated in accordance with the provisions of SFAS 121. Asset impairment of equipment from discontinuing operations was primarily for engine assembly and fuel system manufacturing equipment to be disposed of upon the closure or consolidation of production operations. The asset impairment charge included a write-down of \$38 million for manufacturing equipment that will continue to be used for approximately two years. Depreciation will continue on these assets over that period of time. The expected recovery value of equipment to be disposed of was based on estimated salvage value and was excluded from the write-down. The charge also included \$11 million for equipment available for disposal, \$6 million for properties available for disposal, \$10 million for investments and \$7 million for intangibles and minority interest positions related to divesting smaller operations and investments. The carrying value of assets held for disposal and the effect from suspending depreciation on such assets is immaterial.

The asset impairment charge of \$30 million consisted of capitalized software-in-process being developed for internal use. The charge was related to manufacturing, financial and administrative information technology programs cancelled during program development and prior to implementation.

Exit costs of \$16 million to close or consolidate a number of small businesses and operations included \$6 million for equipment removal costs, \$5 million to satisfy contractual obligations and \$5 million for other exit costs. As the restructuring actions consist primarily of the closing or consolidation of smaller operations, the Company does not expect these actions to have a material effect on future revenues.

Approximately \$73 million, primarily related to the write-down of impaired equipment and software and employee severance payments, has been charged to the restructuring liabilities as of December 31, 2000. Of the total charges associated with the restructuring activities, cash outlays will approximate \$54 million. The actions will be completed in 2001 and 2002 with the majority of the cash outlays in 2001. The associated annual savings are estimated at \$55 million upon completion of the actions.

In December 1999, the Company recorded a charge of \$60 million in connection with the dissolution of the Cummins Wärtsilä joint venture. The joint venture termination was effective December 31, 1999, with the Company taking over the operations and assets of the product line manufactured in Daventry, England.

The Company recorded charges in 1998 totaling \$125 million, comprised of \$100 million of costs associated with the Company's plan to restructure, consolidate and exit certain business activities and \$25 million for a civil penalty resulting from an agreement reached with the U.S. Environmental Protection Agency (EPA) and the Department of Justice regarding diesel engine emissions. In addition, the Company recorded special charges of \$14 million for inventory write-downs associated with restructuring actions.

The Company is concluding the restructuring plan implemented in the third quarter of 1998. In the third quarter of 2000, the Company reversed excess accruals from 1998 of \$7 million and recorded \$7 million of charges related to new actions committed to during the quarter. Inclusive of the third quarter action, as of December 31, 2000, approximately \$127 million has been charged against the liabilities associated with these actions. The Company funded the restructuring actions using cash generated from operations. The remaining actions to be completed consist primarily of the payment of severance commitments to terminated employees in early 2001 and the final EPA payment to be made in July 2001.

Other:

Interest expense of \$86 million was \$11 million higher than in 1999 and \$15 million higher than in 1998. Higher borrowing levels in 2000 accounted for the increase from 1999. Increased borrowings and lower capitalization of interest accounted for the increase as compared to 1998. As disclosed in Note 5 to the Consolidated Financial Statements, other income and expense went from \$8 million of expense in 1999 to \$1 million of income in 2000, primarily due to non-recurring transactions recorded in both years.

Provision for Income Taxes:

The Company's income tax provision in 2000 was a benefit of \$19 million, combining an effective tax rate of 23 percent from operations and an effective tax rate of 35 percent from special charges. The effective tax rate from operations in 2000 reflected reduced taxes on export sales and research tax credits. In 1999, the Company's tax provision was \$55 million, reflecting an effective tax rate of 25 percent. In 1998, the Company's tax provision was \$4 million, with the tax benefits from export sales and the research credit more than offset by the unfavorable tax effects of nondeductible losses in foreign joint ventures and nondeductible EPA penalty and goodwill amortization.

Minority Interest:

Minority interest in net earnings of consolidated entities was \$14 million in 2000, an increase of \$8 million from 1999 and an increase of \$3 million from 1998. The increase from 1999 was primarily due to higher earnings attributable to minority partners of Cummins India Limited and improved performance of the joint venture with Scania.

Cash Flow and Financial Condition

Key elements of cash flows were:

\$ Millions	2000	1999	1998
Net cash provided by operating activities	\$388	\$307	\$271
Net cash used in investing activities	(312)	(166)	(752)
Net cash (used in) provided by financing activities	(86)	(105)	471
Effect of exchange rate changes on cash	(2)	-	(1)
Net change in cash	\$ (12)	\$ 36	\$ (11)

During 2000, net cash provided from operating activities was \$388 million, reflecting the Company's decline in net earnings and the non-cash effect of depreciation and amortization, reduced by increases in working capital. As disclosed in Note 1 to the Consolidated Financial Statements, the Company sold receivables in 2000 in a securitization program, which yielded proceeds of \$219 million. The Company is funding the cash requirements for restructuring actions using cash generated from operations with the majority of the cash requirement expected to occur in 2001. Net cash used in investing activities in 2000 was \$312 million and included planned capital expenditures of \$228 million. Capital expenditures were \$215 million in 1999 and \$271 million in 1998. The higher level of net cash requirements in 1998 was due primarily to the acquisition of Nelson. Acquisitions in 2000 included the South Africa distributorship and the purchase of assets from the dissolution of the Wäertsilä joint venture. Investments in joint ventures and alliances in 2000 of \$53 million reflected the net effect of capital contributions and cash generated by certain joint ventures.

Net cash used in financing activities was \$86 million in 2000. This cash was used for dividend payments, repurchases of the Company's stock and payments on borrowings. As disclosed in Note 7 to the Consolidated Financial Statements, the Company issued \$765 million face amount of notes and debentures in 1998 under a \$1 billion registration statement filed with the Securities and Exchange Commission in December 1997. The net proceeds were used to finance the acquisition of Nelson and to pay down other indebtedness outstanding at December 31, 1997. Based on the Company's projected cash flows from operations and existing credit facilities, management believes that sufficient liquidity is available to meet anticipated capital and dividend requirements in the foreseeable future.

Legal/Environmental Matters:

The Company and its subsidiaries are defendants in a number of pending legal actions that arise in the normal course of business, including environmental claims and actions related to use and performance of the Company's products. Such matters are more fully described in Note 17 to the Consolidated Financial Statements. In the event the Company is determined to be liable for damages in connection with such actions or proceedings, the unreserved portion of such liability is not expected to have a material adverse effect on the Company's results of operations, cash flows or financial condition.

Market Risk:

The Company is exposed to financial risk resulting from volatility in foreign exchange rates, interest rates and commodity prices. This risk is closely monitored and managed through the use of derivative contracts. As clearly stated in the Company's policies and procedures, financial derivatives are used expressly for hedging purposes, and under no circumstances are they used for speculating or for trading. Transactions are entered into only with banking institutions with strong credit ratings, and thus the credit risk associated with these contracts is considered immaterial. Hedging program results and status are reported to senior management on a monthly and quarterly basis.

The following section describes the Company's risk exposures and provides results of sensitivity analyses performed on December 31, 2000. The sensitivity tests assumed instantaneous, parallel shifts in foreign currency exchange rates, commodity prices and interest rate yield curves.

A. Foreign Exchange Rates

Due to its international business presence, the Company transacts extensively in foreign currencies. As a result, corporate earnings experience some volatility related to movements in exchange rates. In order to exploit the benefits of global diversification and naturally offsetting currency positions, foreign exchange balance sheet exposures are aggregated and hedged at the corporate level through the use of foreign exchange forward contracts. The objective of the foreign exchange hedging program is to reduce earnings volatility resulting from the translation of net foreign exchange balance sheet positions. A hypothetical, instantaneous, 10 percent adverse movement in the foreign currency exchange rates would decrease earnings by approximately \$4 million in the current reporting period. The sensitivity analysis ignores the impact of foreign exchange movements on Cummins' competitive position as well as the remoteness of the likelihood that all foreign currencies will move in tandem against the U.S. dollar. The analysis also ignores the offsetting impact on income of the revaluation of the underlying balance sheet exposures.

B. Interest Rates

The Company currently has in place three interest rate swaps that effectively convert fixed-rate debt into floating-rate debt. The objective of the swaps is to more efficiently balance borrowing costs and interest rate risk. A sensitivity analysis assumed a hypothetical, instantaneous, 100 basis-point parallel increase in the floating interest rate yield curve, after which rates remained fixed at the new, higher level for a one-year period. This change in yield curve would correspond to a \$4 million increase in interest expense for the one-year period. This sensitivity analysis does not account for the change in the Company's competitive environment indirectly related to changes in interest rates and the potential managerial action taken in response to these changes.

