

November 1, 2016



## Cummins Announces Third Quarter 2016 Results

- **Third quarter revenues of \$4.2 billion, EBIT of 9.5 percent of sales,**
- **GAAP<sup>1</sup> net income of 6.9 percent of sales, Diluted EPS of \$1.72**
- **Expects full year 2016 revenues to be down 9 percent, unchanged**
- **Full year 2016 EBIT expected to be 11.3 percent of sales, compared to prior guidance of 11.6 to 12.2 percent**

COLUMBUS, Ind.--(BUSINESS WIRE)-- Cummins Inc. (NYSE: CMI) today reported results for the third quarter of 2016.

Third quarter revenues of \$4.2 billion decreased 9 percent from the same quarter in 2015. Lower truck production in North America and weak international demand for power generation equipment were the most significant drivers of the decline in sales. Currency negatively impacted revenues by approximately 2 percent compared to last year, primarily due to a stronger US dollar.

Revenues in North America decreased 13 percent while international sales declined by 3 percent. Within international markets, higher revenues in China partially offset declines in the Middle East and Africa.

Earnings before interest and taxes (EBIT) were \$398 million in the third quarter, or 9.5 percent of sales, and included a \$99 million increase in an existing accrual for a loss contingency. EBIT in the third quarter of 2015 was \$577 million or 12.5 percent of sales.

Net income attributable to Cummins was \$289 million (\$1.72 per diluted share). The loss contingency charge, net of its impact on compensation plans, reduced diluted earnings per share by 30 cents. The tax rate in the third quarter of 2016 was 21.5 percent. Net income in the third quarter of 2015 was \$380 million (\$2.14 per diluted share).

“Due to the slow pace of growth in the global economy, we continue to face weak demand in a number of our most important markets,” said Cummins Chairman and CEO Tom Linebarger. “The restructuring actions that we initiated in the fourth quarter of 2015, combined with strong execution on material cost reduction initiatives, productivity gains and

improvements in product quality are all helping to mitigate the impact of weaker revenues. We are on track to deliver our goal of 25% decremental EBIT margin for the full year 2016, as a result of strong operational performance in very challenging economic conditions. We have returned \$1.3 billion to shareholders so far this year, through a combination of dividends and share repurchases, consistent with our plans to return 75 percent of operating cash flow to shareholders in 2016."

Based on the current forecast, Cummins expects full year 2016 revenues to be down 9 percent, consistent with its prior guidance of down between 8 and 10 percent. Full year EBIT is expected to be 11.3 percent of sales, down from the prior forecast of 11.6 to 12.2 percent. The reduction in EBIT guidance is primarily a result of an increase in the expected costs of a loss contingency in the third quarter. As disclosed in prior quarters, the loss contingency relates to the costs of a campaign to remedy quality issues with third party aftertreatment systems, which were sourced by one of our OEM customers and are paired with our engines in the OEM vehicle.

Other recent highlights:

- Cummins was recognized with the 2016 United States Overall Best Heavy-Duty Truck Engine Supplier Leadership Award by Frost and Sullivan
- The Company announced that it will partner with Peterbilt Motors Company, a division of PACCAR, to develop and demonstrate technologies under the U.S. Department of Energy Supertruck II program
- Cummins has been inducted into the Billion Dollar Roundtable for its commitment to diversity and inclusion
- The Company returned \$1.3 billion to shareholders so far this year, through a combination of dividends and share repurchases

### **Third quarter 2016 detail (all comparisons to same period in 2015)**

#### **Engine Segment**

- Sales - \$1.9 billion, down 12 percent.
- Segment EBIT - \$89 million, or 4.8 percent of sales, compared to \$217 million or 10.3 percent of sales
- Segment EBIT reflects a \$99 million increase in an existing accrual for a loss contingency
- On-highway revenues declined 13 percent primarily due to lower heavy and medium-duty truck production in North America

