

October 30, 2018



Cummins Announces Third Quarter Results; Maintains Outlook for 2018

- Third quarter revenues of \$5.9 billion
- GAAP¹ Net Income of \$692 million and Diluted EPS of \$4.28
- Record EBITDA of \$983 million or 16.5 percent of sales
- Full year revenues expected to increase 15 to 17 percent
- Full year EBITDA is expected to be 14.8 to 15.2 percent of sales

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

Third quarter revenues of \$5.9 billion increased 12 percent from the same quarter in 2017. The Company delivered growth in most major markets as demand for trucks, construction, and power generation equipment all improved. Currency negatively impacted revenues by 1 percent, primarily due to a weaker Brazilian Real.

Sales in North America improved by 17 percent while international revenues increased by 6 percent led by growth in India, China, Latin America, and Europe.

"We delivered record earnings this quarter due to increased demand in a number of key markets, growth in our market share and the benefits of cost reduction initiatives," said Chairman and CEO Tom Linebarger. "We have completed our previously announced \$500 million accelerated share repurchase plan and our Board of Directors recently authorized a new \$2 billion share repurchase plan, which reflects our confidence in our long-term performance. Year to date, we have returned \$1.4 billion to shareholders in the form of dividends and share repurchase, consistent with our plan to return 75 percent of Operating Cash Flow in 2018."

Earnings before interest, taxes, depreciation and amortization (EBITDA) in the third quarter were \$983 million, or 16.5 percent of sales, up from \$788 million or 14.9 percent of sales a year ago.

Net income attributable to Cummins in the third quarter was \$692 million (\$4.28 per diluted share), compared to net income of \$453 million (\$2.71 per diluted share). Third quarter

results were positively impacted by \$37 million in discrete tax items, of which \$34 million was related to U.S. tax reform. Excluding these items, net income attributable to Cummins in the third quarter was \$655 million (\$4.05 per diluted share). The company now expects its 2018 effective tax rate to be 21 percent, excluding discrete items, compared to the prior guidance of 23 percent.

Based on the current forecast, Cummins expects full year 2018 revenues to be up 15 to 17 percent and EBITDA of 14.8 to 15.2 percent of sales, unchanged from prior guidance.

Recent Highlights:

- Cummins was named to the Dow Jones Sustainability North American Index for a 13th consecutive year. The index is considered one of the most prestigious sustainability rankings.
- The Cummins PowerDrive, an advanced suite of plug-in hybrid electric powertrain solutions spanning light, medium and heavy-duty applications, was unveiled at the 2018 IAA Commercial Vehicle Show.
- The Company returned \$682 million to shareholders in the form of dividends and share repurchases in the third quarter, including the recently completed the \$500 million accelerated share repurchase announced in August.

¹ Generally Accepted Accounting Principles

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

Engine Segment

- Sales - \$2.7 billion, up 17 percent
- Segment EBITDA - \$405 million, or 14.9 percent of sales, compared to \$276 million or 11.8 percent of sales
- Revenues increased by 18 percent in North America and 14 percent in international markets
- On-highway revenues increased 17 percent primarily due to increased truck production in North America

Distribution Segment

- Sales - \$1.9 billion, up 10 percent
- Segment EBITDA - \$155 million, or 8.0 percent of sales, compared to \$120 million or 6.8 percent of sales
- Revenues in North America increased by 12 percent and international sales grew by 6 percent
- Strong demand for power generation equipment, oil and gas engines, and growth in parts and service drove the increase

Components Segment

- Sales - \$1.8 billion, up 14 percent
- Segment EBITDA - \$288 million, or 16.4 percent of sales, compared to \$259 million or 16.9 percent of sales
- The Eaton Cummins Automated Transmission joint venture recorded sales of \$150 million and was breakeven on an EBITDA basis
- Revenues in North America increased by 25 percent, and international sales grew by 2 percent

Power Systems Segment

- Sales - \$1.1 billion, up 5 percent
- Segment EBITDA - \$163 million, or 14.7 percent of sales, compared to \$111 million, or 10.5 percent of sales
- Revenues in North America increased by 7 percent and international sales grew 3 percent
- Increased demand in power generation and oil and gas markets was partially offset by lower demand in commercial marine markets

Electrified Power Segment

- Sales - \$2 million
- Segment EBITDA loss - \$30 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 employed 58,600 people committed to powering a more prosperous world as of December 31, 2017. Cummins serves customers in approximately 190 countries and territories through a network of approximately 500 company-owned and independent distributor locations and over 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: the adoption and implementation of global emission standards; the price and availability of energy; the pace of infrastructure development; increasing global competition among our customers; general economic, business and financing conditions; governmental action; changes in our customers' business strategies; competitor pricing activity; expense volatility; labor relations; and (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, including 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.