C. Commodity Prices

The Company is exposed to fluctuation in commodity prices through the purchase of raw materials as well as contractual agreements with component suppliers. Given the historically volatile nature of commodity prices, this exposure can significantly impact product costs. The Company uses commodity swap agreements to partially hedge exposures to changes in copper and aluminum prices. Given a hypothetical, instantaneous, 10 percent depreciation of the underlying commodity price, with prices then remaining fixed for a 12-month period, the Company would experience a loss of approximately \$1 million for the annual reporting period. This amount excludes the offsetting impact of decreases in commodity costs.

Forward-looking Statements

This Management's Discussion and Analysis of Results of Operations and Financial Condition, other sections of this Annual Report and the Company's press releases, teleconferences and other external communications contain forward-looking statements that are based on current expectations, estimates and projections about the industries in which Cummins operates and management's beliefs and assumptions. Words, such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("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. Cummins undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Future Factors include increasing price and product competition by foreign and domestic competitors, including new entrants; rapid technological developments and changes; the ability to continue to introduce competitive new products on a timely, cost-effective basis; the mix of products; the achievement of lower costs and expenses; domestic and foreign governmental and public policy changes, including environmental regulations; protection and validity of patent and other intellectual property rights; reliance on large customers; technological, implementation and cost/financial risks in increasing use of large, multi-year contracts; the cyclical nature of Cummins' business; the outcome of pending and future litigation and governmental proceedings; and continued availability of financing, financial instruments and financial resources in the amounts, at the times and on the terms required to support Cummins' future business.

These are representative of the Future Factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general domestic and international economic conditions, including interest rate and currency exchange rate fluctuations, and other Future Factors.

Responsibility for Financial Statements

Management is responsible for the preparation of the Company's consolidated financial statements and all related information appearing in this Report. The statements and notes have been prepared in conformity with accounting principles generally accepted in the United States and include some amounts, which are estimates based upon currently available information and management's judgment of current conditions and circumstances. The Company engaged Arthur Andersen LLP, independent public accountants, to examine the consolidated financial statements. Their report appears on this page.

To provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that accounting records are reliable for preparing financial statements, management maintains a system of accounting and controls, including an internal audit program. The system of accounting and controls is improved and modified in response to changes in business conditions and operations and recommendations made by the independent public accountants and the internal auditors.

The Board of Directors has an Audit Committee whose members are not employees of the Company. The Committee meets periodically with management, internal auditors and representatives of the Company's independent public accountants to review the Company's program of internal controls, audit plans and results and the recommendations of the internal and external auditors and management's responses to those recommendations.

Report of Independent Public Accountants

To the Shareholders and Board of Directors of Cummins Engine Company, Inc.:

We have audited the accompanying consolidated statement of financial position of Cummins Engine Company, Inc., (an Indiana corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of earnings, cash flows and shareholders' investment for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cummins Engine Company, Inc., and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.



Arthur Andersen LLP
Chicago, Illinois
January 24, 2001

Cummins Engine Company, Inc.
Consolidated Statement of Earnings

Millions, except per share amounts	2000	1999	1998
Net sales	\$6,597	\$6,639	\$6,266
Cost of goods sold	5,338	5,221	4,925
Special charges	-	-	92
Gross profit	1,259	1,418	1,249
Selling and administrative expenses	776	781	787
Research and engineering expenses	244	245	255
Net (income) expense from joint ventures and alliances	(9)	28	30
Interest expense	86	75	71
Other (income) expense, net	(1)	8	(13)
Restructuring, asset impairment and other special charges	160	60	125
Earnings (loss) before income taxes	3	221	(6)
(Benefit) provision for income taxes	(19)	55	4
Minority interest	14	6	11
Net earnings (loss)	\$ 8	\$ 160	\$ (21)
Basic earnings (loss) per share	\$.20	\$ 4.16	\$ (.55)
Diluted earnings (loss) per share	.20	4.13	(.55)

The accompanying notes are an integral part of this statement.

Cummins Engine Company, Inc.
Consolidated Statement of Financial Position

Millions, except per share amounts	Dec. 31, 2000	Dec. 31, 1999
Assets		
Current assets:		
Cash and cash equivalents	\$ 62	\$ 74
Receivables, net of allowance of \$8 and \$9	724	1,026
Inventories	770	787
Other current assets	274	293
	1,830	2,180
Investments and other assets:		
Investments in joint ventures and alliances	201	131
Other assets	137	143
	338	274
Property, plant and equipment:		
Land and buildings	590	577
Machinery, equipment and fixtures	2,417	2,375
Construction in process	189	168
	3,196	3,120
Less accumulated depreciation	1,598	1,490
	1,598	1,630
Goodwill , net of amortization of \$42 and \$28	354	364
Other intangibles, deferred taxes and deferred charges	380	249
Total assets	\$4,500	\$4,697
Liabilities and shareholders' investment		
Current liabilities:		
Loans payable	\$ 156	\$ 113
Current maturities of long-term debt	8	10
Accounts payable	388	411
Accrued salaries and wages	71	88
Accrued product coverage and marketing expenses	280	246
Income taxes payable	11	40
Other accrued expenses	309	406
	1,223	1,314
Long-term debt	1,032	1,092
Other liabilities	837	788
Minority interest	72	74
Shareholders' investment:		
Common stock, \$2.50 par value, 48.6 and 48.3 shares issued	122	121
Additional contributed capital	1,137	1,129
Retained earnings	718	760
Accumulated other comprehensive income	(167)	(109)
Common stock in treasury, at cost, 7.2 and 6.8 shares	(290)	(274)
Common stock held in trust for employee benefit plans, 3.1 and 3.4 shares	(151)	(163)
Unearned compensation	(33)	(35)
	1,336	1,429
Total liabilities and shareholders' investment	\$4,500	\$4,697

The accompanying notes are an integral part of this statement

Cummins Engine Company, Inc.
Consolidated Statement of Cash Flows

Millions	2000	1999	1998
Cash flows from operating activities:			
Net earnings (loss)	\$ 8	\$160	\$(21)
Adjustments to reconcile net earnings (loss) to net cash from operating activities:			
Depreciation and amortization	240	233	199
Restructuring and other special charges	132	38	110
Equity in (earnings) losses of joint ventures and alliances	9	35	38
Receivables	54	(200)	(10)
Proceeds from sale of receivables	219	-	-
Inventories	9	(60)	(26)
Accounts payable and accrued expenses	(241)	162	56
Deferred income taxes	2	(31)	(65)
Other	(44)	(30)	(10)
Total adjustments	380	147	292
	388	307	271
Cash flows from investing activities:			
Property, plant and equipment:			
Additions	(228)	(215)	(271)
Disposals	11	22	7
Investments in joint ventures and alliances	(53)	(36)	(22)
Acquisitions and dispositions of business activities	(42)	57	(468)
Other	-	6	2
	(312)	(166)	(752)
Net cash provided by (used in) operating and investing activities	76	141	(481)
Cash flows from financing activities:			
Proceeds from borrowings	1	28	711
Payments on borrowings	(65)	(90)	(161)
Net borrowings (payments) under short-term credit agreements	49	49	(30)
Repurchases of common stock	(16)	(34)	(14)
Dividend payments	(50)	(47)	(46)
Other	(5)	(11)	11
	(86)	(105)	471
Effect of exchange rate changes on cash	(2)	-	(1)
Net change in cash and cash equivalents	(12)	36	(11)
Cash and cash equivalents at beginning of year	74	38	49
Cash and cash equivalents at end of year	\$ 62	\$ 74	\$ 38
Cash payments during the year for:			
Interest	\$ 88	\$ 82	\$ 56
Income taxes	73	56	73

The accompanying notes are an integral part of this statement.

Cummins Engine Company, Inc.
Consolidated Statement of Shareholders' Investment

Millions, except per share amounts	2000	1999	1998
Common stock:			
Balance at beginning of year	\$ 121	\$ 120	\$ 120
Issued to trust for employee benefit plans	-	-	-
Other	1	1	-
Balance at end of year	122	121	120
Additional contributed capital:			
Balance at beginning of year	1,129	1,121	1,119
Issued to trust for employee benefit plans	(3)	-	-
Other	11	8	2
Balance at end of year	1,137	1,129	1,121
Retained earnings:			
Balance at beginning of year	760	648	715
Net earnings (loss)	8	\$ 8	\$ 160
Cash dividends	(50)	(47)	(21)
Other	-	(1)	(46)
Balance at end of year	718	760	648
Accumulated other comprehensive income:			
Balance at beginning of year	(109)	(167)	(70)
Foreign currency translation adjustments	(54)	4	(43)
Minimum pension liability adjustments	(2)	55	(54)
Unrealized losses on securities	(2)	(1)	-
Other comprehensive income	(58)	58	58
Comprehensive income	\$(50)	\$218	(97)
Balance at end of year	(167)	(109)	(97)
Common stock in treasury:			
Balance at beginning of year	(274)	(240)	(245)
Repurchased	(16)	(34)	(14)
Issued	-	-	19
Balance at end of year	(290)	(274)	(240)
Common stock held in trust for employee benefit plans:			
Balance at beginning of year	(163)	(172)	(175)
Issued	-	-	-
Shares allocated to benefit plans	12	9	3
Balance at end of year	(151)	(163)	(172)
Unearned compensation:			
Balance at beginning of year	(35)	(38)	(42)
Shares allocated to participants	2	3	4
Balance at end of year	(33)	(35)	(38)
Shareholders' investment	\$1,336	\$1,429	\$1,272

Shares of stock

Common stock, \$2.50 par value, 150.0 shares authorized

Balance at beginning of year	48.3	48.1	48.1
Shares issued	.3	.2	-
Balance at end of year	48.6	48.3	48.1
Common stock in treasury			
Balance at beginning of year	6.8	6.1	6.0
Shares repurchased	.4	.7	.4
Shares issued	-	-	(.3)
Balance at end of year	7.2	6.8	6.1
Common stock held in trust for employee benefit plans			
Balance at beginning of year	3.4	3.6	3.7
Shares issued	-	-	-
Shares allocated to benefit plans	(.3)	(.2)	(.1)
Balance at end of year	3.1	3.4	3.6

The accompanying notes are an integral part of this statement.