#### **Distribution Segment**

- Sales - \$1.5 billion, down 3 percent
- Segment EBIT - \$96 million, or 6.4 percent of sales, compared to \$123 million or 7.9 percent of sales
- Increased revenue from acquisitions was more than offset by a 5 percent decline in

organic sales and a 1 percent unfavorable impact from currency

### **Components Segment**

- Sales - \$1.1 billion, down 8 percent.
- Segment EBIT - \$148 million , or 12.9 percent of sales, compared to \$156 million or 12.6 percent of sales
- Revenues in North America declined due to lower medium and heavy-duty truck production, partially offset by higher revenues in China

### **Power Systems Segment**

- Sales - \$856 million, down 13 percent
- Segment EBIT - \$59 million, or 6.9 percent of sales, compared to \$74 million, or 7.5 percent of sales
- Revenues declined due to lower power generation and industrial engine demand in Asia, the Middle East and Africa

<sup>1</sup> *Generally Accepted Accounting Principles*

### **About Cummins**

Cummins Inc., a global power leader, is a corporation of complementary business units that design, manufacture, distribute and service diesel and natural gas engines and related technologies, including fuel systems, controls, air handling, filtration, emission solutions and electrical power generation systems. Headquartered in Columbus, Indiana, (USA) Cummins currently employs approximately 55,000 people worldwide and serves customers in approximately 190 countries and territories through a network of approximately 600 company-owned and independent distributor locations and approximately 7,200 dealer locations. Cummins earned \$1.4 billion on sales of \$19.1 billion in 2015. Press releases can be found on the Web at [www.cummins.com](http://www.cummins.com). Follow Cummins on Twitter at [www.twitter.com/cummins](http://www.twitter.com/cummins) and on YouTube at [www.youtube.com/cummininc](http://www.youtube.com/cummininc).

### **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 for the full year of 2016. 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 other risks detailed from time to time in our Securities and Exchange Commission filings, including particularly in the Risk Factors

section of our 2015 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**

*This earnings release includes information that does not conform to U.S. generally accepted accounting principles (GAAP) and are considered non-GAAP measures. EBIT 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 EBIT 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. EDT. This teleconference will be webcast and available on the Investor Relations section of the Cummins website at [www.cummins.com](http://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)**

<b>In millions, except per share amounts</b>	<b>Three months ended</b>	
	<b>October 2, 2016</b>	<b>September 27, 2015</b>
<b>NET SALES</b>	<b>\$ 4,187</b>	<b>\$ 4,620</b>
Cost of sales	<b>3,108</b>	3,412
<b>GROSS MARGIN</b>	<b>1,079</b>	1,208
<b>OPERATING EXPENSES AND INCOME</b>		
Selling, general and administrative expenses	<b>513</b>	530
Research, development and engineering expenses	<b>157</b>	197
Equity, royalty and interest income from investees	<b>74</b>	78
Loss contingency	<b>99</b>	—
Other operating expense, net	<b>—</b>	(2)
<b>OPERATING INCOME</b>	<b>384</b>	557
Interest income	<b>6</b>	9
Interest expense	<b>16</b>	16
Other income, net	<b>8</b>	11

<b>INCOME BEFORE INCOME TAXES</b>	<b>382</b>	<b>561</b>
Income tax expense	<b>82</b>	169
<b>CONSOLIDATED NET INCOME</b>	<b>300</b>	<b>392</b>
Less: Net income attributable to noncontrolling interests	<b>11</b>	12
<b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	<b>\$ 289</b>	<b>\$ 380</b>
<b>EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.</b>		
Basic	<b>\$ 1.72</b>	\$ 2.15
Diluted	<b>\$ 1.72</b>	\$ 2.14
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>		
Basic	<b>167.8</b>	177.0
Diluted	<b>168.2</b>	177.4
<b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b>	<b>\$ 1.025</b>	\$ 0.975

