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 Wärtsilä 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.