Cummins Engine Company, Inc.

Notes to Consolidated Financial Statements

Note 1. Accounting Policies:

Principles of Consolidation: The consolidated financial statements include all significant majority-owned subsidiaries. Affiliated companies in which Cummins does not have a controlling interest, or for which control is expected to be temporary, are accounted for using the equity method. Use of estimates and assumptions, as determined by management, is required in the preparation of consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates and assumptions.

Revenue Recognition:

The Company recognizes revenues on the sale of its products, net of estimated costs of returns, allowances and sales incentives, when the products are shipped to customers. The Company generally sells its products on open account under credit terms customary to the region of distribution. The Company performs ongoing credit evaluations of its customers and generally does not require collateral to secure its customers' receivables.

Foreign Currency:

Assets and liabilities of foreign entities, where the local currency is the functional currency, have been translated at year-end exchange rates, and income and expenses have been translated to US dollars at average-period rates. Adjustments resulting from translation have been recorded in shareholders' investment and are included in net earnings only upon sale or liquidation of the underlying foreign investment.

For foreign entities where the US dollar is the functional currency, including those operating in highly inflationary economies, inventory, property, plant and equipment balances and related income statement accounts have been translated using historical exchange rates. The resulting gains and losses have been credited or charged to net earnings and were net losses of \$14 million in 2000, \$2 million in 1999 and \$5 million in 1998.

Derivative Instruments:

The Company makes use of derivative instruments in its foreign exchange, commodity price and interest rate hedging programs. Derivatives currently in use are commodity and interest rate swaps, as well as foreign currency forward contracts. These contracts are used strictly for hedging and not for speculative purposes. Refer to Note 10 for more information on derivative financial instruments.

The Company enters into commodity swaps to offset the Company's exposure to price volatility for certain raw materials used in the manufacturing process. As the Company has the discretion to settle these transactions either in cash or by taking physical delivery, these contracts are not considered financial instruments for accounting purposes. These commodity swaps are accounted for as hedges.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 on accounting for derivative instruments and hedging activities. The statement is effective for fiscal years beginning after June 15, 2000. The Company will adopt this statement at the beginning of fiscal 2001 and has evaluated and modified its hedging strategy as it applies to the new statement. The statement will not have a material effect on the Company's results of operations.

Other Costs:

Estimated costs of commitments for product coverage programs are charged to earnings at the time the Company sells its products.

Research & development expenditures, net of contract reimbursements, are expensed when incurred and were \$224 million in 2000, \$218 million in 1999 and \$228 million in 1998.

Maintenance and repair costs are charged to earnings as incurred.

Cash Equivalents:

Cash equivalents include all highly liquid investments with an original maturity of three months or less at the time of purchase.

Accounts Receivable:

During 2000, the Company entered into a receivables securitization program and sold trade receivables in securitization transactions to a special purpose subsidiary with principal aggregating \$741 million. The subsidiary transfers positions in these receivables to conduits as the basis for issuing commercial paper. The subsidiary obtains receivables from the conduit for approximately 15 percent of a transferred position and receives cash for the remainder of the position. The Company receives annual servicing fees approximating .5 percent of the sold accounts receivable. The conduit investors and the special purpose subsidiary have no recourse to the Company's other assets for failure of debtors to pay when due. For the marketed receivables, the Company's retained interests are subordinated to the conduit's interests. The sold receivables servicing portfolio amounted to \$355 million at December 31, 2000.

The table below summarizes certain cash flows received from and paid to the special purpose subsidiary for the year ended December 31, 2000:

\$ Millions	
Proceeds from new securitizations	\$219
Proceeds from collections reinvested in securitizations	385
Servicing fees received	2
Servicing advances	(12)

Inventories:

Inventories are stated at the lower of cost or net realizable value. Approximately 22 percent of domestic inventories (primarily heavy-duty and high horsepower engines and engine parts) are valued using the last-in, first-out (LIFO) cost method. All other inventories are valued using the first-in, first-out (FIFO) method. Inventories at December 31 were as follows:

\$ Millions	2000	1999
Finished products	\$404	\$402
Work-in-process and raw materials	420	440
Inventories at FIFO cost	824	842
Excess of FIFO over LIFO	(54)	(55)
	\$770	\$787

Property, Plant and Equipment:

Property, plant and equipment are stated at cost. A modified units-of-production method, which is based upon units produced subject to a minimum level, is used to depreciate substantially all engine production equipment. The straight-line depreciation method is used for all other equipment. The estimated depreciable lives range from 20 to 40 years for buildings and 3 to 20 years for machinery, equipment and fixtures.

Long-Lived Assets:

The Company evaluates the carrying value of its long-lived assets for impairment whenever adverse events or changes in circumstances indicate that the carrying value of an asset may be impaired. In accordance with SFAS No. 121, if the quoted market price or, if not available, the undiscounted cash flows are not sufficient to support the recorded asset value, an impairment loss is recorded to reduce the carrying value of the asset to the amount of expected discounted cash flows. This same policy is followed for goodwill.

Software:

Internal and external software costs (excluding research, reengineering and training) are capitalized and amortized generally over 5 years. Capitalized software, net of amortization, was \$110 million at December 31, 2000, \$110 million at December 31, 1999 and \$75 million at December 31, 1998. Total software amortization expense was \$27 million in 2000, \$18 million in 1999 and \$8 million in 1998.

Earnings Per Share:

Basic earnings per share of common stock are computed by dividing net earnings by the weighted-average number of shares outstanding for the period. Diluted earnings per share are computed by dividing net earnings by the weighted-average number of shares, assuming the exercise of stock options when the effect of their exercise is dilutive. Shares of stock held by the employee benefits trust are not included in outstanding shares for EPS until distributed from the trust.

Millions, except per share amounts	Net Earnings (Loss)	Weighted Average Shares	Per Share
2000			
Basic	\$ 8	38.2	\$0.20
Options	-	-	
Diluted	\$ 8	38.2	\$0.20
1999			
Basic	\$160	38.3	\$4.16
Options	-	.3	
Diluted	\$160	38.6	\$4.13
1998			
Basic	\$ (21)	38.5	\$ (.55)
Options	-	-	
Diluted	\$ (21)	38.5	\$ (.55)

Note 2. Acquisition:

In January 1998, the Company completed the acquisition of Nelson Industries, Inc., for \$453 million. Nelson, a filtration and exhaust manufacturer, was consolidated on the date of acquisition. In accordance with APB No. 16, Nelson's net assets were recorded at fair value, and the purchase price in excess of net assets is amortized over 40 years.

Note 3. Special Charges:

In 1998, the Company recorded special charges of \$92 million for product coverage costs and inventory write-downs. The product coverage special charges of \$78 million included \$43 million primarily attributable to the recent experience of higher than anticipated base warranty costs to repair certain automotive engines manufactured in previous years, and \$35 million related to a revised estimate of product coverage cost liability primarily for extended warranty programs. The special charges also included \$14 million for inventory write-downs associated with the Company's restructuring and exit activities. These write-downs related to amounts of inventory rendered excess or unusable due to the closing or consolidation of facilities.

Note 4. Restructuring, Asset Impairment and Other Special Charges:

The 2000 financial results included charges of \$160 million (\$103 million after tax, or \$2.71 per share) reflecting restructuring actions, asset impairments and other activities largely focused in the Engine Business. These actions were taken in response to the downturn in the North American heavy-duty truck market and related conditions. The charges included \$42 million attributable to employee severance actions, \$72 million for impairment of equipment and other assets, \$30 million for impairment of software developed for internal use where the programs were cancelled prior to implementation and \$16 million associated with exit costs to close or consolidate a number of smaller business operations.