(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	
	October 2, 2016	September 27, 2015
<b>NET SALES</b>	<b>\$ 13,006</b>	\$ 14,344
Cost of sales	<b>9,674</b>	10,609
<b>GROSS MARGIN</b>	<b>3,332</b>	3,735
<b>OPERATING EXPENSES AND INCOME</b>		
Selling, general and administrative expenses	<b>1,527</b>	1,584
Research, development and engineering expenses	<b>478</b>	558
Equity, royalty and interest income from investees	<b>234</b>	240
Loss contingency	<b>138</b>	—
Other operating expense, net	<b>(2)</b>	(5)
<b>OPERATING INCOME</b>	<b>1,421</b>	1,828
Interest income	<b>18</b>	20
Interest expense	<b>51</b>	47
Other income, net	<b>34</b>	12
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,422</b>	1,813

Income tax expense	362	521
<b>CONSOLIDATED NET INCOME</b>	<b>1,060</b>	1,292
Less: Net income attributable to noncontrolling interests	44	54
<b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	<b>\$ 1,016</b>	<b>\$ 1,238</b>

**EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.**

Basic	\$ 5.99	\$ 6.92
Diluted	\$ 5.99	\$ 6.90

**WEIGHTED AVERAGE SHARES OUTSTANDING**

Basic	169.5	178.9
Diluted	169.7	179.3

<b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b>	<b>\$ 2.975</b>	<b>\$ 2.535</b>
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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	October 2, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,251	\$ 1,711
Marketable securities	250	100
Total cash, cash equivalents and marketable securities	1,501	1,811
Accounts and notes receivable, net	2,873	2,820
Inventories	2,820	2,707
Prepaid expenses and other current assets	600	609
Total current assets	7,794	7,947
Long-term assets		
Property, plant and equipment	7,460	7,322
Accumulated depreciation	(3,783)	(3,577)
Property, plant and equipment, net	3,677	3,745
Investments and advances related to equity method investees	1,077	975
Goodwill	482	482
Other intangible assets, net	319	328
Pension assets	773	735

Other assets	1,014	922
Total assets	<u>\$ 15,136</u>	<u>\$ 15,134</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable (principally trade)	\$ 1,781	\$ 1,706
Loans payable	48	24
Commercial paper	273	—
Accrued compensation, benefits and retirement costs	393	409
Current portion of accrued product warranty	333	359
Current portion of deferred revenue	460	403
Other accrued expenses	985	863
Current maturities of long-term debt	35	39
Total current liabilities	<u>4,308</u>	<u>3,803</u>
Long-term liabilities		
Long-term debt	1,593	1,576
Postretirement benefits other than pensions	326	349
Pensions	301	298
Other liabilities and deferred revenue	1,344	1,358
Total liabilities	<u>\$ 7,872</u>	<u>\$ 7,384</u>
<b>EQUITY</b>		
Cummins Inc. shareholders' equity		
Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.4 shares issued	\$ 2,209	\$ 2,178
Retained earnings	10,833	10,322
Treasury stock, at cost, 54.1 and 47.2 shares	(4,468)	(3,735)
Common stock held by employee benefits trust, at cost, 0.7 and 0.9 shares	(8)	(11)
Accumulated other comprehensive loss	(1,632)	(1,348)
Total Cummins Inc. shareholders' equity	<u>6,934</u>	<u>7,406</u>
Noncontrolling interests	330	344
Total equity	<u>\$ 7,264</u>	<u>\$ 7,750</u>
Total liabilities and equity	<u>\$ 15,136</u>	<u>\$ 15,134</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	Nine months ended	
	October 2, 2016	September 27, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 1,060	\$ 1,292
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Restructuring payments	(53)	—
Loss contingency	138	—
Depreciation and amortization	391	383
Gain on fair value adjustment for consolidated investees	—	(17)
Deferred income taxes	60	(120)
Equity in income of investees, net of dividends	(94)	(68)
Pension contributions in excess of expense	(92)	(119)
Other post-retirement benefits payments in excess of expense	(16)	(18)
Stock-based compensation expense	28	24
Translation and hedging activities	(39)	22
Changes in current assets and liabilities, net of acquisitions		
Accounts and notes receivable	(112)	(163)
Inventories	(150)	(179)
Other current assets	138	133
Accounts payable	97	(52)
Accrued expenses	(279)	(153)
Changes in other liabilities and deferred revenue	188	219
Other, net	45	(53)
Net cash provided by operating activities	1,310	1,131
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(312)	(393)
Investments in internal use software	(42)	(38)
Investments in and advances to equity investees	(29)	(9)
Acquisitions of businesses, net of cash acquired	(1)	(102)
Investments in marketable securities—acquisitions	(447)	(175)
Investments in marketable securities—liquidations	291	228
Cash flows from derivatives not designated as hedges	(64)	17
Other, net	14	(5)
Net cash used in investing activities	(590)	(477)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	111	24
Net borrowings of commercial paper	273	—
Payments on borrowings and capital lease obligations	(156)	(64)



