We expect revenues to rise about 14% in 2012 after a 36% increase in 2011. North American truck engine sales should continue to pick up in 2012 on pent-up demand and as customers become more comfortable with new engines being sold to meet more stringent EPA emissions rules. We project strong growth in engine sales in India, China and Brazil, fueled by GDP growth and infrastructure projects in those regions. We expect improvement in North American class 8 truck demand in 2012, due to an aging national truck fleet and an improving U.S. economy.

We look for EBIT margins of 14.5% for 2012, in line with guidance, versus 14.2% in 2011 and 12.2% in 2010. We expect CMI to benefit from cost reductions and strong improvements in productivity at several of its plants. We also expect top-line growth to aid EBIT margins on fixed cost leverage and better capacity utilization.

We estimate that operating EPS will improve to $10.86 in 2012, which would represent 20% growth over 2011 operating EPS of $9.07, and comparing favorably to 2010 EPS of $5.28.
CORPORATE OVERVIEW. This global equipment company makes and services diesel and natural gas engines, electric power generation systems and engine-related component products.

Cummins (CMI), founded in 1919, has long-standing relationships with many of the customers it serves, including Chrysler LLC, Daimler AG, Volvo AB, PACCAR Inc., International Truck and Engine Corp. (a unit of Navistar), CNH Global N.V., Komatsu, Scania AB, Ford Motor Corp., and Volkswagen. CMI has over 600 company-owned and independent distributor locations and about 8,500 dealer locations in over 190 countries and territories. CMI’s key markets are the on-highway, construction, and general industrial markets.

The company believes that its competitive strengths include a group of leading brand names, alliances it has established with customers and partners, its global presence (international sales accounted for 59% of total sales in 2011), and its leading technology. In particular, Cummins’ technology addresses the reduction of diesel engine emissions. CMI’s engines met the EPA’s heavy-duty on-highway emission standards that went into effect in January 2010.

The engine segment (53% of sales in 2011) manufactures and markets a broad range of diesel and natural-gas powered engines under the Cummins brand name for the heavy- and medium-duty truck, bus, recreational vehicle (RV), light-duty automotive, agricultural, construction, mining, marine, oil and gas, rail and governmental equipment markets. CMI manufactures engines with displacements from 1.4 to 91 liters and horsepower ranging from 31 to 3,500. In addition, it provides new parts and service, as well as remanufactured parts and engines, through its extensive distribution network.

Business lines within the engine segment include heavy-duty truck, medium-duty truck and bus, light-duty automotive and RV, and industrial.

The power generation segment (14% of 2011 sales) designs and makes most of the components that make up power generation systems, including engines, controls, alternators, transfer switches, and switchgear. Products meet customer needs for standby power, distributed generation power, as well as auxiliary power needs in specialty mobile applications. Distributed generation power solutions are provided to customers with less reliable electrical power infrastructure, typically in developing countries.

The components segment (16% of 2011 sales) produces filters, fuel systems, aftermarket systems, intake and exhaust systems, and is the largest worldwide supplier of turbochargers for commercial applications. Components manufactures filtration and exhaust systems for on and off-highway heavy-duty equipment and is a supplier of filtration products for industrial and passenger car applications.

The distribution segment (17% of 2011 sales) consists of 17 company-owned and 15 joint venture distributors that distribute the full-range of CMI’s products and services to end-users at about 300 locations in over 70 countries.

CORPORATE STRATEGY. The company follows five key business principles in executing its business strategy: being a low-cost producer in as many of its markets as possible (six sigma, global sourcing, technical productivity); expanding into related markets (for example, CMI’s expansion into the light-duty engine market); creating greater shareholder value (measured using return on equity); leveraging complementary businesses (shared technology, common channels and distribution, shared customers and partners, corporate brand image); and creating the right environment for success.

IMPACT OF MAJOR DEVELOPMENTS. In 2009, Caterpillar (CAT 111, Buy) exited the on-highway truck engine market to focus on off-highway heavy-duty trucks. Since Caterpillar is a key competitor of CMI in the on-highway truck engine market, we view the move as positive for CMI, and we believe it validates our view of CMI’s technological lead in the on-highway engine market.

