

July 31, 2018



Cummins Announces Second Quarter Results; Updates Outlook for 2018

- **Second quarter revenues of \$6.1 billion**
- **GAAP¹ Net Income of \$545 million and Diluted EPS of \$3.32**
- **EBITDA of \$0.9 billion or 14.6 percent of sales**
- **Full year revenues expected to increase 15 to 17 percent**
- **EBITDA is expected to be in the range of 14.8 to 15.2 percent of sales**
- **The Company finalized its plans for a previously disclosed product campaign, resulting in a charge of \$181 million or \$0.85 per diluted share in the second quarter**

COLUMBUS, Ind.--(BUSINESS WIRE)-- Cummins Inc. (NYSE: CMI) today reported results for the second quarter of 2018.

Second quarter revenues of \$6.1 billion increased 21 percent from the same quarter in 2017 and reached a new quarterly record. The Company delivered growth in most major markets as demand for trucks, construction, mining and power generation equipment all improved. Currency favorably impacted revenues by 1 percent.

Sales in North America improved by 22 percent while international revenues increased by 18 percent led by growth in China, Europe and Latin America.

“As a result of strong customer demand for our products, solid execution from our global manufacturing and supply chain teams and continued focus on cost reduction, the Company delivered record quarterly sales and earnings per share in the second quarter,” said Chairman and CEO Tom Linebarger. “We are on track to deliver record full year sales, earnings and cash flow. The Company now plans to return 75 percent of Operating Cash Flow to shareholders in the form of dividends and share repurchases in 2018, up from our previous plan to return 50 percent.”

During the second quarter, the Company finalized its plans for a previously disclosed product campaign and recorded a pre-tax charge of \$181 million for the expected costs of the campaign. This campaign will address the performance of an aftertreatment component

in certain on-highway products produced between 2010 and 2015 in North America. The Company has reached agreement with the appropriate regulatory agencies regarding our planned actions to execute the campaign and has provided in full for the estimated costs.

Earnings before interest, taxes, depreciation and amortization (EBITDA) in the second quarter were \$897 million, or 14.6 percent of sales, up from \$764 million or 15.0 percent of sales a year ago.

Net income attributable to Cummins in the second quarter was \$545 million (\$3.32 per diluted share), compared to net income of \$424 million (\$2.53 per diluted share) in the second quarter of 2017.

Based on the current forecast, Cummins expects full year 2018 revenues to be up 15 to 17 percent, compared to prior guidance of up 10 to 14 percent. EBITDA is projected to be in the range of 14.8 to 15.2 percent of sales, down from 15.4 to 15.8 percent of sales and reflects approximately \$100 million of expense associated with trade tariffs and increased commodity costs in the second half of the year.

Recent Highlights:

- Cummins announced that it is acquiring Silicon Valley-based Efficient Drivetrains, Inc. (EDI), which designs and produces hybrid and fully- electric power solutions for commercial vehicle markets.
- DiversityInc named Cummins one of the Top 50 Companies for Diversity for a 12th consecutive year. Cummins ranked No. 12 on the 2018 annual list, which included more than 1,000 participating companies.
- Cummins and Anhui Jianghuai Automobile Co. Ltd. (JAC Motors) announced that the two parties will form a 50:50 joint-venture after Cummins purchases Navistar's 50 percent equity of the JAC-Navistar Diesel Engine Company (JND).
- The Company returned \$393 million to shareholders in the form of dividends and share repurchases in the second quarter, and recently raised its quarterly dividend by 5.6 percent.

¹ Generally Accepted Accounting Principles

Second quarter 2018 detail (all comparisons to same period in 2017)

Engine Segment

- Sales - \$2.7 billion, up 17 percent.
- Segment EBITDA - \$362 million, or 13.4 percent of sales, compared to \$323 million or 14.0 percent of sales
- Segment EBITDA reflects a charge of \$91 million related to the expected costs of a previously disclosed product campaign
- Revenues increased by 12 percent in North America and 32 percent in international markets.