Net borrowings (payments) under short-term credit agreements	25	(38)
Distributions to noncontrolling interests	(42)	(35)
Dividend payments on common stock	(505)	(452)
Repurchases of common stock	(745)	(650)
Other, net	(2)	—
Net cash used in financing activities	(1,041)	(1,215)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(139)</b>	<b>(52)</b>
Net decrease in cash and cash equivalents	(460)	(613)
Cash and cash equivalents at beginning of year	1,711	2,301
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 1,251</b>	<b>\$ 1,688</b>

(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)

As previously announced, beginning with the second quarter of 2016, we realigned certain of our reportable segments to be consistent with changes to our organizational structure and how the Chief Operating Decision Maker monitors the performance of our segments. We reorganized our business to combine our Power Generation segment and our high horsepower engine business to create the new Power Systems segment. Our reportable operating segments consist of Engine, Distribution, Components and Power Systems. We began to report results for our new reporting structure in the second quarter of 2016 and also reflected this change for historical periods.

We allocate certain common costs and expenses, primarily corporate functions, among segments. These include certain costs and expenses of shared services, such as information technology, human resources, legal, finance and supply chain management. In addition to the reorganization noted above, we reevaluated the allocation of these costs, considering the new segment structure created in April 2016 and adjusted our allocation methodology accordingly. The revised methodology, which is based on a combination of relative segment sales and relative service usage levels, is effective for the periods beginning after January 1, 2016 and resulted in the revision of our segment operating results, including segment earnings before interest, income taxes and noncontrolling interests (EBIT), for all four segments for the first quarter of 2016 with a greater share of costs allocated to the Distribution and Components segments than in previous years. Prior periods were not revised for the new allocation methodology. These changes had no impact on our consolidated results.

In millions	Engine	Distribution	Components	Power Systems	Non-segment Items <sup>(1)</sup>	Total
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**Three months  
ended October 2,  
2016**

External sales	\$1,357	\$ 1,497	\$ 824	\$ 509	\$ —	\$4,187
Intersegment sales	502	7	319	347	(1,175)	—
Total sales	1,859	1,504	1,143	856	(1,175)	4,187
Depreciation and amortization <sup>(2)</sup>	42	28	32	29	—	131
Research, development and engineering expenses	56	3	54	44	—	157
Equity, royalty and interest income from investees	38	19	9	8	—	74
Loss contingency	99	—	—	—	—	99
Interest income	3	1	1	1	—	6
Segment EBIT	89	96	148	59	6	398
Segment EBIT as a percentage of total sales	4.8%	6.4%	12.9%	6.9%		9.5%