FINANCIAL TRENDS. In the 10 years through 2011 revenues grew at a compound annual growth rate (CAGR) of 11.9%, EBIT at 47% and net income at 37%. In 2011, revenues increased 36%, EBIT rose 65%, and net income increased 78%. For 2012, CMI has announced a target of 10% revenue growth with a 14.5%-15% EBIT margin.
Cummins Inc.

Quantitative Evaluations

S&P Fair Value Rank

<table>
<thead>
<tr>
<th>Rank</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LOWEST</td>
<td>HIGHEST</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S&amp;P Fair Value</td>
<td>$94.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair Value Calculation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analysis of the stock’s current worth, based on S&amp;P’s proprietary quantitative model suggests that CMI is fairly valued</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Investability Quotient

<table>
<thead>
<tr>
<th>Percentile</th>
<th>LOWEST = 1</th>
<th>HIGHEST = 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMI scored higher than 99% of all companies for which an S&amp;P Report is available.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Volatility

<table>
<thead>
<tr>
<th>LOW</th>
<th>AVERAGE</th>
<th>HIGH</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

Technical Evaluation

BEARISH |
Since April, 2012, the technical indicators for CMI have been BEARISH.

Insider Activity

<table>
<thead>
<tr>
<th>UNFAVORABLE</th>
<th>NEUTRAL</th>
<th>FAVORABLE</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
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</table>

Company Financials | Fiscal Year Ended Dec. 31

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Tangible Book Value</td>
<td>25.90</td>
<td>20.85</td>
<td>16.04</td>
<td>13.48</td>
<td>14.20</td>
<td>11.12</td>
<td>7.56</td>
<td>5.18</td>
<td>2.79</td>
<td>2.42</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>11.73</td>
<td>6.90</td>
<td>3.80</td>
<td>5.44</td>
<td>5.15</td>
<td>4.96</td>
<td>4.54</td>
<td>3.38</td>
<td>1.75</td>
<td>1.79</td>
</tr>
<tr>
<td>Earnings</td>
<td>9.55</td>
<td>5.28</td>
<td>2.16</td>
<td>4.08</td>
<td>3.70</td>
<td>3.55</td>
<td>2.75</td>
<td>1.85</td>
<td>0.34</td>
<td>0.52</td>
</tr>
<tr>
<td>S&amp;P Core Earnings</td>
<td>9.03</td>
<td>5.15</td>
<td>2.21</td>
<td>3.20</td>
<td>3.73</td>
<td>3.62</td>
<td>2.85</td>
<td>2.00</td>
<td>0.40</td>
<td>-0.39</td>
</tr>
<tr>
<td>Dividends</td>
<td>1.33</td>
<td>0.87</td>
<td>0.70</td>
<td>0.60</td>
<td>0.43</td>
<td>0.33</td>
<td>0.30</td>
<td>0.30</td>
<td>0.30</td>
<td>0.30</td>
</tr>
<tr>
<td>Payout Ratio</td>
<td>14%</td>
<td>17%</td>
<td>32%</td>
<td>15%</td>
<td>12%</td>
<td>9%</td>
<td>11%</td>
<td>16%</td>
<td>88%</td>
<td>58%</td>
</tr>
<tr>
<td>Prices:High</td>
<td>121.49</td>
<td>111.87</td>
<td>51.65</td>
<td>75.98</td>
<td>71.73</td>
<td>34.80</td>
<td>23.47</td>
<td>21.17</td>
<td>13.08</td>
<td>12.57</td>
</tr>
<tr>
<td>Prices:Low</td>
<td>79.53</td>
<td>44.84</td>
<td>18.34</td>
<td>17.70</td>
<td>28.16</td>
<td>22.17</td>
<td>15.90</td>
<td>12.03</td>
<td>5.43</td>
<td>4.90</td>
</tr>
<tr>
<td>P/E Ratio:High</td>
<td>13</td>
<td>21</td>
<td>24</td>
<td>19</td>
<td>19</td>
<td>10</td>
<td>9</td>
<td>11</td>
<td>38</td>
<td>24</td>
</tr>
<tr>
<td>P/E Ratio:Low</td>
<td>8</td>
<td>9</td>
<td>8</td>
<td>4</td>
<td>8</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>16</td>
<td>10</td>
</tr>
</tbody>
</table>