We believe net income and diluted earnings per share attributable to Cummins Inc. excluding discrete tax items is a useful measure of our operating performance without regard to discrete 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.

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	
	September 30, 2018	October 1, 2017
NET SALES	\$ 5,943	\$ 5,285
Cost of sales	<u>4,392</u>	<u>3,944</u>
GROSS MARGIN	1,551	1,341
OPERATING EXPENSES AND INCOME		
Selling, general and administrative expenses	604	633
Research, development and engineering expenses	229	213
Equity, royalty and interest income from investees	90	95
Other operating income (expense), net	<u>(5)</u>	<u>32</u>
OPERATING INCOME	803	622
Interest income	9	4
Interest expense	30	18
Other income, net	<u>23</u>	<u>14</u>
INCOME BEFORE INCOME TAXES	805	622
Income tax expense	<u>107</u>	<u>165</u>
CONSOLIDATED NET INCOME	698	457
Less: Net income attributable to noncontrolling interests	<u>6</u>	<u>4</u>
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 692	\$ 453

EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.

Basic	\$ 4.29	\$ 2.72
Diluted	\$ 4.28	\$ 2.71

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING

Basic	161.3	166.3
Diluted	161.8	167.0

CASH DIVIDENDS DECLARED PER COMMON SHARE	\$ 1.14	\$ 1.08
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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 STATEMENTS OF INCOME
(Unaudited) (a)

In millions, except per share amounts	Nine months ended	
	September 30, 2018	October 1, 2017
NET SALES	\$ 17,645	\$ 14,952
Cost of sales	<u>13,454</u>	<u>11,228</u>
GROSS MARGIN	4,191	3,724
OPERATING EXPENSES AND INCOME		
Selling, general and administrative expenses	1,794	1,786
Research, development and engineering expenses	658	546
Equity, royalty and interest income from investees	315	301
Other operating income (expense), net	<u>1</u>	<u>55</u>
OPERATING INCOME	2,055	1,748
Interest income	26	11
Interest expense	82	57
Other income, net	<u>44</u>	<u>67</u>
INCOME BEFORE INCOME TAXES	2,043	1,769

Income tax expense	466	466
CONSOLIDATED NET INCOME	1,577	1,303
Less: Net income attributable to noncontrolling interests	15	30
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 1,562	\$ 1,273

EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.

Basic	\$ 9.57	\$ 7.62
Diluted	\$ 9.53	\$ 7.60

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING

Basic	163.3	167.0
Diluted	163.9	167.6

CASH DIVIDENDS DECLARED PER COMMON SHARE	\$ 3.30	\$ 3.13
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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	September 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,222	\$ 1,369
Marketable securities	185	198
Total cash, cash equivalents and marketable securities	1,407	1,567
Accounts and notes receivable, net	3,929	3,618
Inventories	3,831	3,166
Prepaid expenses and other current assets	696	577
Total current assets	9,863	8,928
Long-term assets		
Property, plant and equipment, net	3,870	3,927
Investments and advances related to equity method investees	1,255	1,156
Goodwill	1,110	1,082
Other intangible assets, net	950	973
Pension assets	1,022	1,043
Other assets	922	966
Total assets	\$ 18,992	\$ 18,075
LIABILITIES		
Current liabilities		
Accounts payable (principally trade)	\$ 2,980	\$ 2,579
Loans payable	61	57
Commercial paper	800	298
Accrued compensation, benefits and retirement costs	576	811
Current portion of accrued product warranty	624	454
Current portion of deferred revenue	500	500
Other accrued expenses	834	915
Current maturities of long-term debt	41	63
Total current liabilities	6,416	5,677
Long-term liabilities		
Long-term debt	1,563	1,588
Postretirement benefits other than pensions	281	289
Pensions	331	330
Other liabilities and deferred revenue	2,341	2,027
Total liabilities	\$ 10,932	\$ 9,911