Distribution Segment

- Sales - \$2.0 billion, up 16 percent
- Segment EBITDA - \$145 million, or 7.3 percent of sales, compared to \$127 million or 7.4 percent of sales
- Revenues in North America increased by 22 percent and international sales grew by 8 percent

Components Segment

- Sales - \$1.9 billion, up 30 percent
- Segment EBITDA - \$237 million, or 12.6 percent of sales, compared to \$228 million or 15.7 percent of sales
- Segment EBITDA reflects a charge of \$90 million related to the expected costs of a previously disclosed campaign to address the performance of an aftertreatment component
- The Eaton Cummins Automated Transmission joint venture recorded sales of \$141 million and an EBITDA loss of \$4 million in the second quarter
- Revenues in North America increased by 36 percent, and international sales grew by 22 percent

Power Systems Segment

- Sales - \$1.2 billion, up 23 percent
- Segment EBITDA - \$186 million, or 14.9 percent of sales, compared to \$90 million, or 8.8 percent of sales
- Revenues in North America increased by 30 percent and international sales grew 18 percent
- Increased demand in power generation, mining and oil and gas markets drove the growth in sales

Electrified Power Segment

- Sales - \$1 million
- Segment EBITDA loss - \$21 million

About Cummins

Cummins Inc., a global power leader, is a corporation of complementary business units that design, manufacture, distribute and service a broad portfolio of power solutions. The company's products range from diesel and natural gas engines to hybrid and electric platforms, as well as related technologies, including battery systems, fuel systems, controls, air handling, filtration, emission solutions and electrical power generation systems. Headquartered in Columbus, Indiana, (USA) Cummins currently employs approximately 58,600 people committed to powering a more prosperous world. Cummins serves customers

in approximately 190 countries and territories through a network of approximately 500 company-owned and independent distributor locations and approximately 7,500 dealer locations. Cummins earned about \$1 billion on sales of \$20.4 billion in 2017. Press releases can be found on the Web at www.cummins.com. Follow Cummins on Twitter at www.twitter.com/cummins and on YouTube at www.youtube.com/cumminsinc.

Forward-looking disclosure statement

Information provided in this release that is not purely historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our forecasts, guidance, preliminary results, expectations, hopes, beliefs and intentions on strategies regarding the future. These forward looking statements include, without limitation, statements relating to our plans and expectations for our revenues and EBITDA percentage for the full year of 2018. Our actual future results could differ materially from those projected in such forward-looking statements because of a number of factors, including, but not limited to: (i) a sustained slowdown or significant downturn in our markets; (ii) our truck manufacturing and OEM customers discontinuing outsourcing their engine needs; (iii) the development of new technologies; (iv) the discovery of any significant additional problems with our engine platforms or aftertreatment systems in North America; (v) performance or safety-related recalls; (vi) lower than anticipated market acceptance of our new or existing products or services; (vii) a slowdown in infrastructure development and/or depressed commodity prices; (viii) unpredictability in the adoption, implementation and enforcement of increasingly stringent emissions standards around the world; (ix) our reliance on significant earnings from investees that we do not directly control; (x) the adoption and impact of new tax legislation; (xi) potential security breaches or other disruptions to our information technology systems and data security; (xii) financial distress or a change-in-control of one of our large truck OEM customers; (xiii) our pursuit of strategic acquisitions and divestitures; and (xiv) other risks detailed from time to time in our Securities and Exchange Commission filings, particularly in the Risk Factors section of our 2017 Annual Report on Form 10-K. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are made only as of the date of this press release and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. More detailed information about factors that may affect our performance may be found in our filings with the Securities and Exchange Commission, which are available at <http://www.sec.gov> or at <http://www.cummins.com> in the Investor Relations section of our website.

Presentation of Non-GAAP Financial Information

EBITDA is a non-GAAP measure used in this release, and is defined and reconciled to what management believes to be the most comparable GAAP measure in a schedule attached to this release. Cummins presents this information as it believes it is useful to understanding the Company's operating performance, and because EBITDA is a measure used internally to assess the performance of the operating units.

Webcast information

Cummins management will host a teleconference to discuss these results today at 10 a.m.

EST. This teleconference will be webcast and available on the Investor Relations section of the Cummins website at www.cummins.com. Participants wishing to view the visuals available with the audio are encouraged to sign-in a few minutes prior to the start of the teleconference.

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
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(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	<u>\$ 10,721</u>	<u>\$ 9,911</u>

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	<u>7,299</u>	<u>7,259</u>
Noncontrolling interests	895	905
Total equity	<u>\$ 8,194</u>	<u>\$ 8,164</u>
Total liabilities and equity	<u>\$ 18,915</u>	<u>\$ 18,075</u>

(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	<u>473</u>	<u>826</u>
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	<u>(236)</u>	<u>(160)</u>

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.

CUMMINS INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)

						Intersegment		
In millions	Engine	Distribution	Components	Power Systems	Electrified Power ⁽¹⁾	Total Segment	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

(1) 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.