Income Statement Analysis (Million $)

Revenue | 18,048 | 13,226 | 10,800 | 14,342 | 13,048 | 11,362 | 9,918 | 8,438 | 6,296 | 5,853 |
| Operating Income | 2,431 | 1,571 | 887 | 1,382 | 1,221 | 1,287 | 1,058 | 1,065 | 696 | 706 |
| Depreciation | 325 | 320 | 326 | 314 | 290 | 296 | 295 | 272 | 223 | 219 |
| Interest Expense | 44.0 | 40.0 | 35.0 | 60.0 | 59.0 | 96.0 | 109 | 113 | 54.0 | 82.0 |
| Pretax Income | 2,671 | 1,617 | 640 | 1,251 | 1,169 | 1,083 | 798 | 432 | 80.0 | 57.0 |
| Effective Tax Rate | 27.1% | 29.5% | 24.4% | 30.9% | 32.6% | 29.9% | 27.1% | 13.0% | 15.0% | NM |
| Net Income | 1,946 | 1,040 | 428 | 801 | 739 | 715 | 550 | 350 | 54.0 | 79.0 |
| S&P Core Earnings | 1,746 | 1,016 | 438 | 631 | 744 | 729 | 570 | 380 | 62.8 | -61.4 |

Balance Sheet & Other Financial Data (Million $)

| Cash | 1,761 | 1,362 | 1,120 | 503 | 697 | 935 | 840 | 690 | 195 | 298 |
| Current Assets | 7,091 | 6,289 | 5,003 | 4,713 | 4,815 | 4,488 | 3,916 | 3,273 | 2,130 | 1,700 |
| Total Assets | 11,668 | 10,402 | 8,816 | 8,491 | 8,195 | 7,465 | 6,885 | 6,527 | 5,126 | 4,837 |
| Current Liabilities | 3,657 | 3,260 | 2,432 | 2,639 | 2,711 | 2,399 | 2,218 | 2,197 | 1,391 | 1,329 |
| Long Term Debt | 658 | 709 | 637 | 629 | 555 | 647 | 1,213 | 1,299 | 1,380 | 1,290 |
| Common Equity | 5,492 | 4,670 | 3,773 | 3,277 | 3,409 | 2,802 | 1,864 | 2,802 | 949 | 841 |
| Total Capital | 6,828 | 5,705 | 4,657 | 4,139 | 4,257 | 3,763 | 3,302 | 4,309 | 2,452 | 2,223 |
| Capital Expenditures | 622 | 364 | 310 | 543 | 253 | 249 | 186 | 151 | 111 | 90.0 |
| Cash Flow | 2,271 | 1,360 | 752 | 1,069 | 1,029 | 1,011 | 945 | 622 | 277 | 298 |
| Current Ratio | 1.9 | 1.9 | 2.1 | 1.8 | 1.8 | 1.9 | 1.8 | 1.5 | 1.5 | 1.5 |
| % Long Term Debt of Capitalization | 9.6 | 12.4 | 13.7 | 15.1 | 13.0 | 17.5 | 36.7 | 30.1 | 56.3 | 58.0 |
| % Net Income of Revenue | 10.8 | 7.9 | 4.0 | 5.6 | 5.7 | 6.3 | 5.5 | 4.1 | 0.9 | 1.3 |
| % Return on Assets | 17.6 | 10.8 | 4.9 | 9.6 | 9.4 | 10.0 | 8.2 | 6.0 | 1.1 | 1.7 |
| % Return on Equity | 38.3 | 24.6 | 12.2 | 24.0 | 23.8 | 30.6 | 33.7 | 14.9 | 6.0 | 8.7 |
Our fundamental outlook for the construction & farm machinery & heavy trucks sub-industry is positive. An improving global economy has been assisting many areas of the group since 2010, and we see this trend continuing in 2012.