Of the \$160 million charge, \$131 million was assigned to the Engine Business, \$19 million to the Power Generation Business and \$10 million to the Filtration Business and Other.

Workforce reduction actions included overall cutbacks in staffing levels plus the impacts of closing and consolidating operations. Restructuring charges for workforce reductions included the severance costs and related benefits of terminating 600 salaried employees and 830 hourly employees. Costs for workforce reductions were based on amounts pursuant to benefit programs or statutory requirements of the affected operations.

The asset impairment loss of \$72 million was calculated in accordance with the provisions of SFAS 121. Asset impairment of equipment from discontinuing operations was primarily for engine assembly and fuel system manufacturing equipment to be disposed of upon the closure or consolidation of production operations. The asset impairment charge included a write-down of \$38 million for manufacturing equipment that will continue to be used for approximately two years. Depreciation will continue on these assets over that period of time. The expected recovery value of equipment to be disposed of was based on estimated salvage value and was excluded from the write-down. The charge also included \$11 million for equipment available for disposal, \$6 million for properties available for disposal, \$10 million for investments and \$7 million for intangibles and minority interest positions related to divesting smaller operations and investments. The carrying value of assets held for disposal and the effect from suspending depreciation on such assets is immaterial.

The asset impairment charge of \$30 million consisted of capitalized software-in-process being developed for internal use. The charge was related to manufacturing, financial and administrative information technology programs cancelled during program development and prior to implementation.

Exit costs of \$16 million to close or consolidate a number of small businesses and operations included \$6 million for equipment removal costs, \$5 million to satisfy contractual obligations and \$5 million for other exit costs. As the restructuring actions consist primarily of the closing or consolidation of smaller operations, the Company does not expect these actions to have a material effect on future revenues.

Approximately \$73 million, primarily related to the write-down of impaired equipment and software and employee severance payments, has been charged to the restructuring liabilities as of December 31, 2000. Of the total charges associated with the restructuring activities, cash outlays will approximate \$54 million. The actions will be completed in 2001 and 2002 with the majority of the cash outlays in 2001. The associated annual savings are estimated at \$55 million upon completion of the actions.

Activities in the major components of these charges were as follows:

\$ Millions	Original Provision	Charges 2000	Balance 12/31/00
Workforce reductions	\$ 42	\$ (5)	\$ 37
Impairment of software	30	(30)	-
Impairment of equipment and other assets	72	(38)	34
Exit costs	16	-	16
	<u>\$160</u>	<u>\$(73)</u>	<u>\$ 87</u>

In December 1999, the Company recorded a charge of \$60 million in connection with the dissolution of the Cummins Wartsilä joint venture. The charge included \$17 million to write off the Company's remaining investment in the joint venture, \$29 million for impairment of assets transferred from the joint venture and \$14 million for additional warranty and other liabilities assumed by the Company. The joint venture termination was effective December 31, 1999, with the Company taking over the operations and assets of the product line manufactured in Daventry, England.

Activity in the major components of these charges is as follows:

\$ Millions	Original Provision	Charges			Balance 12/31/00
		1998	1999	2000	
Restructuring of majority-owned operations:					
Workforce reductions	\$ 38	\$(12)	\$(14)	\$ (9)	\$ 3
Asset impairment loss	22	-	(7)	(15)	-
Facility consolidations and other	17	(8)	(4)	(4)	1
	77	(20)	(25)	(28)	4
Restructuring of joint venture operations:					
Workforce reductions	11	-	(10)	(1)	-
Tax asset impairment loss	7	-	(7)	-	-
Facility and equipment-related costs	5	-	(5)	-	-
	23	-	(22)	(1)	-
Inventory write-downs	14	(5)	(9)	-	-
Total restructuring charges	114	(25)	(56)	(29)	4
EPA penalty	25	-	(8)	(9)	8
Total	\$139	\$(25)	\$(64)	\$(38)	\$ 12

The asset impairment loss was calculated according to the provisions of SFAS No. 121, using expected discounted cash flows as the estimate of fair value. The majority of the impaired assets are to be held and used in the Company's Power Generation Business, with depreciation continuing on such assets.

In the third quarter of 1998, the Company recorded charges of \$125 million, comprised of \$100 million for costs to reduce the worldwide workforce by approximately 1,100 people, as well as costs associated with streamlining certain majority-owned and international joint venture operations and \$25 million for a civil penalty to be paid by the Company as a result of an agreement reached with the U.S. Environmental Protection Agency (EPA) regarding diesel engine emissions. In addition, the Company recorded special charges of \$14 million for inventory write-downs associated with restructuring actions.

The Company is concluding the restructuring plan implemented in the third quarter of 1998. In the third quarter of 2000, the Company reversed excess accruals from 1998 of \$7 million and recorded \$7 million of charges related to new actions committed to during the quarter. As of December 31, 2000, approximately \$127 million has been charged against the liabilities associated with these actions. The Company has funded the restructuring actions using cash generated from operations. The remaining actions to be completed consist primarily of the payment of severance commitments to terminated employees in early 2001 and the remaining payment to the EPA in July 2001.

Note 5. Other (Income) Expense:

The major components of other (income) expense included the following:

\$ Millions	2000	1999	1998
Amortization of intangibles	\$ 13	\$ 15	\$ 14
Interest income	(13)	(7)	(9)
Loss (gain) on sale of businesses	1	1	(7)
Rental income	(7)	(5)	(6)
Royalty income	(2)	(4)	(5)
Foreign currency losses	14	2	5
Non-operating partnership costs	4	6	3
Social tax refunds	-	-	(3)
Sale of scrap	(3)	(1)	(2)
Other	(8)	1	(3)
Total	\$ (1)	\$ 8	\$(13)

Note 6. Investments in Joint Ventures and Alliances:

Investments in joint ventures and alliances at December 31 were as follows:

\$ Millions	2000	1999
Consolidated Diesel	\$ 66	\$ 11
European Engine Alliance	26	14
Tata Cummins	18	22
Chongqing Cummins	16	16
Dong Feng	16	10
Komatsu alliances	16	18
Behr America	14	15
Other	29	25
	\$201	\$131

Summary financial information for the joint ventures and alliances was as follows:

\$ Millions	2000	1999	1998
Net sales	\$1,531	\$1,334	\$1,245
Gross profit	165	101	25
Net earnings (loss)	12	(64)	(105)
Cummins' share	6	(32)	(52)
Current assets	\$ 415	\$ 302	\$ 527
Noncurrent assets	555	485	613
Current liabilities	(335)	(223)	(406)
Noncurrent liabilities	(277)	(284)	(455)
Net assets	\$ 358	\$ 280	\$ 279
Cummins' share	\$ 201	\$ 131	\$ 136

In connection with various joint venture agreements, Cummins is required to purchase products from the joint ventures in amounts to provide for the recovery of specified costs of the ventures. Under the agreement with Consolidated Diesel, Cummins' purchases were \$541 million in 2000 and \$513 million in 1999.

Note 7. Borrowings:

Long-term debt at December 31 was:

\$ Millions	2000	1999
7.125% debentures due 2028	\$ 249	\$ 249
6.45% notes due 2005	225	224
Commercial paper	112	168
5.65% debentures due 2098, net of unamortized discount of \$39 (effective interest rate 7.48%)	125	125
6.25% notes due 2003	125	125
6.75% debentures due 2027	120	120
Guaranteed notes of ESOP Trust due 2010	58	61
Other	26	30
Total	1,040	1,102
Current maturities	(8)	(10)
Long-term debt	\$1,032	\$1,092

Maturities of long-term debt for the five years subsequent to December 31, 2000 are \$8 million, \$10 million, \$133 million, \$7 million, and \$232 million. At December 31, 2000 and 1999, the weighted-average interest rate on loans payable and current maturities of long-term debt approximated 7 percent and 6 percent, respectively.

The Company maintains a \$500 million revolving credit agreement, maturing in 2003, under which there were no outstanding borrowings at December 31, 2000 or 1999. The revolving credit agreement supports the Company's commercial paper borrowings of \$112 million at December 31, 2000 and \$168 million at December 31, 1999. In February 1998, the Company issued \$765 million face amount of notes and debentures under a \$1 billion Registration Statement filed with the Securities and Exchange Commission in 1997. Net proceeds were used to finance the acquisition of Nelson and to pay down other indebtedness outstanding at December 31, 1997. The Company also has other domestic and international credit lines with approximately \$135 million available at December 31, 2000.

The Company's debt agreements have several covenants which, among other restrictions, require maintenance of a certain level of net worth, place restrictions on the amount of additional debt the Company may incur and require maintenance of minimum leverage ratios.

In December 2000, the Company paid down certain borrowings with the proceeds from the sale of receivables in a securitization program.

