

CUMMINS INC
Form 8-K
July 31, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: July 31, 2018

CUMMINS INC.
(Exact name of registrant as specified in its charter)
Indiana 1-4949 35-0257090
(State or other Jurisdiction of (Commission File Number) (I.R.S. Employer Identification No.)
Incorporation)

500 Jackson Street
P. O. Box 3005
Columbus, IN 47202-3005
(Principal Executive Office) (Zip Code)

Registrant's telephone number, including area code: (812) 377-5000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter)

Emerging growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition.

On July 31, 2018, Cummins Inc. (“Cummins,” “the Company,” “the registrant,” “we,” “our,” or “us”) issued the attached press release reporting its financial results for the second quarter of 2018, which is furnished herewith as Exhibit 99.

The information furnished pursuant to this Item 2.02, including Exhibit 99, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Exchange Act.

Item 9.01. Financial Statements and Exhibits.

(d) The following exhibit is furnished pursuant to Item 2.02 herewith:
99-Press Release dated July 31, 2018

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 31, 2018

CUMMINS INC.
/s/ CHRISTOPHER C. CLULOW
Christopher C. Clulow
Vice President - Corporate Controller
(Principal Accounting Officer)

CUMMINS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited) (a)

| In millions, except per share amounts | Three months ended | |
|---|--------------------|--------------|
| | July 1, 2018 | July 2, 2017 |
| NET SALES | \$6,132 | \$5,078 |
| Cost of sales | 4,692 | 3,827 |
| GROSS MARGIN | 1,440 | 1,251 |
| OPERATING EXPENSES AND INCOME | | |
| Selling, general and administrative expenses | 613 | 606 |
| Research, development and engineering expenses | 219 | 175 |
| Equity, royalty and interest income from investees | 110 | 98 |
| Other operating income (expense), net | 4 | 18 |
| OPERATING INCOME | 722 | 586 |
| Interest income | 10 | 5 |
| Interest expense | 28 | 21 |
| Other income, net | 11 | 29 |
| INCOME BEFORE INCOME TAXES | 715 | 599 |
| Income tax expense | 161 | 158 |
| CONSOLIDATED NET INCOME | 554 | 441 |
| Less: Net income attributable to noncontrolling interests | 9 | 17 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$545 | \$424 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | |
| Basic | \$3.33 | \$2.53 |
| Diluted | \$3.32 | \$2.53 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | | |
| Basic | 163.8 | 167.3 |
| Diluted | 164.3 | 167.8 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$1.08 | \$1.025 |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

CUMMINS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited) (a)

| In millions, except per share amounts | Six months ended | |
|---|------------------|--------------|
| | July 1, 2018 | July 2, 2017 |
| NET SALES | \$11,702 | \$9,667 |
| Cost of sales | 9,062 | 7,284 |
| GROSS MARGIN | 2,640 | 2,383 |
| OPERATING EXPENSES AND INCOME | | |
| Selling, general and administrative expenses | 1,190 | 1,153 |
| Research, development and engineering expenses | 429 | 333 |
| Equity, royalty and interest income from investees | 225 | 206 |
| Other operating income (expense), net | 6 | 23 |
| OPERATING INCOME | 1,252 | 1,126 |
| Interest income | 17 | 7 |
| Interest expense | 52 | 39 |
| Other income, net | 21 | 53 |
| INCOME BEFORE INCOME TAXES | 1,238 | 1,147 |
| Income tax expense | 359 | 301 |
| CONSOLIDATED NET INCOME | 879 | 846 |
| Less: Net income attributable to noncontrolling interests | 9 | 26 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$870 | \$820 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | |
| Basic | \$5.30 | \$4.90 |
| Diluted | \$5.27 | \$4.88 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | | |
| Basic | 164.3 | 167.4 |
| Diluted | 165.0 | 167.9 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$2.16 | \$2.05 |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