**Three months  
ended  
September 27,  
2015**

External sales	\$1,627	\$ 1,543	\$ 891	\$ 559	\$ —	\$4,620
Intersegment sales	475	8	349	423	(1,255)	—
Total sales	2,102	1,551	1,240	982	(1,255)	4,620
Depreciation and amortization <sup>(2)</sup>	47	26	28	27	—	128
Research, development and engineering expenses	73	2	65	57	—	197
Equity, royalty and interest income from investees	33	19	9	17	—	78
Interest income	6	1	1	1	—	9
Segment EBIT	217	123	156	74	7	577

Segment EBIT as a percentage of total sales	10.3%	7.9%	12.6%	7.5%	12.5%
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(1) Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the three months ended October 2, 2016 and September 27, 2015.

(2) 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."

In millions	Engine	Distribution	Components	Power Systems	Non-segment Items <sup>(1)</sup>	Total
<b>Nine months ended October 2, 2016</b>						
External sales	\$4,350	\$ 4,493	\$ 2,654	\$ 1,509	\$ —	\$13,006
Intersegment sales	1,487	18	1,005	1,076	(3,586)	—
Total sales	5,837	4,511	3,659	2,585	(3,586)	13,006
Depreciation and amortization <sup>(2)</sup>	121	86	95	87	—	389
Research, development and engineering expenses	166	10	161	141	—	478
Equity, royalty and interest income from investees	120	56	29	29	—	234
Loss contingency	138	—	—	—	—	138
Interest income	8	3	3	4	—	18
Segment EBIT	492	270	501	195	15	1,473

Segment EBIT as a percentage of total sales	8.4%	6.0%	13.7%	7.5%	11.3%
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**Nine months ended September 27, 2015**

External sales	\$5,150	\$ 4,499	\$ 2,839	\$ 1,856	\$ —	\$14,344
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Intersegment sales	1,422	23	1,097	1,225	(3,767)	—
Total sales	6,572	4,522	3,936	3,081	(3,767)	14,344
Depreciation and amortization <sup>(2)</sup>	140	78	82	81	—	381
Research, development and engineering expenses	195	8	183	172	—	558
Equity, royalty and interest income from investees	107	60	26	47	—	240
Interest income	10	3	3	4	—	20
Segment EBIT	695	324	574	302	(35)	1,860
Segment EBIT as a percentage of total sales	10.6%	7.2%	14.6%	9.8%		13.0%

(1) Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the nine months ended October 2, 2016 and September 27, 2015.

(2) 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 \$2 million for the nine months ended October 2, 2016 and September 27, 2015.

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	
	October 2, 2016	September 27, 2015	October 2, 2016	September 27, 2015
Total segment EBIT	\$ 398	\$ 577	\$ 1,473	\$ 1,860
Less: Interest expense	16	16	51	47
Income before income taxes	\$ 382	\$ 561	\$ 1,422	\$ 1,813

**CUMMINS INC. AND SUBSIDIARIES**  
**SELECTED FOOTNOTE DATA**  
(Unaudited)

**EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEES**

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	
	October 2, 2016	September 27, 2015	October 2, 2016	September 27, 2015
<b>Distribution entities</b>				
Komatsu Cummins Chile, Ltda.	\$ 8	\$ 8	\$ 26	\$ 23
North American distributors	7	9	18	27
All other distributors	1	1	2	2
<b>Manufacturing entities</b>				
Beijing Foton Cummins Engine Co., Ltd.	19	18	59	47
Chongqing Cummins Engine Company, Ltd.	11	9	28	32
Dongfeng Cummins Engine Company, Ltd.	10	11	32	40
All other manufacturers	8	13	40	41
Cummins share of net income	64	69	205	212
Royalty and interest income	10	9	29	28
Equity, royalty and interest income from investees	\$ 74	\$ 78	\$ 234	\$ 240