EQUITY

Cummins Inc. shareholders' equity		
Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.4 shares issued	\$ 2,151	\$ 2,210
Retained earnings	12,519	11,464
Treasury stock, at cost, 61.9 and 56.7 shares	(5,674)	(4,905)
Common stock held by employee benefits trust, at cost, 0.5 and 0.5 shares	(6)	(7)
Accumulated other comprehensive loss	(1,799)	(1,503)
Total Cummins Inc. shareholders' equity	7,191	7,259
Noncontrolling interests	869	905
Total equity	\$ 8,060	\$ 8,164
Total liabilities and equity	\$ 18,992	\$ 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	Nine months ended	
	September 30, 2018	October 1, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 1,577	\$ 1,303
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	456	433
Deferred income taxes	(167)	26
Equity in income of investees, net of dividends	(156)	(166)
Pension contributions under (in excess of) expense, net	36	(63)
Other post retirement benefits payments in excess of expense, net	(8)	(4)
Stock-based compensation expense	38	34
Loss contingency payments	(65)	—
Translation and hedging activities	(27)	61
Changes in current assets and liabilities, net of acquisitions		
Accounts and notes receivable	(429)	(722)
Inventories	(773)	(401)
Other current assets	(100)	(28)
Accounts payable	467	567
Accrued expenses	341	369
Changes in other liabilities and deferred revenue	118	177
Other, net	80	(115)
Net cash provided by operating activities	1,388	1,471
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(361)	(282)
Investments in internal use software	(55)	(59)
Proceeds from disposals of property, plant and equipment	14	104
Investments in and advances to equity investees	(9)	(71)
Acquisitions of businesses, net of cash acquired	(70)	(600)
Investments in marketable securities—acquisitions	(316)	(106)
Investments in marketable securities—liquidations	298	218
Cash flows from derivatives not designated as hedges	(56)	9
Other, net	36	1
Net cash used in investing activities	(519)	(786)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings of commercial paper	502	302
Payments on borrowings and capital lease obligations	(54)	(38)
Net borrowings under short-term credit agreements	9	19
Distributions to noncontrolling interests	(30)	(29)

Dividend payments on common stock	(537)	(522)
Repurchases of common stock	(879)	(391)
Other, net	29	59
Net cash used in financing activities	(960)	(600)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(56)	85
Net (decrease) increase in cash and cash equivalents	(147)	170
Cash and cash equivalents at beginning of year	1,369	1,120
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,222	\$ 1,290

(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)

In millions	Engine	Distribution	Components	Power Systems	Electrified Power ⁽¹⁾	Total Segments	Intersegment Eliminations ⁽²⁾	Total
Three months ended September 30, 2018								
External sales	\$2,082	\$ 1,927	\$ 1,297	\$ 636	\$ 1	\$ 5,943	\$ —	\$5,943
Intersegment sales	644	4	457	471	1	1,577	(1,577)	—
Total sales	2,726	1,931	1,754	1,107	2	7,520	(1,577)	5,943
Research, development and engineering expenses	74	5	71	57	22	229	—	229
Equity, royalty and interest income from investees	55	9	12	14	—	90	—	90
Interest income	3	4	1	1	—	9	—	9
Segment EBITDA	405	155	288	163	(30)	981	2	983
Depreciation and amortization ⁽³⁾	46	27	44	29	2	148	—	148
EBITDA as a percentage of total sales	14.9%	8.0%	16.4%	14.7%	NM	13.0%		16.5%
Three months ended October 1, 2017								
External sales	\$1,783	\$ 1,748	\$ 1,139	\$ 615	\$ —	\$ 5,285	\$ —	\$5,285
Intersegment sales	553	5	394	441	—	1,393	(1,393)	—
Total sales	2,336	1,753	1,533	1,056	—	6,678	(1,393)	5,285
Research, development and engineering expenses	83	6	63	61	—	213	—	213
Equity, royalty and interest income from investees	58	11	12	14	—	95	—	95
Interest income	1	2	—	1	—	4	—	4
Segment EBITDA	276	120	259	111	—	766	22	788
Depreciation and amortization ⁽³⁾	47	29	42	30	—	148	—	148
EBITDA as a percentage of total sales	11.8%	6.8%	16.9%	10.5%	—%	11.5%		14.9%

"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 September 30, 2018 and October 1, 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."