CUMMINS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited) (a)

| In millions, except par value | July 1, 2018 | December 31, 2017 |
|--|-----------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$1,318 | \$ 1,369 |
| Marketable securities | 214 | 198 |
| Total cash, cash equivalents and marketable securities | 1,532 | 1,567 |
| Accounts and notes receivable, net | 4,095 | 3,618 |
| Inventories | 3,559 | 3,166 |
| Prepaid expenses and other current assets | 649 | 577 |
| Total current assets | 9,835 | 8,928 |
| Long-term assets | | |
| Property, plant and equipment, net | 3,824 | 3,927 |
| Investments and advances related to equity method investees | 1,303 | 1,156 |
| Goodwill | 1,079 | 1,082 |
| Other intangible assets, net | 940 | 973 |
| Pension assets | 1,022 | 1,043 |
| Other assets | 912 | 966 |
| Total assets | \$18,915 | \$ 18,075 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable (principally trade) | \$2,981 | \$ 2,579 |
| Loans payable | 55 | 57 |
| Commercial paper | 802 | 298 |
| Accrued compensation, benefits and retirement costs | 468 | 811 |
| Current portion of accrued product warranty | 464 | 454 |
| Current portion of deferred revenue | 479 | 500 |
| Other accrued expenses | 806 | 915 |
| Current maturities of long-term debt | 49 | 63 |
| Total current liabilities | 6,104 | 5,677 |
| Long-term liabilities | | |
| Long-term debt | 1,556 | 1,588 |
| Postretirement benefits other than pensions | 289 | 289 |
| Pensions | 331 | 330 |
| Other liabilities and deferred revenue | 2,441 | 2,027 |
| Total liabilities | \$10,721 | \$ 9,911 |
| EQUITY | | |
| Cummins Inc. shareholders' equity | | |
| Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.4 shares issued | \$2,239 | \$ 2,210 |
| Retained earnings | 12,009 | 11,464 |
| Treasury stock, at cost, 59.1 and 56.7 shares | (5,276) | (4,905) |
| Common stock held by employee benefits trust, at cost, 0.5 and 0.5 shares | (6) | (7) |
| Accumulated other comprehensive loss | (1,667) | (1,503) |
| Total Cummins Inc. shareholders' equity | 7,299 | 7,259 |

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| | | |
|------------------------------|----------|-----------|
| Noncontrolling interests | 895 | 905 |
| Total equity | \$8,194 | \$ 8,164 |
| Total liabilities and equity | \$18,915 | \$ 18,075 |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

CUMMINS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (a)

| In millions | Six months ended | |
|---|------------------|--------------|
| | July 1, 2018 | July 2, 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Consolidated net income | \$879 | \$846 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities | | |
| Depreciation and amortization | 308 | 284 |
| Deferred income taxes | (21) | — |
| Equity in income of investees, net of dividends | (163) | (132) |
| Pension contributions under (in excess of) expense, net | 25 | (44) |
| Other post retirement benefits payments in excess of expense, net | — | (8) |
| Stock-based compensation expense | 28 | 23 |
| Loss contingency payments | (65) | — |
| Translation and hedging activities | (21) | 31 |
| Changes in current assets and liabilities | | |
| Accounts and notes receivable | (555) | (488) |
| Inventories | (475) | (264) |
| Other current assets | (42) | 21 |
| Accounts payable | 442 | 403 |
| Accrued expenses | 94 | 132 |
| Changes in other liabilities and deferred revenue | 5 | 103 |
| Other, net | 34 | (81) |
| Net cash provided by operating activities | 473 | 826 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (186) | (182) |
| Investments in internal use software | (35) | (40) |
| Investments in and advances to equity investees | (15) | (64) |
| Investments in marketable securities—acquisitions | (143) | (69) |
| Investments in marketable securities—liquidations | 116 | 162 |
| Cash flows from derivatives not designated as hedges | (9) | 19 |
| Other, net | 36 | 14 |
| Net cash used in investing activities | (236) | (160) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net borrowings (payments) of commercial paper | 504 | (78) |
| Payments on borrowings and capital lease obligations | (33) | (29) |
| Distributions to noncontrolling interests | (11) | (10) |
| Dividend payments on common stock | (355) | (343) |
| Repurchases of common stock | (379) | (120) |
| Other, net | 21 | 36 |
| Net cash used in financing activities | (253) | (544) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (35) | 51 |
| Net (decrease) increase in cash and cash equivalents | (51) | 173 |
| Cash and cash equivalents at beginning of year | 1,369 | 1,120 |