## LOSS CONTINGENCY

In the fourth quarter of 2015, we disclosed the request by one customer to participate in the design and bear the financial cost of a field campaign (Campaign) associated with quality issues in certain third party aftertreatment systems causing some of our inter-related engines to fail in-use emission testing. We established a reserve in the fourth quarter of 2015. In the second quarter of 2016, we recoded an additional accrual of \$39 million based upon the Campaign design at the time. Additional in-use emission testing performed in the third quarter of 2016 has indicated that the Campaign should be expanded to include a larger population of vehicles. Our third quarter results include an additional accrual of \$99 million to reflect the higher estimated cost of the expanded Campaign. We have not reached a cost sharing agreement with our customer related to this matter and our final cost could differ from what we have recorded.

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

### Net income and diluted earnings per share (EPS) attributable to Cummins Inc. excluding special 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,

accounting principles generally accepted in the United States of America (GAAP) and may not be consistent with measures used by other companies. It should be considered supplemental data. The following table reconciles net income attributable to Cummins Inc. to net income attributable to Cummins Inc. excluding special items for the following periods:

In millions	Three months ended			
	October 2, 2016		September 27, 2015	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income attributable to Cummins Inc.	\$ 289	\$ 1.72	\$ 380	\$ 2.14
Add				
Loss contingency, net <sup>(1)</sup>	50	0.30	—	—
Net income attributable to Cummins Inc. excluding special items	\$ 339	\$ 2.02	\$ 380	\$ 2.14

In millions	Nine months ended			
	October 2, 2016		September 27, 2015	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income attributable to Cummins Inc.	\$ 1,016	\$ 5.99	\$ 1,238	\$ 6.90
Add				
Loss contingency, net <sup>(1)</sup>	\$ 74	\$ 0.44	—	—
Less				
Tax benefit	—	—	18	0.10
Net income attributable to Cummins Inc. excluding special items	\$ 1,090	\$ 6.43	\$ 1,220	\$ 6.80

(1) The loss contingency is net of the favorable variable compensation impact.

### Earnings before interest, income taxes and noncontrolling interests

We define EBIT as earnings before interest expense, income tax expense and noncontrolling interests in income of consolidated subsidiaries. We use EBIT to assess and measure the performance of our operating segments and also as a component in measuring our variable compensation programs. This measure is not in accordance with, or an alternative for, GAAP and may not be consistent with measures used by other companies. It should be considered supplemental data. Below is a reconciliation of EBIT to "Net income attributable to Cummins Inc." for each of the applicable periods:

In millions	Three months ended		Nine months ended	
	October 2, 2016	September 27, 2015	October 2, 2016	September 27, 2015

Earnings before interest expense and income taxes	\$ 398	\$ 577	\$ 1,473	\$ 1,860
<i>EBIT as a percentage of net sales</i>	9.5%	12.5%	11.3%	13.0%
Less				
Interest expense	16	16	51	47
Income tax expense	82	169	362	521
Consolidated net income	300	392	1,060	1,292
Less				
Net income attributable to noncontrolling interests	11	12	44	54
Net income attributable to Cummins Inc.	\$ 289	\$ 380	\$ 1,016	\$ 1,238
<i>Net income attributable to Cummins Inc. as a percentage of net sales</i>	6.9%	8.2%	7.8%	8.6%

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

**Engine Segment Sales by Market and Unit Shipments by Engine Classification**

In the second quarter of 2016, in conjunction with the reorganization of our segments, our Engine segment reorganized its reporting structure as follows:

- **Heavy-duty truck** - We manufacture diesel engines that range from 310 to 600 horsepower serving global heavy-duty truck customers worldwide, primarily in North America.
- **Medium-duty truck and bus** - We manufacture diesel engines ranging from 200 to 450 horsepower serving medium-duty truck and bus customers worldwide, with key

markets including North America, Latin America, Europe and Mexico. We also provide diesel and natural gas engines for school buses, transit buses and shuttle buses worldwide, with key markets including North America, Europe, Latin America and Asia, and diesel engines for Class A motor homes (RVs), primarily in North America.