Demand for construction equipment has risen sharply over the past two years, after a long stretch of weakness. According to a study by KHL Group, a leading supplier of construction information, sales of construction equipment by the world’s 50 largest manufacturers grew by 25% in 2011, to $182 billion, surpassing the prior record of $168 billion in 2008 by eight percent. We believe this robust revival has mostly reflected significant demand in nonresidential markets, on a substantial level of construction projects in emerging markets, particularly for infrastructure, and the need to replace very old equipment in mature economies. We expect these trends to continue over the coming year.

According to the USDA, farm income -- the primary driver for sales of agricultural equipment -- will likely fall by 6.5% to $91.7 billion in 2012, following two straight years of very strong growth. The USDA is forecasting a fractional rise in cash receipts for the year, but sees higher production expenses hurting the bottom line of farms, particularly in the areas of feed and labor, and marketing, storage and transportation costs. However, despite the USDA’s forecast of moderating farm results in 2012, we expect ongoing gains in demand for agricultural equipment for the year. We base that forecast on our belief that strong levels of farm income over the past few years and still-favorable farm markets will lead to ongoing capital equipment purchases in the sector.

After three straight years of sharp declines in heavy truck sales in North America, increased freight demand and an aging truck fleet have been reviving demand for truck purchases since 2010. With sales of trucks rising on a year-to-year basis in each month from February 2010 through April 2012, unit shipments of heavy trucks were ahead by 21% in 2010 and 58% in 2011, and another 42% in the first four months of 2012. Economic uncertainties remain, and prebuying for tax purposes and pre-stocking have recently led to slower order trends, but we see the overall upturn continuing and expect strong gains in truck sales in 2012.

Year to date through May 18, the S&P Construction & Farm Machinery & Trucks Index fell 2.3% versus a 3.0% advance for the S&P 1500 Index.

--Michael Jaffe
S&P Analyst Research Notes and other Company News

May 1, 2012
10:47 am ET ... S&P REITERATES STRONG BUY OPINION ON SHARES OF CUMMINS (CMI 112.33****): 01 EPS is $2.38, vs. $1.75, beating our $1.99 estimate and the Capital IQ consensus of $2.20. CMI saw strong North America demand, offset by weakness in China and Brazil. CMI sees China and Brazil improving in the second half, and keeps prior guidance of 10% revenue growth and a 14.5%-15% EBIT margin. We lift our '12 EPS estimate to $10.86 from $10.13 and start '13 at $12.13. We keep our target price at $152, 14X our '12 estimate, and the middle of CMI's historical range. We think investors are too focused on China, and we see the shares attractively valued at current levels. /J. Corridore

February 21, 2012
Crumins Inc. announced that Carole Casto will be Cummins' new Executive Director of Corporate Communications. Casto currently serves as Director of Community Engagement in Corporate Responsibility, playing a key role in the program's expansion outside the United States. Before joining Corporate Responsibility, Casto served as director of the Company's Six Sigma program.

February 2, 2012
11:10 am ET ... S&P REITERATES STRONG BUY OPINION ON SHARES OF CUMMINS INC. (CMI 114.66****): Q4 operating EPS of $2.56, vs. $1.84, beats our $2.23 estimate. CMI did a good job leveraging incremental revenues to increase EBIT margins. For 2012, CMI guides to 10% revenue growth with a 12.5%-13.5% EBIT margin. We expect CMI to continue to gain market share and grow faster than its underlying markets do. We raise our '12 EPS forecast to $10.13 from $9.99 and our 12-month target price to $152 from $145. 15X our '12 estimate, the middle of its historical P/E range. We view CMI's strong balance sheet, good cash generation and 1.4% dividend yield as additional positives. /J. Corridore

February 1, 2012
Crumins Inc. announced that Sharon R. Barner, formerly a top official in the U.S. Department of Commerce and a leading expert on intellectual property, has joined the company as its Vice President -General Counsel. Barner served as Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director of the U.S. Patent and Trademark Office from 2003 to 2011. At Cummins, Barner will report to Marya Rose, Vice President and Chief Administrative Officer. Rose was the Company's General Counsel before taking on her new role.