At December 31, 2000 and 1999, loans payable included \$139 million and \$100 million, respectively, of notes payable to banks and \$17 million and \$13 million, respectively, of bank overdrafts.

The Company has guaranteed the outstanding borrowings of its ESOP Trust. Cash contributions to the Trust, together with the dividends accumulated on the common stock held by the Trust, are used to pay interest and principal. Cash contributions and dividends to the Trust approximated \$9 million in each year. The unearned compensation, which is reflected as a reduction to shareholders' investment, represents the historical cost of the shares of common stock that have not yet been allocated by the Trust to participants.

Note 8. Other Liabilities:

Other liabilities at December 31 included the following:

\$ Millions	2000	1999
Accrued retirement & post-employment benefits	\$552	\$511
Accrued product coverage & marketing expenses	170	175
Accrued compensation	51	42
Deferred income taxes	23	1
Other	41	59
	<u>\$837</u>	<u>\$788</u>

Note 9. Income Taxes:

The provision (benefit) for income taxes was as follows:

\$ Millions	2000	1999	1998
Current:			
U. S. Federal and state	\$ 19	\$ 43	\$ 16
Foreign	35	43	41
	<u>54</u>	<u>86</u>	<u>57</u>
Deferred:			
U. S. Federal and state	(94)	(17)	(34)
Foreign	21	(14)	(19)
	<u>(73)</u>	<u>(31)</u>	<u>(53)</u>
	<u>\$ (19)</u>	<u>\$ 55</u>	<u>\$ 4</u>

Significant components of net deferred tax assets related to the following tax effects of differences between financial and tax reporting at December 31:

\$ Millions	2000	1999
Employee benefit plans	\$276	\$282
Product coverage & marketing expenses	134	126
Restructuring charges	64	34
U.S. plant & equipment	(191)	(182)
Net foreign taxable differences, primarily plant & equipment	(19)	9
U.S. Federal carryforward benefits:		
Net operating loss, expiring 2020	34	-
Foreign tax credits, expiring 2005	9	-
General business tax credits, expiring 2009 to 2020	72	22
Minimum tax credits, no expiration	19	15
Other net differences	2	13
	<u>\$400</u>	<u>\$319</u>

Balance Sheet Classification

Current assets	\$203	\$210
Noncurrent assets	220	110
Noncurrent liabilities	(23)	(1)
	<u>\$400</u>	<u>\$319</u>

The Company expects to realize all of its tax assets, including the use of all carryforwards, before any expiration.

Earnings before income taxes and differences between the effective tax rate and U.S. Federal income tax rate were:

\$ Millions	2000	1999	1998
Earnings (loss) before income taxes:			
U.S.	\$(136)	\$232	\$(21)
Foreign	139	(11)	15
	\$ 3	\$221	\$ (6)
<hr/>			
Tax at 35 percent U.S. statutory rate	\$ 1	\$ 77	\$ (2)
State taxes	1	3	(1)
Nondeductible special charges	4	-	9
Nondeductible goodwill amortization	3	3	3
Research tax credits	(11)	(15)	(10)
Foreign sales corporation benefits	(12)	(18)	(9)
Differences in rates and taxability of foreign subsidiaries	(3)	10	15
All other, net	(2)	(5)	(1)
	\$ (19)	\$ 55	\$ 4

Note 10. Financial Instruments and Risk Management:

The Company is exposed to financial risk resulting from volatility in foreign exchange rates and interest rates. This risk is closely monitored and managed through the use of financial derivative contracts. As clearly stated in the Company's policies and procedures, financial derivatives are used expressly for hedging purposes, and under no circumstances are they used for speculating or trading. Transactions are entered into only with banking institutions with strong credit ratings, and thus the credit risk associated with these contracts is considered immaterial. Hedging program results and status are reported to senior management on a periodic basis.

Foreign Exchange Rates

Due to its international business presence, the Company uses foreign exchange forward contracts to manage its exposure to exchange rate volatility. Foreign exchange balance sheet exposures are aggregated and hedged at the corporate level. Maturities on these instruments generally fall within the one-month and six-month range. The objective of the hedging program is to reduce earnings volatility resulting from the translation of net foreign exchange balance sheet positions. The total notional amount of these forward contracts outstanding at December 31 was as follows:

\$ Millions	2000	1999
Currency:		
British Pound	\$148	\$120
Euro	64	47
Australian Dollar	20	19
Hong Kong Dollar	11	8
Mexican Peso	7	-
Japanese Yen	5	7
Canadian Dollar	3	3
Other	2	2
	\$260	\$206

Interest Rates

The Company manages its exposure to interest rate fluctuations through the use of interest rate swaps. Currently the Company has in place three interest rate swaps that effectively convert fixed-rate debt into floating-rate debt. The objective of the swaps is to more efficiently balance borrowing costs and interest rate risk. The contracts were established during 1998 and 1999 and have a total notional value of \$350 million.

Fair Value of Financial Instruments

Based on borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of total debt, including current maturities, at December 31, 2000, approximated \$1,138 million. The carrying value at that date was \$1,196 million. At December 31, 1999, the fair and carrying values of total debt, including current maturities, were \$1,104 million and \$1,215 million, respectively. The carrying values of all other receivables and liabilities approximated fair values.

Note 11. Retirement Plans:

The Company has various contributory and noncontributory pension plans covering substantially all employees. Cummins common stock represented 9 percent of pension plan assets at December 31, 2000.

Cummins also provides various health care and life insurance benefits to eligible retirees and their dependents but reserves the right to change benefits covered under these plans. The plans are contributory with retirees' contributions adjusted annually, and they contain other cost-sharing features, such as deductibles, coinsurance and spousal contributions. The general policy is to fund benefits as claims and premiums are incurred.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets were \$697 million, \$682 million and \$558 million, respectively, as of December 31, 2000, and \$651 million, \$636 million and \$513 million, respectively, as of December 31, 1999. The assumed long-term rate of compensation increase for salaried plans was 5.25 percent in 2000 and 1999. Other significant assumptions for the Company's principal plans were:

	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
Weighted-average discount rate	7.75%	7.5%	7.75%	7.5%
Long-term rate of return on plan assets	10.0%	9.0%		

For measurement purposes a 7 percent annual increase in health care costs was assumed for 2001, decreasing gradually to 5.5 percent in five years and remaining constant thereafter.

Increasing the health care cost trend rate by 1 percent would increase the obligation by \$48 million and annual expense by \$4 million. Decreasing the health care cost trend rate by 1 percent would decrease the obligation by \$43 million and annual expense by \$3 million.

The Company's net periodic benefit cost under these plans was as follows:

\$ Millions	Pension Benefits			Other Benefits		
	2000	1999	1998	2000	1999	1998
Service cost	\$ 50	\$ 53	\$ 47	\$ 6	\$ 8	\$ 8
Interest cost	126	116	123	46	40	44
Expected return on plan assets	(161)	(161)	(153)	-	-	-
Amortization of transition asset	(2)	(3)	(4)	-	-	-
Other	9	12	12	3	4	3
	\$ 22	\$ 17	\$ 25	\$ 55	\$ 52	\$ 55

\$ Millions	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
Change in benefit obligation:				
Benefit obligation at beginning of year	\$1,865	\$1,907	\$ 637	\$ 640
Service cost	50	53	6	8
Interest cost	126	116	46	40
Plan participants' contributions	6	7	2	1
Amendments	3	14	-	-
Experience (gain) loss	63	(103)	11	(21)
Benefits paid	(122)	(119)	(37)	(31)
Other	(36)	(10)	-	-
Benefit obligation at end of year	\$1,955	\$1,865	\$ 665	\$ 637
Change in plan assets:				
Fair value of plan assets at beginning of year	\$1,922	\$1,692	\$ -	\$ -
Actual return on plan assets	162	331	-	-
Employer contribution	62	20	35	30
Plan participants' contributions	6	7	2	1
Benefits paid	(122)	(119)	(37)	(31)
Other	(35)	(9)	-	-
Fair value of plan assets at end of year	\$1,995	\$1,922	\$ -	\$ -
Funded status	\$ 40	\$ 57	\$(665)	\$(637)
Unrecognized:				
Experience (gain) loss ^(a)	(41)	(103)	70	55
Prior service cost ^(b)	43	51	(12)	(12)
Transition asset ^(c)	(2)	(5)	-	-
Net amount recognized	\$ 40	\$ -	\$(607)	\$(594)
Amounts recognized in the statement of financial position:				
Prepaid benefit cost	\$ 110	\$ 102	\$ -	\$ -
Accrued benefit liability	(111)	(114)	(607)	(594)
Intangible asset	38	12	-	-
Accumulated other comprehensive income	3	-	-	-
Net amount recognized	\$ 40	\$ -	\$(607)	\$(594)

(a) The net deferred (gain) loss resulting from investments, other experience and changes in assumptions.

(b) The prior service effect of plan amendments deferred for recognition over remaining service.