- **Light-duty automotive (Pickup and Light Commercial Vehicle (LCV))** -We manufacture 105 to 385 horsepower diesel engines, including engines for the pickup truck market for Chrysler and Nissan in North America, and LCV markets in Europe, Latin America and Asia.
- **Off-highway** - We provide diesel engines that range from 60 to 755 horsepower to key global markets including construction, mining, rail, defense, agriculture, marine, and oil and gas equipment and also to the power generation business for standby, mobile and distributed power generation solutions throughout the world.

Sales for our Engine segment by market were as follows:

## 2016

In millions	Q1	Q2	Q3	Q4	YTD
Heavy-duty truck	\$ 631	\$ 622	\$ 625	\$ —	\$1,878
Medium-duty truck and bus	549	600	517	—	1,666
Light-duty automotive	433	394	345	—	1,172
Off-highway	363	386	372	—	1,121
Total sales	<u>\$1,976</u>	<u>\$2,002</u>	<u>\$1,859</u>	<u>\$ —</u>	<u>\$5,837</u>

## 2015

In millions	Q1	Q2	Q3	Q4	YTD
Heavy-duty truck	\$ 757	\$ 875	\$ 784	\$ 700	\$3,116
Medium-duty truck and bus	608	674	585	640	2,507
Light-duty automotive	381	354	339	401	1,475
Off-highway	399	422	394	357	1,572
Total sales	<u>\$2,145</u>	<u>\$2,325</u>	<u>\$2,102</u>	<u>\$2,098</u>	<u>\$8,670</u>

## 2014

In millions	YTD
Heavy-duty truck	\$3,072
Medium-duty truck and bus	2,431
Light-duty automotive	1,567
Off-highway	1,897
Total sales	<u>\$8,967</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:

## 2016

Units	Q1	Q2	Q3	Q4	YTD
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Heavy-duty	19,700	20,700	<b>20,100</b>	—	60,500
Medium-duty	55,400	62,300	<b>53,400</b>	—	171,100
Light-duty	61,700	57,100	<b>49,800</b>	—	168,600
Total units	<u>136,800</u>	<u>140,100</u>	<u><b>123,300</b></u>	<u>—</u>	<u>400,200</u>

## 2015

Units	Q1	Q2	Q3	Q4	YTD
Heavy-duty	28,700	32,800	28,600	24,300	114,400
Medium-duty	61,200	66,600	59,600	59,700	247,100
Light-duty	51,200	53,400	47,800	56,900	209,300
Total units	<u>141,100</u>	<u>152,800</u>	<u>136,000</u>	<u>140,900</u>	<u>570,800</u>

## 2014

Units	YTD
Heavy-duty	122,100
Medium-duty	266,800
Light-duty	204,400
Total units	<u>593,300</u>

## Distribution Segment Sales by Product Line

### 2016

In millions	Q1	Q2	Q3	Q4	YTD
Parts	\$ 648	\$ 642	\$ <b>643</b>	\$ —	\$1,933
Service	299	297	<b>299</b>	—	895
Power generation	275	326	<b>291</b>	—	892
Engines	241	279	<b>271</b>	—	791
Total sales	<u>\$1,463</u>	<u>\$1,544</u>	<u><b>\$1,504</b></u>	<u>\$ —</u>	<u>\$4,511</u>

### 2015

In millions	Q1	Q2	Q3	Q4	YTD
Parts	\$ 573	\$ 598	\$ 604	\$ 648	\$2,423
Service	284	307	301	330	1,222
Power generation	298	272	323	397	1,290
Engines	321	318	323	332	1,294
Total sales	<u>\$1,476</u>	<u>\$1,495</u>	<u>\$1,551</u>	<u>\$1,707</u>	<u>\$6,229</u>