CASH AND CASH EQUIVALENTS AT END OF PERIOD

\$1,318 \$1,293

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

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CUMMINS INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)

| In millions | Engine | Distribution | Components | Power Systems | Electrified Power (1) | Total Segment | Intersegment Eliminations (2) | Total | |
|--|---------|--------------|------------|---------------|-----------------------|---------------|-------------------------------|---------|---|
| Three months ended July 1, 2018 | | | | | | | | | |
| External sales | \$2,050 | \$1,988 | \$1,402 | \$691 | \$1 | \$6,132 | \$— | \$6,132 | |
| Intersegment sales | 646 | 6 | 485 | 555 | — | 1,692 | (1,692) | — | |
| Total sales | 2,696 | 1,994 | 1,887 | 1,246 | 1 | 7,824 | (1,692) | 6,132 | |
| Research, development and engineering expenses | 76 | 5 | 62 | 60 | 16 | 219 | — | 219 | |
| Equity, royalty and interest income from investees | 67 | 11 | 14 | 18 | — | 110 | — | 110 | |
| Interest income | 3 | 3 | 2 | 2 | — | 10 | — | 10 | |
| Segment EBITDA | 362 | 145 | 237 | 186 | (21) | 909 | (12) | 897 | |
| Depreciation and amortization (3) | 47 | 27 | 47 | 32 | 1 | 154 | — | 154 | |
| EBITDA as a percentage of total sales | 13.4 | % 7.3 | % 12.6 | % 14.9 | % NM | 11.6 | % | 14.6 | % |
| Three months ended July 2, 2017 | | | | | | | | | |
| External sales | \$1,711 | \$1,716 | \$1,064 | \$587 | \$— | \$5,078 | \$— | \$5,078 | |
| Intersegment sales | 596 | 6 | 390 | 430 | — | 1,422 | (1,422) | — | |
| Total sales | 2,307 | 1,722 | 1,454 | 1,017 | — | 6,500 | (1,422) | 5,078 | |
| Research, development and engineering expenses | 63 | 4 | 58 | 50 | — | 175 | — | 175 | |
| Equity, royalty and interest income from investees | 56 | 13 | 15 | 14 | — | 98 | — | 98 | |
| Interest income | 2 | 1 | 1 | 1 | — | 5 | — | 5 | |
| Segment EBITDA | 323 | 127 | 228 | 90 | — | 768 | (4) | 764 | |
| Depreciation and amortization (3) | 46 | 31 | 38 | 29 | — | 144 | — | 144 | |
| EBITDA as a percentage of total sales | 14.0 | % 7.4 | % 15.7 | % 8.8 | % — | 11.8 | % | 15.0 | % |

"NM" - not meaningful information

We formed the Electrified Power Segment effective January 1, 2018. Our Electrified Power segment provides fully electric and hybrid powertrain solutions along with innovative components and subsystems to serve all our markets as they adopt electrification, meeting the needs of our original equipment manufacturer partners and end customers.

(1) Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses.
(2) There were no significant unallocated corporate expenses for the three months ended July 1, 2018 and July 2, 2017.

(3)

Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount and deferred costs included in the Condensed Consolidated Statements of Income as "Interest expense." A portion of depreciation expense is included in "Research, development and engineering expenses" above.

CUMMINS INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)

| In millions | Engine | Distribution | Components | Power Systems | Electrified Power (1) | Total Segment | Intersegment Eliminations (2) | Total | |
|--|---------|--------------|------------|------------------|-----------------------------|------------------|-------------------------------------|----------|---|
| Six months ended July 1, 2018 | | | | | | | | | |
| External sales | \$3,863 | \$3,835 | \$2,715 | \$1,286 | \$3 | \$11,702 | \$— | \$11,702 | |
| Intersegment sales | 1,279 | 12 | 925 | 1,034 | — | 3,250 | (3,250) | — | |
| Total sales | 5,142 | 3,847 | 3,640 | 2,320 | 3 | 14,952 | (3,250) | 11,702 | |
| Research, development and engineering expenses | 155 | 10 | 124 | 117 | 23 | 429 | — | 429 | |
| Equity, royalty and interest income from investees | 134 | 24 | 30 | 37 | — | 225 | — | 225 | |
| Interest income | 5 | 5 | 3 | 4 | — | 17 | — | 17 | |
| Segment EBITDA | 648 | 268 | 464 | 328 | (31) | 1,677 | (80) | 1,597 | |
| Depreciation and amortization (3) | 96 | 54 | 93 | 62 | 2 | 307 | — | 307 | |
| EBITDA as a percentage of total sales | 12.6 | % 7.0 | % 12.7 | % 14.1 | % NM | 11.2 | % | 13.6 | % |
| Six months ended July 2, 2017 | | | | | | | | | |
| External sales | \$3,168 | \$3,353 | \$2,044 | \$1,102 | \$— | \$9,667 | \$— | \$9,667 | |
| Intersegment sales | 1,162 | 14 | 754 | 797 | — | 2,727 | (2,727) | — | |
| Total sales | 4,330 | 3,367 | 2,798 | 1,899 | — | 12,394 | (2,727) | 9,667 | |
| Research, development and engineering expenses | 117 | 8 | 108 | 100 | — | 333 | — | 333 | |
| Equity, royalty and interest income from investees | 128 | 24 | 28 | 26 | — | 206 | — | 206 | |
| Interest income | 3 | 2 | 1 | 1 | — | 7 | — | 7 | |
| Segment EBITDA | 596 | 257 | 444 | 175 | — | 1,472 | (3) | 1,469 | |
| Depreciation and amortization (3) | 90 | 61 | 75 | 57 | — | 283 | — | 283 | |
| EBITDA as a percentage of total sales | 13.8 | % 7.6 | % 15.9 | % 9.2 | % — | 11.9 | % | 15.2 | % |