(c) The balance of the initial difference between assets and obligations deferred for recognition over a 15-year period.

Note 12. Common Stock:

The Company increased its quarterly common stock dividend from 27.5 cents per share to 30.0 cents, effective with the dividend payment in December 1999.

The Company repurchased 0.4 million shares on the open market at an aggregate purchase price of \$16 million in 2000, 0.7 million shares on the open market at an aggregate purchase price of \$34 million in 1999 and 0.4 million shares on the open market at an aggregate purchase price of \$14 million in 1998. All of the acquired shares are held as common stock in treasury.

Note 13. Shareholders' Rights Plan:

The Company has a Shareholders' Rights Plan which it first adopted in 1986. The Rights Plan provides that each share of the Company's common stock has associated with it a stock purchase right. The Rights Plan becomes operative when a person or entity acquires 15 percent of the Company's common stock or commences a tender offer to purchase 20 percent or more of the Company's common stock without the approval of the Board of Directors.

Note 14. Employee Stock Plans:

Under the Company's stock incentive and option plans, officers and other eligible employees may be awarded stock options, stock appreciation rights and restricted stock. Under the provisions of the stock incentive plan, up to one percent of the Company's outstanding shares of common stock at the end of the preceding year is available for issuance under the plan each year. At December 31, 2000, there were no shares of common stock available for grant and 2,319,080 options exercisable under the plans.

The Company accounts for stock options in accordance with APB Opinion No. 25 and related interpretations. No compensation expense has been recognized for stock options since the options have exercise prices equal to the market price of the Company's common stock at the date of grant.

Options	Number of Shares	Weighted-average Exercise Price
Dec. 31, 1997	1,920,850	46.08
Granted	703,660	45.34
Exercised	(54,075)	36.36
Cancelled	(27,425)	53.80
Dec. 31, 1998	2,543,010	48.08
Granted	886,900	39.74
Exercised	(196,500)	39.71
Cancelled	(40,275)	43.99
Dec. 31, 1999	3,193,135	46.65
Granted	938,750	34.39
Exercised	(11,900)	30.27
Cancelled	(114,355)	51.39
Dec. 31, 2000	4,005,630	44.43

Options outstanding at December 31, 2000, have exercise prices between \$19.38 and \$79.81 and a weighted-average remaining life of 6.8 years. The weighted-average fair value of options granted was \$12.58 per share in 2000 and \$13.76 per share in 1999. The fair value of each option was estimated on the date of grant using a risk-free interest rate of 6.5 percent in 2000 and 5.6 percent in 1999 and 1998, current annual dividends, expected lives of 10 years and expected volatility of 41 percent. A fair-value method of accounting for awards subsequent to January 1, 1998, would have resulted in an increase in compensation expense of \$8 million, net of tax (\$.20 per share) in 2000, \$8 million, net of tax (\$.20 per share) in 1999 and \$8 million, net of tax (\$.20 per share) in 1998.

Note 15. Comprehensive Income:

Comprehensive income includes net income and all other nonowner changes in equity during a period.

The tax effect on other comprehensive income is as follows:

\$ Millions	Foreign Currency Translation Adjustments	Unrealized Losses on Securities	Minimum Pension Liability Adjustments	Total Other Comprehensive Income
2000				
Pre-tax amount	\$(61)	\$(4)	\$ (3)	\$ (68)
Tax benefit	7	2	1	10
Net amount	\$(54)	\$(2)	\$ (2)	\$ (58)
1999				
Pre-tax amount	\$ 5	\$(1)	\$ 84	\$ 88
Tax (expense)	(1)	-	(29)	(30)
Net amount	\$ 4	\$(1)	\$ 55	\$ 58
1998				
Pre-tax amount	\$(44)	\$(1)	\$(83)	\$(128)
Tax benefit	1	1	29	31
Net amount	\$(43)	\$ -	\$(54)	\$ (97)

The components of accumulated other comprehensive income are as follows:

\$ Millions	Foreign Currency Translation Adjustments	Unrealized Losses on Securities	Minimum Pension Liability Adjustments	Accumulated Other Comprehensive Income
Balance at December 31, 1997	\$ (68)	\$(1)	\$ (1)	\$ (70)
Change in 1998	(43)	-	(54)	(97)
Balance at December 31, 1998	(111)	(1)	(55)	(167)
Change in 1999	4	(1)	55	58
Balance at December 31, 1999	(107)	(2)	-	(109)
Change in 2000	(54)	(2)	(2)	(58)
Balance at December 31, 2000	\$(161)	\$(4)	\$ (2)	\$(167)

Note 16. Segments of the Business:

The Company has three operating segments: Engine, Power Generation, and Filtration and Other. The Engine segment produces engines and parts for sale to customers in automotive and industrial markets. The engines are used in trucks of all sizes, buses and recreational vehicles, as well as various industrial applications including construction, mining, agriculture, marine, rail and military. The Power Generation segment is the Company's power systems supplier, selling engines, generator sets and alternators and providing temporary power through rentals of generator sets. The Filtration and Other segment includes sales of filtration products, exhaust systems and turbochargers and sales from company-owned distributors.

The Company's operating segments are organized according to products and the markets they each serve. This business structure was designed to focus efforts on providing enhanced service to a wide range of customers.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that the Company evaluates performance based on earnings before interest and income taxes and on net assets; therefore, no allocation of debt-related items and income taxes is made to the individual segments.

Operating segment information is as follows:

\$ Millions	Engine	Power Generation	Filtration And Other	Total
2000				
Net sales	\$4,050	\$1,395	\$1,152	\$6,597
Depreciation and amortization	151	47	42	240
Income (expense) from joint ventures and alliances	5	1	3	9
Earnings before interest, income taxes and special charges	24	103	122	249
Special charges	131	19	10	160
Earnings (loss) before interest and income taxes	(107)	84	112	89
Net assets	799	521	892	2,212
Investment in joint ventures and alliances	163	26	12	201
Capital expenditures	143	46	39	228
1999				
Net sales	\$4,225	\$1,356	\$1,058	\$6,639
Depreciation and amortization	146	47	40	233
Income (expense) from joint ventures and alliances	(4)	(25)	1	(28)
Earnings before interest, income taxes and special charges	182	52	122	356
Special charges	18	42	-	60
Earnings before interest and income taxes	164	10	122	296
Net assets	1,015	553	868	2,436
Investment in joint ventures and alliances	112	11	8	131
Capital expenditures	130	49	36	215
1998				
Net sales	\$3,982	\$1,230	\$1,054	\$6,266
Depreciation and amortization	120	40	39	199
Income (expense) from joint ventures and alliances	(4)	(25)	(1)	(30)
Earnings before interest, income taxes and special charges	136	25	121	282
Special charges	165	50	2	217
Earnings (loss) before interest and income taxes	(29)	(25)	119	65
Net assets	946	511	803	2,260
Investment in joint ventures and alliances	132	3	1	136
Capital expenditures	172	67	32	271
Additions to goodwill	12	2	370	384

Reconciliation to Consolidated Financial Statements:

\$ Millions	2000	1999	1998
Earnings before interest and income taxes for operating segments	\$ 89	\$ 296	\$ 65
Interest expense	86	75	71
Income tax expense (benefit)	(19)	55	4
Minority interest	14	6	11
Net earnings (loss)	\$ 8	\$ 160	\$ (21)

\$ Millions	2000	1999	1998
Net assets for operating segments	\$2,212	\$2,436	\$2,260
Liabilities deducted in arriving at net assets	1,846	1,922	1,926
Deferred tax assets not allocated to segments	423	320	334
Debt-related costs not allocated to segments	19	19	22
Total assets	\$4,500	\$4,697	\$4,542

Summary geographic information is listed below:

\$ Millions	US	UK	Canada	All Other	Total
2000					
Net sales ^(a)	\$3,775	\$382	\$418	\$2,022	\$6,597
Long-lived assets	1,442	207	-	286	1,935
1999					
Net sales ^(a)	\$4,064	\$400	\$473	\$1,702	\$6,639
Long-lived assets	1,434	206	-	264	1,904
1998					
Net sales ^(a)	\$3,595	\$389	\$459	\$1,823	\$6,266
Long-lived assets	1,470	209	-	272	1,951

(a) Net sales are attributed to countries based on location of customer.

Revenues from the Company's largest customer represent approximately \$1.2 billion of the Company's net sales in 2000. These sales are included in the Engine and Filtration and Other segments.

Note 17. Guarantees, Commitments and Other Contingencies:

At December 31, 2000, the Company had the following minimum rental commitments for noncancelable operating leases: \$45 million in 2001, \$37 million in 2002, \$31 million in 2003, \$22 million in 2004, \$13 million in 2005 and \$63 million thereafter. Rental expense under these leases approximated \$79 million in 2000, \$75 million in 1999 and \$70 million in 1998.