January 4, 2012
07:40 am ET ... S&P REITERATES STRONG BUY OPINION ON SHARES OF CUMMINS (CMI 91.05****): We think CMI is well positioned to take advantage of our view that industrial stocks are likely to outperform the overall market in 2012. CMI is the leading maker of heavy and medium duty truck engines in the U.S., with a diversified revenue mix geographically. We think it is likely to see 15% revenue growth in 2012 and a 5-year EPS CAGR of about 18%. Our $145 target price values the shares at 14.5X our '12 EPS estimate of $9.98, in the middle of its 5-year historical P/E range of 8X-24X earnings. Shares are supported by a 1.8% dividend yield and a share buyback program. /J. Corridore

November 7, 2011
Crumins Inc. announced that Luther Peters has been named Vice President -Internal Audit. The appointment is effective Nov. 16, 2011. As Executive Director of Internal Audit, Peters has been reporting Cummins' Internal Audit activity to both the Audit Committee of the Board of Directors and Executive Management for the past five years, and advises both groups in many key areas of the business.

November 3, 2011
Crumins Inc. announced that Jim Lyons has been named Vice President -- Chief Manufacturing Officer. Lyons will work on improving the company’s worldwide manufacturing performance with an emphasis on successful delivery, schedule stability and attainment, and waste reduction. Lyons brings to the position 38 years of experience with Cummins, most recently as President of Cummins Turbo Technologies (CTT), where he led that business to a turn-around in performance. He will continue in his CTT role through the end of the year as he works with his replacement to ensure a smooth transition. He will also begin shifting into his new role. Lyons replacement at CTT will be announced soon. Lyons joined Cummins in 1973, and has served in a wide range of roles, including General Manager of Fuel Systems Operations and the Consolidated Diesel Company, and Vice President -- MidRange and Heavy Duty Manufacturing. Jim was named President of Cummins Turbo Technologies in January, 2007.

October 25, 2011
CMI posts $2.35 vs. $1.44 Q3 EPS on 36% sales rise. Notes government actions to reduce inflation in India and China have resulted in softer near-term demand than it previously expected. This, along with the recent strengthening of the US$, has caused co. to slightly soften full year revenue guidance to $17.5B-$18B.
Analysts' Recommendations

Wall Street Average

Number of Analysts Following Stock

Stock Price ($)

Of the total 25 companies following CMI, 20 analysts currently publish recommendations.

No. of Ratings % of Total 1 Mo. Prior 3 Mos. Prior
Buy 7 35 8 8
Buy/Hold 4 20 4 4
Hold 9 45 8 6
Weak Hold 0 0 0 1
Sell 0 0 0 0
No Opinion 0 0 0 0
Total 20 100 20 19

Wall Street Consensus Estimates

Fiscal Years Avg Est. High Est. Low Est. # of Est. Est. P/E
2013 11.80 12.78 10.51 19 8.0
2012 10.60 10.98 10.10 19 8.9
2013 vs. 2012 ▲ 11% ▲ 16% ▲ 4% 0% ▼ 10%

Q2'13 3.06 3.14 2.98 17 30.9
Q2'12 2.73 2.87 2.54 17 34.7
Q2'13 vs. Q2'12 ▲ 12% ▲ 9% ▲ 17% 0% ▼ 11%

A company’s earnings outlook plays a major part in any investment decision. Standard & Poor’s organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

Wall Street Consensus Opinion

BUY/HOLD

Companies Offering Coverage

Atlantic Equities LLP
Avondale Partners, LLC
Barclays
Boenning & Scattergood, Inc.
Buckingham Research Group Inc.
CL King & Associates, Inc
Citigroup Inc
Credit Suisse
Daio Securities Capital Markets Co. Ltd.
Goldman Sachs
ISI Group Inc.
JP Morgan
Jefferies & Company, Inc.
Langenberg & Company, LLC
Longbow Research LLC
Morgan Joseph TriArtisan LLC
Morningstar Inc.
Northcoast Research
Piper Jaffray Companies
S&P Equity Research
Sanford C. Bernstein & Co., Inc.
Sterne Agee & Leach Inc.
UBS Investment Bank
Wells Fargo Securities, LLC
William Blair & Company L.L.C.