CUMMINS INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)

In millions	Engine	Distribution	Components	Power Systems	Electrified Power ⁽¹⁾	Total Segments	Intersegment Eliminations ⁽²⁾	Total
Nine months ended September 30, 2018								
External sales	\$5,945	\$ 5,762	\$ 4,012	\$ 1,922	\$ 4	\$ 17,645	\$ —	\$17,645
Intersegment sales	1,923	16	1,382	1,505	1	4,827	(4,827)	—
Total sales	7,868	5,778	5,394	3,427	5	22,472	(4,827)	17,645
Research, development and engineering expenses	229	15	195	174	45	658	—	658
Equity, royalty and interest income from investees	189	33	42	51	—	315	—	315
Interest income	8	9	4	5	—	26	—	26
Segment EBITDA	1,053	423	752	491	(61)	2,658	(78)	2,580
Depreciation and amortization ⁽³⁾	142	81	137	91	4	455	—	455
EBITDA as a percentage of total sales	13.4%	7.3%	13.9%	14.3%	NM	11.8%		14.6%
Nine months ended October 1, 2017								
External sales	\$4,951	\$ 5,101	\$ 3,183	\$ 1,717	\$ —	\$ 14,952	\$ —	\$14,952
Intersegment sales	1,715	19	1,148	1,238	—	4,120	(4,120)	—
Total sales	6,666	5,120	4,331	2,955	—	19,072	(4,120)	14,952
Research, development and engineering expenses	200	14	171	161	—	546	—	546
Equity, royalty and interest income from investees	186	35	40	40	—	301	—	301
Interest income	4	4	1	2	—	11	—	11
Segment EBITDA	872	377	703	286	—	2,238	19	2,257
Depreciation and amortization ⁽³⁾	137	90	117	87	—	431	—	431
EBITDA as a percentage of total sales	13.1%	7.4%	16.2%	9.7%	—%	11.7%		15.1%

"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 nine months ended September 30, 2018 and October 1, 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 and \$2 million for the nine months ended September 30, 2018 and October 1, 2017. A portion of depreciation expense is included in "Research, development and engineering expense."

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		Nine months ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
Total EBITDA	\$ 983	\$ 788	\$ 2,580	\$ 2,257
Less:				
Depreciation and amortization	148	148	455	431
Interest expense	30	18	82	57
Income before income taxes	<u>\$ 805</u>	<u>\$ 622</u>	<u>\$ 2,043</u>	<u>\$ 1,769</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		Nine months ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
Manufacturing entities				
Beijing Foton Cummins Engine Co., Ltd.	\$ 18	\$ 24	\$ 63	\$ 79
Dongfeng Cummins Engine Company, Ltd.	13	15	47	56
Chongqing Cummins Engine Company, Ltd.	11	11	43	30
Cummins Westport, Inc.	8	4	20	9
Dongfeng Cummins Emission Solutions Co., Ltd.	2	3	11	10
All other manufacturers	20	20	69	59
Distribution entities				
Komatsu Cummins Chile, Ltda.	5	8	18	23
All other distributors	—	(1)	—	(1)
Cummins share of net income	77	84	271	265
Royalty and interest income	13	11	44	36
Equity, royalty and interest income from investees	<u>\$ 90</u>	<u>\$ 95</u>	<u>\$ 315</u>	<u>\$ 301</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	(6)	(9)	(7)	(9)	(31)	(48)
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>

INCOME TAXES

Our effective tax rate for the year is expected to approximate 21.0 percent, excluding any discrete tax items that may arise. Our effective tax rates for the three and nine months ended September 30, 2018, were 13.3 percent and 22.8 percent, respectively.

The three months ended September 30, 2018, contained \$37 million, or \$0.23 per share, of favorable net discrete tax items, primarily due to \$34 million of favorable discrete items related to the 2017 Tax Cuts and Jobs Act (Tax Legislation) and \$3 million of other favorable discrete items.

The three month effective tax rate of 13.3 percent includes the nine month adjustment for decreasing our expected full year effective tax rate to 21.0 percent and diluted earnings per share benefited \$0.26.

The nine months ended September 30, 2018, contained \$37 million, or \$0.23 per share, of unfavorable net discrete tax items, primarily due to \$48 million of unfavorable discrete items related to the Tax Legislation, partially offset by \$11 million of other favorable discrete items.

Our effective tax rates for the three and nine months ended October 1, 2017, were 26.5 percent and 26.3 percent, respectively and contained only immaterial discrete tax items.

The change in the effective tax rate for the three months ended September 30, 2018, versus the comparable period in 2017, was primarily due to lower U.S. tax rates and favorable discrete changes associated with the Tax Legislation. The change in the effective tax rate for the nine months ended September 30, 2018, versus the comparable period in 2017, was primarily due to lower U.S. tax rates associated with Tax Legislation.