Commitments under outstanding letters of credit, guarantees and contingencies at December 31, 2000, approximated \$89 million.

Cummins and its subsidiaries are defendants in a number of pending legal actions, including actions related to use and performance of the Company's products. The Company carries product liability insurance covering significant claims for damages involving personal injury and property damage.

In the event the Company is determined to be liable for damages in connection with actions and proceedings, the unreserved portion of such liability is not expected to be material. The Company also has been identified as a potentially responsible party at several waste disposal sites under U.S. and related state environmental statutes and regulations and has joint and several liability for any investigation and remediation costs incurred with respect to such sites. The Company denies liability with respect to many of these legal actions and environmental proceedings and is vigorously defending such actions or proceedings. The Company has established reserves that it believes are adequate for its expected future liability in such actions and proceedings where the nature and extent of such liability can be estimated reasonably based upon presently available information. The Company is working to comply with U.S. EPA regulations with respect to emissions which are scheduled to become more restrictive in 2002 and beyond.

Note 18. Quarterly Financial Data (unaudited):

\$ Millions, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2000					
Net sales	\$1,648	\$1,769	\$1,572	\$1,608	\$6,597
Gross profit	335	351	310	263	1,259
Net earnings (loss)	42	61	25	(120)	8
Basic earnings (loss) per share	\$ 1.09	\$ 1.62	\$.66	\$ (3.16)	\$.20
Diluted earnings (loss) per share	1.09	1.62	.66	(3.16)	.20
1999					
Net sales	\$1,505	\$1,667	\$1,631	\$1,836	\$6,639
Gross profit	301	371	361	385	1,418
Net earnings	24	58	53	25	160
Basic earnings per share	\$.63	\$ 1.51	\$ 1.37	\$.65	\$ 4.16
Diluted earnings per share	.63	1.50	1.35	.65	4.13

Fourth quarter 2000 net earnings included restructuring, asset impairment and other special charges of \$103 million, net of tax (\$160 million pretax), or \$2.71 per share.

Fourth quarter 1999 net earnings included a charge of \$45 million, net of tax (\$60 million pretax), or \$1.17 per share, for the termination of the Cummins Wäertsilä joint venture.

Cummins Engine Company, Inc.

Five-Year Supplemental Data

\$ Millions, except per share amounts	2000	1999	1998	1997	1996
Net sales	\$6,597	\$6,639	\$6,266	\$5,625	\$5,257
Cost of goods sold	5,338	5,221	4,925	4,345	4,072
Special charges	-	-	92	-	-
Gross profit	1,259	1,418	1,249	1,280	1,185
Selling and administrative expenses	776	781	787	744	725
Research and engineering expenses	244	245	255	260	252
(Income) expense from joint ventures and alliances	(9)	28	30	(10)	-
Interest expense	86	75	71	26	18
Other (income) expense, net	(1)	8	(13)	(26)	(24)
Restructuring, asset impairments and other special charges	160	60	125	-	-
Earnings (loss) before income taxes	3	221	(6)	286	214
(Benefit) Provision for income taxes	(19)	55	4	74	54
Minority interest	14	6	11	-	-
Net earnings (loss)	\$ 8	\$ 160	\$ (21)	\$ 212	\$ 160
Net earnings (loss) per share:					
Basic	\$ 0.20	\$ 4.16	\$ (.55)	\$ 5.55	\$ 4.02
Diluted	0.20	4.13	(.55)	5.48	4.01
Number of shares for EPS:					
Basic	38.2	38.3	38.5	38.2	39.8
Diluted	38.2	38.6	38.5	38.7	39.9
Cash dividends per share	\$ 1.20	\$1.125	\$ 1.10	\$1.075	\$ 1.00
Shareholders' investment per share	34.90	37.44	33.11	37.05	33.24
Working capital	\$ 607	\$ 866	\$ 805	\$ 655	\$ 532
Property, plant and equipment, net	1,598	1,630	1,671	1,532	1,286
Total assets	4,500	4,697	4,542	3,765	3,369
Total debt	1,196	1,215	1,227	654	415
Shareholders' investment	1,336	1,429	1,272	1,422	1,312
Property, plant and equipment additions	\$ 228	\$ 215	\$ 271	\$ 405	\$ 304
Depreciation and amortization	240	233	199	158	149
Shareholders of record	4,800	4,800	5,200	4,700	4,800
Number of employees ^(a)	28,000	28,500	28,300	26,300	23,500

(a) Represents the number of employees at year-end. At December 31, 1998, the number of employees included 2,600 employees of Nelson Industries, Inc., which was acquired in January 1998. At December 31, 1997, number of employees included 2,800 employees of Cummins India Limited, which was consolidated in the fourth quarter of 1997.

Earnings per share for 1996 have been restated to reflect the adoption of SFAS No. 128.



Directors and Committees

		Committees					
		Audit	Finance	Compensation	Technology & Environment	Nominating & Organization	Lead Director
Directors							
Tim Solso	Chairman and Chief Executive Officer of Cummins						
Robert J. Darnall	Chairman, Prime Advantage Corp., business to business Internet based service provider. Retired Chairman and Chief Executive Officer, Inland Steel Industries Inc., steel manufacturing and materials distribution	■	■			■	
John M. Deutch	Institute Professor, Massachusetts Institute of Technology	■			■	■	
Walter Y. Elisha	Retired Chairman, Springs Industries, Inc., manufacturer of home furnishings, industrial and specialty fabrics	■	■			■	
Hanna H. Gray	President Emeritus and Professor of History, University of Chicago		■	■		■	
James A. Johnson	Chairman and Chief Executive Officer, Johnson Capital Partners	■			■	■	
William I. Miller	Chairman, Irwin Financial Corporation, financial services company		■			■	
William D. Ruckelshaus	Strategic Partner, Madrona Venture Group			■	■	■	
Franklin A. Thomas	Consultant, TFF Study Group, non-profit initiative to assist the development process in South Africa			■	■	■	■
J. Lawrence Wilson	Retired Chairman and Chief Executive Officer, Rohm and Haas Company, specialty chemical manufacturing		■	■		■	
J. Irwin Miller	Honorary Chairman						

Policy Committee

Tim Solso	Chairman and Chief Executive Officer
Jean Blackwell	Vice President, Human Resources
Jack Edwards	Executive Vice President, President, Power Generation
Mark Gerstle	Vice President, Cummins Business Services and Corporate Secretary
Tom Linebarger	Vice President and Chief Financial Officer
Joe Loughrey	Executive Vice President, President, Engine Business
Frank McDonald	Vice President, Quality
Rick Mills	Vice President, President, Filtration and Fleetguard, Inc.
Christine M. Vujovich	Vice President, Environmental Policy and Product Strategy
John Wall	Vice President, Chief Technical Officer

The Board of Directors

The Cummins Board of Directors pictured on opposite page: Tim Solso, Robert J. Darnall, John Deutch, Walter Y. Elisha, Hanna H. Gray, James A. Johnson, William I. Miller, William D. Ruckelshaus, Franklin A. Thomas, J. Lawrence Wilson

Executives and Officers

Power Generation

Mike Mitchell	Vice President	Power Generation Group Operations
Ron Moore	Vice President and General Manager	Power Generation Americas
Tony Satterthwaite	Vice President & Managing Director	Cummins Power Generation Limited
Steve Zeller	Vice President and Managing Director	Newage International Limited

Engine Business

Martha Finn Brooks	Vice President and General Manager	Truck and Bus Engine Business
Richard M. Gold	Vice President and General Manager	PowerCare and Distribution
Jim Kelly	Vice President and General Manager	Industrial Engine Business
Mark Levett	Vice President and General Manager	High Horsepower Engine Business
Larry Moore	Vice President and General Manager	Light Duty Automotive Business
Iain Barrowman	Vice President	High Horsepower Operations
Charlie Bumb	Vice President	National Accounts
Rich Freeland	Vice President	Heavy-Duty Engine Operations and Fuel Systems
Dale Good	Vice President	Sales and Marketing, Truck and Bus Engine Business
Jeff Hamilton	Vice President	Research & Development
Sam Hires	Vice President	High Horsepower Engineering
Jeff Jones	Vice President	Truck and Bus Engine Sales
Jim Lyons	Vice President	Midrange Manufacturing
Peter McDowell	Vice President	European Automotive Business
David Moorhouse	Vice President and Managing Director	Holset Engineering Company, Ltd.
George L. Muntean	Vice President	Fuel Systems Engineering
Ed Pence	Vice President	OEM Business
John H. Stang	Vice President	Automotive Engineering
Bharat Vedak	Vice President	Industrial Customer Engineering
Bob Weimer	Vice President	Quality, Truck & Bus Business
Bill Wolpert	General Manager	Worldwide Marine Business
Mark Yragui	Vice President	Industrial Marketing

International

Steve Chapman	Vice President	International
Pamela Carter	Vice President and General Manager	Fleetguard Europe, Middle East and Africa
Ricardo Chuahy	General Manager	Latin America
	President	Cummins Brasil
Hugh Foden	Area Business Director	Southeast Asia
Mike Green	Managing Director	South Pacific
Jong S. Kim	Area Managing Director	East Asia
Steve Knaebel	Vice President	Cummins Mexico Operations
	President and General Manager	Cummins, S. de R.L. de C.V.
Ravi Venkatesan	Managing Director	India
Steve Yun	Area Business Director	Korea

Corporate Support

John Crowther	Vice President	Information Technology and Chief Information Officer
Bob Crane	Vice President	Corporate Controller
Marya Rose	Vice President	General Counsel and Assistant Secretary
Donald Trapp	Vice President	Treasurer
Chip Wochomurka	Vice President	Investor Relations and Strategic Planning

Shareholder Information

Stock Transfer Agent, Registrar, and Dividend Disbursing Agent

Wells Fargo Shareowner Services is Cummins' stock transfer agent and registrar. Wells Fargo maintains the Company's shareholder records, disburses dividend checks and administers the Company's Dividend Reinvestment Program.