For fiscal year 2012, analysts estimate that CMI will earn $10.60. For the 1st quarter of fiscal year 2012, CMI announced earnings per share of $2.38, representing 22% of the total annual estimate. For fiscal year 2013, analysts estimate that CMI’s earnings per share will grow by 11% to $11.80.
Cummins Inc.

Glossary

S&P STARS
Since January 1, 1987, Standard and Poor’s Equity Research Services has ranked a universe of common stocks on a given stock’s potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock’s future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst’s own models as well as internal proprietary models resulting from dynamic data inputs.

S&P 12-Month Target Price
The S&P equity analyst’s projection of the market price a given stock is expected to achieve in 12-month horizon based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Fair Value.

Investment Style Classification
Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

S&P EPS Estimates
Standard & Poor’s earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P EPS estimates reflect either forecasts of S&P equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to Standard & Poor’s. Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring, or merger-related charges; legal and insurance settlements; in-process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings resulting from operations that have been classified as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

S&P Core Earnings
Standard & Poor’s Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company’s after-tax earnings generated from its principal businesses. Included in the Standard & Poor’s definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of receivable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

Qualitative Risk Assessment
The S&P equity analyst’s view of a given company’s operational risk, or the risk of a firm’s ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company’s operations, as opposed to risk and volatility measures associated with share prices.

Quantitative Evaluations
In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst’s qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

S&P Quality Ranking
Growth and stability of earnings and dividends are deemed key elements in establishing S&P’s Quality Rankings for common stocks, which are designed to capitalize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of such a sample has been aligned with the following ladder of rankings:

A+ Highest
A High
A- Average Above
B+ Average
B Below Average
B- Lower
C Lowest
NR Not Ranked

S&P Fair Value Rank
Using S&P’s exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 1, the most undervalued stocks, to Group 5, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

S&P Fair Value Calculation
The price at which a stock should trade, according to S&P’s proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company’s actual return on equity, the S&P Fair Value model places a value on a security’s expected returns and judgment, and the extent to which some types of data is disclosed by companies.

S&P Quality Ranking
Growth and stability of earnings and dividends are deemed key elements in establishing S&P’s Quality Rankings for common stocks, which are designed to capitalize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of such a sample has been aligned with the following ladder of rankings:

A+ Highest
A High
A- Average Above
B+ Average
B Below Average
B- Lower
C Lowest
NR Not Ranked

S&P Quality Ranking
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A+ Highest
A High
A- Average Above
B+ Average
B Below Average
B- Lower
C Lowest
NR Not Ranked

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Abbreviations Used in S&P Equity Research Reports
CAGR - Compound Annual Growth Rate; CAPEX - Capital Expenditures; CY - Calendar Year; DCF - Discounted Cash Flow; EDITA - Earnings Before Interest and Taxes; EDITA-EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization; EPS - Earnings Per Share; EV - Enterprise Value; FC - Free Cash Flow; FFO - Funds From Operations; FG - Fiscal Year; FG ratio - Earnings Per Share; P/E - Price-Earnings Ratio; P/E-to-Growth Ratio; P/F - Present Value; R&D - Research & Development; ROC - Return on Equity; ROI - Return on Investment; ROIC - Return on Invested Capital; ROA - Return on Assets; SG&A - Selling, General & Administrative Expenses; WACC - Weighted Average Cost of Capital

Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are not of taxes (paid in the country of origin).

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★★★★★ 5-STARS (Strong Buy): Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★ 4-STARS (Buy): Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★ 3-STARS (Hold): Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★ 2-STARS (Sell): Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★★★ ★★ 1-STARS (Strong Sell): Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In North America the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

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For model performance calculation purposes, the equities within each STARS category at December 31, 1986 were equally weighted. Thereafter, additions to the composition of the equities in each STARS category are made at the average value of the STARS category at the preceding month end with no rebalancing. Deletions are made at the closing price of the day that the deletion is made. Performance was calculated from inception through March 31, 2003 on a monthly basis. Thereafter, performance is calculated daily. Equities in each STARS category will change over time, and some or all of the equities that received STARS rankings during the time period shown may not have maintained their STARS ranking during the entire period.

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