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		Nine months ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
Net income attributable to Cummins Inc.	\$ 692	\$ 453	\$ 1,562	\$ 1,273
Net income attributable to Cummins Inc. as a percentage of net sales	11.6%	8.6%	8.9%	8.5%
Add:				
Net income attributable to noncontrolling interests	6	4	15	30
Consolidated net income	698	457	1,577	1,303
Add:				
Interest expense	30	18	82	57
Income tax expense	107	165	466	466
Depreciation and amortization	148	148	455	431
EBITDA	\$ 983	\$ 788	\$ 2,580	\$ 2,257
EBITDA as a percentage of net sales	16.5%	14.9%	14.6%	15.1%
Add: Engine system campaign charge	—	—	368	—
EBITDA, excluding engine system campaign charge	\$ 983	\$ 788	\$ 2,948	\$ 2,257
EBITDA, excluding engine system campaign charge, as a percentage of net sales	16.5%	14.9%	16.7%	15.1%

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 discrete 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			
	September 30, 2018		October 1, 2017	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income attributable to Cummins Inc.	\$ 692	\$ 4.28	\$ 453	\$ 2.71
Tax Legislation	(34)	(0.21)	—	—
Discrete tax items	(3)	(0.02)		
Net income attributable to Cummins Inc. excluding discrete tax items	<u>\$ 655</u>	<u>\$ 4.05</u>	<u>\$ 453</u>	<u>\$ 2.71</u>

In millions	Nine months ended			
	September 30, 2018		October 1, 2017	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income attributable to Cummins Inc.	\$ 1,562	\$ 9.53	\$ 1,273	\$ 7.60
Tax Legislation	48	0.29	—	—
Discrete tax items	(11)	(0.06)		
Net income attributable to Cummins Inc. excluding discrete tax items	<u>\$ 1,599</u>	<u>\$ 9.76</u>	<u>\$ 1,273</u>	<u>\$ 7.60</u>

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	\$ 958	\$ —	\$2,693
Medium-duty truck and bus	692	777	699	—	2,168
Light-duty automotive	402	444	517	—	1,363
Off-highway	537	555	552	—	1,644
Total sales	<u>\$2,446</u>	<u>\$2,696</u>	<u>\$2,726</u>	<u>\$ —</u>	<u>\$7,868</u>

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
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Heavy-duty	26,600	32,000	34,600		93,200
Medium-duty	74,000	83,500	76,000		233,500
Light-duty	61,900	68,500	76,800		207,200
Total units	<u>162,500</u>	<u>184,000</u>	<u>187,400</u>	<u>—</u>	<u>533,900</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	\$ 800	\$ —	\$2,425
Engines	367	461	400	—	1,228
Service	352	370	372	—	1,094
Power generation	326	346	359	—	1,031
Total sales	<u>\$1,853</u>	<u>\$1,994</u>	<u>\$1,931</u>	<u>\$ —</u>	<u>\$5,778</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:

2018

In millions	Q1	Q2	Q3	Q4	YTD
Emission solutions	\$ 775	\$ 841	\$ 769	\$ —	\$2,385
Turbo technologies	340	355	317	—	1,012
Filtration	320	324	308	—	952
Electronics and fuel systems	201	226	210	—	637
Automated transmissions	117	141	150	—	408
Total sales	<u>\$1,753</u>	<u>\$1,887</u>	<u>\$1,754</u>	<u>\$ —</u>	<u>\$5,394</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	\$ 636	\$ —	\$1,873
Industrial	414	483	380	—	1,277
Generator technologies	89	97	91	—	277
Total sales	<u>\$1,074</u>	<u>\$1,246</u>	<u>\$1,107</u>	<u>\$ —</u>	<u>\$3,427</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>

High-horsepower unit shipments by engine classification were as follows:

2018

Units	Q1	Q2	Q3	Q4	YTD
Power generation	2,100	2,300	2,400	—	6,800
Industrial	1,700	2,100	1,900	—	5,700
Total units	<u>3,800</u>	<u>4,400</u>	<u>4,300</u>	<u>—</u>	<u>12,500</u>

2017

Units	Q1	Q2	Q3	Q4	YTD
Power generation	1,900	2,100	2,200	2,000	8,200
Industrial	1,300	1,700	1,600	1,800	6,400
Total units	<u>3,200</u>	<u>3,800</u>	<u>3,800</u>	<u>3,800</u>	<u>14,600</u>

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