General correspondence (address change, name change, notification of lost securities, transfers, inquiries about transfer requirements and correspondence relating to the Dividend Reinvestment Program) should be directed to Wells Fargo:

By mail:

Wells Fargo Shareowner Services
P.O. Box 64854
St. Paul, MN 55164-0854

By hand or overnight:

Wells Fargo Shareowner Services
161 North Concord Exchange
South St. Paul, MN 55075

By phone:

1-800-468-9716
1-651-450-4064

By fax:

1-651-450-4033

By e-mail:

StockTransfer@WellsFargo.com

Dividends

Common stock dividends are payable quarterly upon authorization of the Board of Directors on or about the fifteenth of March, June, September and December.

Dividend Reinvestment

As an added service to shareholders, Cummins has a Dividend Reinvestment Plan, administered by Wells Fargo Shareowner Services. This plan gives shareholders of record the option of having their cash dividends and optional cash payments applied toward the purchase of additional shares. Shareholders desiring information about this plan may contact Wells Fargo Shareowner Services (see above), or request information from Cummins through the Company's website, www.cummins.com.

Annual Meeting

Shareholders are invited to attend the Company's Annual Meeting on April 3, 2001, at 10:00 a.m. (Eastern Standard Time) in Columbus, Indiana at the Columbus Engine Plant (CEP) located at 500 Central Avenue.

Further Information

Shareholders and others are invited to visit Cummins on the Worldwide Web for further information of interest to investors. Visit www.cummins.com and click on Investor Information. The Annual Meeting and quarterly earnings teleconferences will be webcast from this site. SEC filings, press releases, stock quotes and other information are available there. In addition, you can request a printed copy of the 10-K, 10-Q, annual report and dividend reinvestment literature, and you can request e-mail alerts to advise you when new information is posted to the site. Shares may be voted by mail, by a toll-free telephone call or on the Internet. Please see the simple instructions on the proxy card.

Investors may also contact:

Chip Wochomurka
Vice President-Investor Relations and Strategic Planning
Cummins Engine Company, Inc.
Box 3005 (Mail Code 60118)
Columbus, IN 47202-3005
Phone: 812-377-3121
Fax: 812-377-4937
Investor_relations@cummins.com

The Company's press releases by fax may be requested by calling News on Demand at 1-888-329-2305.

Corporate Headquarters

Cummins Engine Company, Inc.
Columbus, IN 47202-3005

Exchange Listing

The common stock of Cummins Engine Company, Inc., is listed on the New York Stock Exchange and the Pacific Stock Exchange under the symbol CUM.

Cummins Worldwide Locations

	Location	Products
Operations		
BMC Sanayi ve Ticaret A.S.**	Izmir, Turkey	B3.9/5.9 C8.3
Chongqing Cummins Engine Company Ltd.*	Chongqing, China	NT L10/M11 K19/38/50
Columbus Midrange Engine Plant	Columbus, Indiana	B5.9 ISB
Columbus Engine Plant	Columbus, Indiana	N14/NT Signature 600 ISX
Consolidated Diesel Company*	Rocky Mount, North Carolina	B3.9/5.9 C8.3 ISB ISC
Cummins Brasil Ltda.	Sao Paulo, Brazil	B3.9/5.9 C8.3 NT/N14
Cummins Engine Company PTY	Scoresby, Australia	Generator sets
Cummins India Ltd.	Pune, India	C8.3 NT/N14 V28 K38/50
Cummins Industrial Center	Seymour, Indiana	K19 V903 QSK19
Cummins Komatsu Engine Co.*	Seymour, Indiana	QST30
Cummins Marine Charleston	Charleston, South Carolina	B C QSM11 N14
Cummins Natural Gas Engines, Inc.	Forth Worth, Texas	G-K19 G-V28 G-NT
Cummins Power Generation	Fridley, Minnesota	Generator sets and electronic controls
Cummins Power Generation	Singapore	Generator sets
Cummins Power Generation	St Peter, Minnesota	Generator sets and electronic controls
Cummins Power Generation Limited	Ramsgate, England	Generator sets and electronic controls
Darlington Engine Plant	Darlington, England	B3.9/5.9 C8.3
Daventry Engine Plant	Daventry, England	K38/50 QSK45/60 QSV81/91
Dongfeng Cummins Engine Co. Ltd*	Xiangfan, China	C8.3
Dongfeng Motor Corporation**	Xiangfan, China	B3.9/5.9
Jamestown Engine Plant	Jamestown, New York	ISM L10 G-L10
Komatsu Cummins Engine Company, Ltd*	Oyama, Japan	B3.3 B3.9/5.9
Power Systems India Ltd	Daman, India	Generator sets
SsangYong Heavy Industries Co., Ltd**	Seoul, South Korea	K19 V903
Swagman International PTY Ltd.	Queensland, Australia	Recreational vehicles
Tata Cummins Limited*	Jamshedpur, India	B3.9/5.9

Components		
CBM Technologies PTY Ltd.	Launceston, Australia	Engine components
Crompton Greaves Newage Ltd.	Ahmednagar, India	Alternators
Cummins Engine Company PTY	Scoresby, Australia	Generator set components and remanufactured engines
Cummins S.A.	San Luis Potosi, Mexico	Engine components and remanufactured engines
Cummins Xiangfan Manufacturing Company	Xiangfan, China	Engine components
Diesel ReCon Company	Memphis, Tennessee	Remanufactured engines and components
Diesel ReCon de Mexico S. A. de C. V.	Ciudad Juarez, Mexico	Remanufactured engines and components
Fleetguard Australia	Kilsyth, Australia	Filtration and exhaust systems
Fleetguard Brasil	Bonsucesso, Brazil	Filtration and exhaust systems
Fleetguard India Ltd.	Pune, India	Filtration systems
Fleetguard France	Quimper, France	Filtration systems
Fleetguard, Inc.	Nashville, Tennessee	Filtration systems
Fleetguard Nelson Mexico S. de R. L. de C. V.	San Luis Potosi, Mexico	Filtration and exhaust systems
Fleetguard South Africa	Pietermaritzburg, South Africa	Filtration systems
Fleetguard UK	Hinckley, England	Exhaust systems
Fuel Systems Division	Columbus, Indiana	Fuel system design and manufacture
Holset Engineering Company Ltd.	Charleston, South Carolina	Turbochargers
Holset Engineering Company Ltd.	Huddersfield, England	Turbochargers
Kuss Filtration	Findlay, Ohio	Filtration systems
Nelson Engine Systems India Ltd.	Daman, India	Exhaust systems
Nelson Industries	Stoughton, Wisconsin	Filtration and exhaust systems
Newage International Limited	Stamford, England	Alternators
Shanghai Fleetguard Ltd.*	Shanghai, China	Filtration systems
Tata Holset Ltd*	Dewas, India	Turbochargers
Tubengineers Pty. Ltd.	Scoresby, Australia	Filtration systems
Universal Silencer	Stoughton, Wisconsin	Filtration and silencing systems
Wuxi Holset Ltd*	Wuxi, China	Turbochargers
Wuxi Newage Alternators Ltd*	Wuxi, China	Alternators

Technical Center Locations

Columbus, Indiana
 Darlington, England
 European Engine Alliance,* Maidenhead, England
 Fridley, Minnesota
 Industrial Power Alliance,* Oyama, Japan
 Pune, India
 Sao Paulo, Brazil

Parts Distribution Centers

Mechele, Belgium
 Memphis, Tennessee
 Pune, India
 San Luis Potosi, Mexico
 Sao Paulo, Brazil
 Scoresby, Australia
 Shanghai, China
 Jamshedpur, India

Sales and Service

Over 500 distributorships and branches worldwide

* Joint Venture

** Licensee