## Component Segment Sales by Business

### 2016

In millions	Q1	Q2	Q3	Q4	YTD
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Emission solutions	\$ 607	\$ 624	\$ 540	\$ —	\$1,771
Turbo technologies	265	276	241	—	782
Filtration	252	262	244	—	758
Fuel systems	113	117	118	—	348
Total sales	<u>\$1,237</u>	<u>\$1,279</u>	<u>\$1,143</u>	<u>\$ —</u>	<u>\$3,659</u>

## 2015

In millions	Q1	Q2	Q3	Q4	YTD
Emission solutions	\$ 613	\$ 679	\$ 607	\$ 600	\$2,499
Turbo technologies	301	307	266	267	1,141
Filtration	255	266	240	249	1,010
Fuel systems	130	145	127	120	522
Total sales	<u>\$1,299</u>	<u>\$1,397</u>	<u>\$1,240</u>	<u>\$1,236</u>	<u>\$5,172</u>

## Power Systems Segment Sales by Product Line and Unit Shipments by Engine Classification

In the second quarter of 2016, in conjunction with the reorganization of our segments, our Power Systems segment reorganized its reporting structure into the following product lines:

- **Power generation** - We design, manufacture, sell and support generators ranging from 2 kilowatts to 3.5 megawatts, as well as paralleling systems and transfer switches, for applications such as residential, commercial, industrial, data centers, health care, telecommunications and waste water treatment plants. We also provide turnkey solutions for distributed generation and energy management applications using natural gas or biogas as a fuel. We also serves global rental accounts for diesel and gas generator sets.
- **Industrial** - We design, manufacture, sell and support diesel and natural gas high-horsepower engines up to 5,500 horsepower for a wide variety of equipment in the mining, rail, defense, oil and gas, and commercial marine applications throughout the world. Across these markets, we have major customers in North America, Europe, Middle East, Africa, China, Korea, Japan, Latin America, India, Russia, Southeast Asia, South Pacific and Mexico.
- **Generator technologies** - We design, manufacture, sell and support A/C generator/alternator products for internal consumption and for external generator set assemblers. Our products are sold under the Stamford, AVK and Markon brands and range in output from 3 kilovolt-amperes (kVA) to 12,000 kVA.

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

## 2016

In millions	Q1	Q2	Q3	Q4	YTD
Power generation	\$ 520	\$ 597	\$545	\$ —	\$1,662
Industrial	215	240	233	—	688

Generator technologies	73	84	78	—	235
Total sales	<u>\$ 808</u>	<u>\$ 921</u>	<u>\$856</u>	<u>\$ —</u>	<u>\$2,585</u>

## 2015

In millions	Q1	Q2	Q3	Q4	YTD
Power generation	\$ 624	\$ 710	\$621	\$615	\$2,570
Industrial	280	295	275	287	1,137
Generator technologies	98	92	86	84	360
Total sales	<u>\$1,002</u>	<u>\$1,097</u>	<u>\$982</u>	<u>\$986</u>	<u>\$4,067</u>

## 2014

In millions	YTD
Power generation	\$2,633
Industrial	1,331
Generator technologies	450
Total sales	<u>\$4,414</u>

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

## 2016

Units	Q1	Q2	Q3	Q4	YTD
Power generation	1,800	2,200	2,000	—	6,000
Industrial	1,000	1,100	1,000	—	3,100
Total units	<u>2,800</u>	<u>3,300</u>	<u>3,000</u>	<u>—</u>	<u>9,100</u>

## 2015

Units	Q1	Q2	Q3	Q4	YTD
Power generation	2,200	2,500	2,000	1,900	8,600
Industrial	1,300	1,200	1,200	1,500	5,200
Total units	<u>3,500</u>	<u>3,700</u>	<u>3,200</u>	<u>3,400</u>	<u>13,800</u>

## 2014

Units	YTD
Power generation	8,700
Industrial	6,100
Total units	<u>14,800</u>

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Source: Cummins Inc.