(2) Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. 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)

						Intersegment		
In millions	Engine	Distribution	Components	Power Systems	Electrified Power ⁽¹⁾	Total Segment	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%
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"NM" - not meaningful information

- (1) 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.
- (2) 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	<u>\$ 715</u>	<u>\$ 599</u>	<u>\$ 1,238</u>	<u>\$ 1,147</u>

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	<u>96</u>	<u>86</u>	<u>194</u>	<u>181</u>

Royalty and interest income	14	12	31	25
Equity, royalty and interest income from investees	<u><u>\$ 110</u></u>	<u><u>\$ 98</u></u>	<u><u>\$ 225</u></u>	<u><u>\$ 206</u></u>

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	<u>(6)</u>	<u>(9)</u>	<u>(7)</u>	<u>(9)</u>	<u>(31)</u>	<u>(48)</u>
Other non operating income, net	6	9	7	9	31	48
Total change in income before income taxes	<u><u>\$—</u></u>	<u><u>\$—</u></u>	<u><u>\$—</u></u>	<u><u>\$—</u></u>	<u><u>\$—</u></u>	<u><u>\$—</u></u>

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 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	<u>\$1,143</u>	<u>\$ 500</u>	<u>\$ 917</u>	<u>\$ 411</u>	<u>\$ 2,971</u>	<u>\$ 55</u>	<u>\$3,026</u>
2016 Total	<u>\$ 849</u>	<u>\$ 508</u>	<u>\$ 774</u>	<u>\$ 378</u>	<u>\$ 2,509</u>	<u>\$ 17</u>	<u>\$2,526</u>

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
<i>Net income attributable to Cummins Inc. as a percentage of net sales</i>	8.9%	8.3%	7.4%	8.5%
Add:				
Net income attributable to noncontrolling interests	9	17	9	26
Consolidated net income	<u>554</u>	<u>441</u>	<u>879</u>	<u>846</u>
Add:				
Interest expense	28	21	52	39
Income tax expense	161	158	359	301
Depreciation and amortization	154	144	307	283
EBITDA	<u>\$ 897</u>	<u>\$ 764</u>	<u>\$1,597</u>	<u>\$1,469</u>

<i>EBITDA as a percentage of net sales</i>	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
<i>EBITDA, excluding engine system campaign charge, as a percentage of net sales</i>	17.6%	15.0%	16.8%	15.2%

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:

In millions	Three months ended			
	July 1, 2018		July 2, 2017	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income attributable to Cummins Inc.	\$ 545	\$ 3.32	\$ 424	\$ 2.53
Add:				
Discrete tax items	(4)	(0.03)	—	—
Net income attributable to Cummins Inc. excluding discrete tax items	\$ 541	\$ 3.29	\$ 424	\$ 2.53

In millions	Six months ended			
	July 1, 2018		July 2, 2017	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income attributable to Cummins Inc.	\$ 870	\$ 5.27	\$ 820	\$ 4.88
Add:				
Discrete tax items	74	0.45	—	—
Net income attributable to Cummins Inc. excluding discrete tax items	\$ 944	\$ 5.72	\$ 820	\$ 4.88

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
	692	777	—	—	1,469
Medium-duty truck and bus					
Light-duty automotive	402	444	—	—	846
Off-highway	537	555	—	—	1,092

Total sales	\$2,446	\$2,696	\$ —	\$ —	\$5,142
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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	<u>\$2,023</u>	<u>\$2,307</u>	<u>\$2,336</u>	<u>\$2,287</u>	<u>\$8,953</u>

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	<u>162,500</u>	<u>184,000</u>	<u>—</u>	<u>—</u>	<u>346,500</u>

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	<u>142,600</u>	<u>161,300</u>	<u>162,900</u>	<u>154,700</u>	<u>621,500</u>

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	<u>\$1,853</u>	<u>\$1,994</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$3,847</u>

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	<u>\$1,645</u>	<u>\$1,722</u>	<u>\$1,753</u>	<u>\$1,938</u>	<u>\$7,058</u>

Component Segment Sales by Business

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

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	<u>\$1,753</u>	<u>\$1,887</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$3,640</u>

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	<u>\$1,344</u>	<u>\$1,454</u>	<u>\$1,533</u>	<u>\$1,558</u>	<u>\$5,889</u>

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	<u>\$1,074</u>	<u>\$1,246</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$2,320</u>

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	<u>\$ 882</u>	<u>\$1,017</u>	<u>\$1,056</u>	<u>\$1,103</u>	<u>\$4,058</u>

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