"NM" - not meaningful information

We formed the Electrified Power Segment effective January 1, 2018. Our Electrified Power segment provides fully electric and hybrid powertrain solutions along with innovative components and subsystems to serve all our markets as they adopt electrification, meeting the needs of our original equipment manufacturer partners and end customers.

(1) Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the six months ended July 1, 2018 and July 2, 2017.

(3)

Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount and deferred costs included in the Condensed Consolidated Statements of Income as "Interest expense." The amortization of debt discount and deferred costs was \$1 million for both six month periods ended July 1, 2018 and July 2, 2017. A portion of depreciation expense is included in "Research, development and engineering expenses" above.

CUMMINS INC. AND SUBSIDIARIES
 RECONCILIATION OF SEGMENT INFORMATION
 (Unaudited)

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

| In millions | Three months ended | | Six months ended | |
|-------------------------------|--------------------|-----------------|------------------|-----------------|
| | July 1, 2018 | July 2, 2017 | July 1, 2018 | July 2, 2017 |
| Total EBITDA | \$ 897 | \$ 764 | \$1,597 | \$1,469 |
| Less: | | | | |
| Depreciation and amortization | 154 | 144 | 307 | 283 |
| Interest expense | 28 | 21 | 52 | 39 |
| Income before income taxes | \$ 715 | \$ 599 | \$1,238 | \$1,147 |

CUMMINS INC. AND SUBSIDIARIES
SELECT FOOTNOTE DATA
(Unaudited)

EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEEES

Equity, royalty and interest income from investees included in our Condensed Consolidated Statements of Income for the reporting periods was as follows:

| In millions | Three months ended | | Six months ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | July 1, 2018 | July 2, 2017 | July 1, 2018 | July 2, 2017 |
| Manufacturing entities | | | | |
| Beijing Foton Cummins Engine Co., Ltd. | \$ 24 | \$ 22 | \$45 | \$ 55 |
| Dongfeng Cummins Engine Company, Ltd. | 17 | 19 | 34 | 41 |
| Chongqing Cummins Engine Company, Ltd. | 15 | 10 | 32 | 19 |
| Cummins Westport, Inc. | 6 | 4 | 12 | 5 |
| Dongfeng Cummins Emission Solutions Co., Ltd. | 4 | 4 | 9 | 7 |
| All other manufacturers | 24 | 19 | 49 | 39 |
| Distribution entities | | | | |
| Komatsu Cummins Chile, Ltda. | 6 | 8 | 13 | 15 |
| Cummins share of net income | 96 | 86 | 194 | 181 |
| Royalty and interest income | 14 | 12 | 31 | 25 |
| Equity, royalty and interest income from investees | \$ 110 | \$ 98 | \$225 | \$ 206 |

PENSIONS AND OTHER POSTRETIREMENT BENEFITS

On January 1, 2018, we retroactively adopted the new accounting standard related to the presentation of pension and other postretirement benefit costs, which resulted in the adjustment of prior period balances in the Condensed Consolidated Statements of Income by the following amounts:

| In millions | Favorable / (Unfavorable) | | | | | |
|---|---------------------------|------|-----|------|-------|-------|
| | 2017 | | | | 2016 | |
| | Q1 | Q2 | Q3 | Q4 | Total | Total |
| Cost of sales | \$4 | \$2 | \$2 | \$2 | \$10 | \$ 6 |
| Selling, general and administrative expenses | (10) | (10) | (9) | (10) | (39) | (53) |
| Research, development and engineering expenses ⁽¹⁾ | — | (1) | — | (1) | (2) | (1) |
| Total change in operating income | (6) | (9) | (7) | (9) | (31) | (48) |
| Other non operating income, net | 6 | 9 | 7 | 9 | 31 | 48 |
| Total change in income before income taxes | \$— | \$— | \$— | \$— | \$— | \$— |

ENGINE SYSTEM CAMPAIGN ACCRUAL

During 2017, the California Air Resources Board (CARB) and the U.S. Environmental Protection Agency (EPA) selected certain of our pre-2013 model year engine systems for additional emissions testing. Some of these engine systems failed CARB and EPA tests as a result of degradation of an aftertreatment component. We recorded charges of \$36 million to cost of sales in our Consolidated Statements of Income during 2017 for the then expected cost of field campaigns to repair some of these engine systems. We concluded based upon additional emission testing

performed, and further discussions with the EPA and CARB in the first quarter of 2018, that the field campaigns should be expanded to include a larger population of our engine systems that are subject to the aftertreatment component degradation, including our model years 2010 through 2015. As a result, we recorded an additional charge of \$187 million, or \$0.87 per share, to cost of sales in our Condensed Consolidated Statements of Income (\$94 million recorded in the Components segment and \$93 million in the Engine segment) in the first quarter of 2018.

In the second quarter of 2018, we reached agreement with the CARB and EPA regarding our plans to address the affected populations. In finalizing our plans, we have increased the number of systems to be addressed through hardware replacement

CUMMINS INC. AND SUBSIDIARIES
SELECT FOOTNOTE DATA
(Unaudited)

compared to our assumptions last quarter. As a result of this agreement and considering that the hardware replacement solution is a higher cost approach than that previously assumed on some of the engine systems, we recorded an additional charge of \$181 million, or \$0.85 per share, to cost of sales in our Condensed Consolidated Statements of Income (\$91 million recorded in the Engine segment and \$90 million in the Components segment) in the second quarter of 2018. With the additional charge in the second quarter of 2018, the total accrual related to this matter is \$404 million, which represents our best estimate of the cost to execute the campaigns. The campaigns will launch in phases across the affected population and are expected to begin in the third quarter of 2018 with a projection to be substantially completed by December 31, 2020.

CUMMINS INC. AND SUBSIDIARIES
 FINANCIAL MEASURES THAT SUPPLEMENT GAAP
 (Unaudited)

Reconciliation of Non GAAP measures - Earnings before interest, income taxes, noncontrolling interests, depreciation and amortization (EBITDA)

Effective January 1, 2018, we use EBITDA as a primary basis for the Chief Operating Decision Maker to evaluate the performance of each of our operating segments and our consolidated results. It is also a component in measuring our variable compensation programs. We believe EBITDA is a useful measure for our operating performance as it assists investors and debt holders in comparing our performance on a consistent basis without regard for financing methods, capital structure, income taxes or depreciation and amortization methods, which can vary significantly depending upon many factors. Our 2017 and 2016 EBITDA measures, as restated, were as follows:

| In millions | Engine | Distribution | Components | Power Systems | Total Segment | Intersegment Eliminations | Total |
|-------------|---------|--------------|------------|------------------|------------------|------------------------------|---------|
| 2017 | | | | | | | |
| Q1 | \$273 | \$ 130 | \$ 216 | \$ 85 | \$ 704 | \$ 1 | \$705 |
| Q2 | 323 | 127 | 228 | 90 | 768 | (4) | 764 |
| Q3 | 276 | 120 | 259 | 111 | 766 | 22 | 788 |
| Q4 | 271 | 123 | 214 | 125 | 733 | 36 | 769 |
| 2017 Total | \$1,143 | \$ 500 | \$ 917 | \$ 411 | \$ 2,971 | \$ 55 | \$3,026 |
| 2016 Total | \$849 | \$ 508 | \$ 774 | \$ 378 | \$ 2,509 | \$ 17 | \$2,526 |

EBITDA is not in accordance with, or an alternative for, accounting principles generally accepted in the United States (GAAP) and may not be consistent with measures used by other companies. It should be considered supplemental data; however, the amounts included in the EBITDA calculation are derived from amounts included in the Condensed Consolidated Statements of Income. Below is a reconciliation of "Net income attributable to Cummins Inc." to EBITDA for each of the applicable periods:

| In millions | Three months ended | | Six months ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | July 1, 2018 | July 2, 2017 | July 1, 2018 | July 2, 2017 |
| Net income attributable to Cummins Inc. | \$545 | \$424 | \$870 | \$820 |
| Net income attributable to Cummins Inc. as a percentage of net sales | 8.9 % | 8.3 % | 7.4 % | 8.5 % |
| Add: | | | | |
| Net income attributable to noncontrolling interests | 9 | 17 | 9 | 26 |
| Consolidated net income | 554 | 441 | 879 | 846 |
| Add: | | | | |
| Interest expense | 28 | 21 | 52 | 39 |
| Income tax expense | 161 | 158 | 359 | 301 |
| Depreciation and amortization | 154 | 144 | 307 | 283 |
| EBITDA | \$897 | \$764 | \$1,597 | \$1,469 |

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| | | | | | | | | |
|---|---------|---|-------|---|---------|---|---------|---|
| EBITDA as a percentage of net sales | 14.6 | % | 15.0 | % | 13.6 | % | 15.2 | % |
| Add: Engine system campaign charge | 181 | | — | | 368 | | — | |
| EBITDA, excluding engine system campaign charge | \$1,078 | | \$764 | | \$1,965 | | \$1,469 | |
| EBITDA, excluding engine system campaign charge, as a percentage of net sales | 17.6 | % | 15.0 | % | 16.8 | % | 15.2 | % |

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CUMMINS INC. AND SUBSIDIARIES
 FINANCIAL MEASURES THAT SUPPLEMENT GAAP
 (Unaudited)

Net income and diluted earnings per share (EPS) attributable to Cummins Inc. excluding discrete tax items

We believe these are useful measures of our operating performance for the periods presented as they illustrate our operating performance without regard to special items including tax adjustments. These measures are not in accordance with, or an alternative for GAAP and may not be consistent with measures used by other companies. This should be considered supplemental data. The following table reconciles net income attributable to Cummins Inc. to net income attributable to Cummins Inc. excluding discrete tax items for the following periods:

| Three months ended | | | |
|---|---------|--------------|---------|
| July 1, 2018 | | July 2, 2017 | |
| In Net | Diluted | Net | Diluted |
| millions | EPS | Income | EPS |
| Net income attributable to Cummins Inc. Add: Discrete tax items | | | |
| \$545 | \$3.32 | \$424 | \$2.53 |
| Net income attributable to Cummins Inc. Add: Discrete tax items | | | |
| \$541 | \$3.29 | \$424 | \$2.53 |

| Six months ended | | | |
|---|---------|--------------|---------|
| July 1, 2018 | | July 2, 2017 | |
| In Net | Diluted | Net | Diluted |
| millions | EPS | Income | EPS |
| Net income attributable to Cummins Inc. Add: Discrete tax items | | | |
| \$870 | \$5.27 | \$820 | \$4.88 |
| Net income attributable to Cummins Inc. Add: Discrete tax items | | | |
| \$74 | 0.45 | — | — |

Net
income
attributable
to
Cummins
Inc. \$944 \$ 5.72 \$ 820 \$ 4.88
excluding
discrete
tax
items

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CUMMINS INC. AND SUBSIDIARIES
 BUSINESS UNIT SALES DATA
 (Unaudited)

Engine Segment Sales by Market and Unit Shipments by Engine Classification

Sales for our Engine segment by market were as follows:

2018

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|---------------------------|---------|---------|-----|-----|---------|
| Heavy-duty truck | \$815 | \$920 | \$— | \$— | \$1,735 |
| Medium-duty truck and bus | 692 | 777 | — | — | 1,469 |
| Light-duty automotive | 402 | 444 | — | — | 846 |
| Off-highway | 537 | 555 | — | — | 1,092 |
| Total sales | \$2,446 | \$2,696 | \$— | \$— | \$5,142 |

2017

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|---------------------------|---------|---------|---------|---------|---------|
| Heavy-duty truck | \$620 | \$714 | \$776 | \$730 | \$2,840 |
| Medium-duty truck and bus | 544 | 701 | 625 | 643 | 2,513 |
| Light-duty automotive | 423 | 429 | 452 | 423 | 1,727 |
| Off-highway | 436 | 463 | 483 | 491 | 1,873 |
| Total sales | \$2,023 | \$2,307 | \$2,336 | \$2,287 | \$8,953 |

Unit shipments by engine classification (including unit shipments to Power Systems and off-highway engine units included in their respective classification) were as follows:

2018

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|-------------|---------|---------|----|----|---------|
| Heavy-duty | 26,600 | 32,000 | — | — | 58,600 |
| Medium-duty | 74,000 | 83,500 | — | — | 157,500 |
| Light-duty | 61,900 | 68,500 | — | — | 130,400 |
| Total units | 162,500 | 184,000 | — | — | 346,500 |

2017

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|-------------|---------|---------|---------|---------|---------|
| Heavy-duty | 19,200 | 24,100 | 28,100 | 24,500 | 95,900 |
| Medium-duty | 60,300 | 71,600 | 68,500 | 67,700 | 268,100 |
| Light-duty | 63,100 | 65,600 | 66,300 | 62,500 | 257,500 |
| Total units | 142,600 | 161,300 | 162,900 | 154,700 | 621,500 |

CUMMINS INC. AND SUBSIDIARIES
 BUSINESS UNIT SALES DATA
 (Unaudited)

Distribution Segment Sales by Product Line

Sales for our Distribution segment by product line were as follows:

2018

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------|---------|---------|-----|-----|---------|
| Parts | \$808 | \$817 | \$— | \$— | \$1,625 |
| Engines | 367 | 461 | — | — | 828 |
| Service | 352 | 370 | — | — | 722 |
| Power generation | 326 | 346 | — | — | 672 |
| Total sales | \$1,853 | \$1,994 | \$— | \$— | \$3,847 |

2017

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------|---------|---------|---------|---------|---------|
| Parts | \$745 | \$759 | \$768 | \$768 | \$3,040 |
| Engines | 275 | 314 | 342 | 438 | 1,369 |
| Service | 319 | 320 | 326 | 347 | 1,312 |
| Power generation | 306 | 329 | 317 | 385 | 1,337 |
| Total sales | \$1,645 | \$1,722 | \$1,753 | \$1,938 | \$7,058 |

Component Segment Sales by Business

Sales for our Components segment by product line were as follows:

2018

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------------|---------|---------|-----|-----|---------|
| Emission solutions | \$775 | \$841 | \$— | \$— | \$1,616 |
| Turbo technologies | 340 | 355 | — | — | 695 |
| Filtration | 320 | 324 | — | — | 644 |
| Electronics and fuel systems | 201 | 226 | — | — | 427 |
| Automated transmissions | 117 | 141 | — | — | 258 |
| Total sales | \$1,753 | \$1,887 | \$— | \$— | \$3,640 |

2017

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------------|---------|---------|---------|---------|---------|
| Emission solutions | \$616 | \$674 | \$696 | \$689 | \$2,675 |
| Turbo technologies | 287 | 307 | 297 | 288 | 1,179 |
| Filtration | 277 | 291 | 287 | 298 | 1,153 |
| Electronics and fuel systems | 164 | 182 | 184 | 188 | 718 |
| Automated transmissions | — | — | 69 | 95 | 164 |
| Total sales | \$1,344 | \$1,454 | \$1,533 | \$1,558 | \$5,889 |

CUMMINS INC. AND SUBSIDIARIES
 BUSINESS UNIT SALES DATA
 (Unaudited)

Power Systems Segment Sales by Product Line

Sales for our Power Systems segment by product line were as follows:

2018

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------|---------|---------|-----|-----|---------|
| Power generation | \$571 | \$666 | \$— | \$— | \$1,237 |
| Industrial | 414 | 483 | — | — | 897 |
| Generator technologies | 89 | 97 | — | — | 186 |
| Total sales | \$1,074 | \$1,246 | \$— | \$— | \$2,320 |

2017

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------|-------|---------|---------|---------|---------|
| Power generation | \$526 | \$570 | \$580 | \$629 | \$2,305 |
| Industrial | 275 | 353 | 385 | 386 | 1,399 |
| Generator technologies | 81 | 94 | 91 | 88 | 354 |
| Total sales | \$882 | \$1,017 | \$1,056 | \$1,103 | \$4,058 |