

February 6, 2018



## Cummins Announces Fourth Quarter and Full Year 2017 Results

- Fourth quarter revenues of \$5.5 billion, EBIT of 11.3 percent of sales
- GAAP<sup>1</sup> Net Loss of \$274 million, Diluted EPS Loss of \$1.65
- Full year revenues of \$20.4 billion, EBIT of 12.0 percent of sales
- GAAP Net Income of \$999 million, Diluted EPS of \$5.97
- Fourth quarter and full year Diluted EPS negatively impacted by \$4.68 and \$4.65 as a result of charges related to the recently enacted U.S. Tax Cuts and Jobs Act
- The company expects full year 2018 revenues to be up 4 to 8 percent, EBITDA expected to be in the range of 15.8 to 16.2 percent

COLUMBUS, Ind.--(BUSINESS WIRE)-- Cummins Inc. (NYSE: CMI) today reported results for the fourth quarter of 2017.

Fourth quarter revenues of \$5.5 billion increased 22 percent from the same quarter in 2016. Strong demand for trucks, construction and mining equipment drove the majority of the revenue increase. Sales in North America and international markets both increased by 22 percent.

Earnings before interest and taxes (EBIT) in the fourth quarter were \$620 million, or 11.3 percent of sales, up from \$526 million or 11.7 percent of sales a year ago. EBIT was negatively impacted by \$39 million as a result of charges incurred by unconsolidated joint ventures related to U.S. tax reform. Excluding the impact of tax reform, EBIT for the fourth quarter of 2017 was \$659 million or 12.0 percent of sales.

Net income attributable to Cummins in the fourth quarter was a net loss of \$274 million (a loss of \$1.65 per diluted share), compared to net income of \$378 million (\$2.25 per diluted share). Fourth quarter net income included \$777 million in one-time charges related to tax reform. Excluding the tax reform impact, net income attributable to Cummins in the fourth quarter was \$503 million (\$3.03 per diluted share), reflecting a 19.5 percent tax rate.

Revenues for the full year 2017 were \$20.4 billion, 17 percent higher than 2016. Revenues in North America increased 15 percent and international sales increased 19 percent.

EBIT for the year was \$2.4 billion or 12.0 percent of sales, or 12.2 percent of sales excluding charges related to tax reform. This compares to \$2.0 billion or 11.4 percent of sales in 2016.

Net income attributable to Cummins for the full year was \$999 million (\$5.97 per diluted share), compared to \$1.4 billion (\$8.23 per diluted share) in 2016. Excluding charges totaling \$777 million in connection with tax reform, full year net income attributable to Cummins was \$1.8 billion (\$10.62 per diluted share), with a full year tax rate of 24.5 percent.

“The Company delivered strong growth, solid profitability and record operating cash flow in 2017,” said Chairman and CEO Tom Linebarger. “We expect demand to remain strong in many of our core markets in 2018 and profitability to improve as a result of higher sales and continued execution of our cost reduction initiatives. The Company again plans to return at least 50 percent of Operating Cash Flow to shareholders in 2018.”

Based on the current forecast, Cummins expects full year 2018 revenues to be up 4 to 8 percent, and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) to be in the range of 15.8 to 16.2 percent of sales. EBITDA for the full year 2017 was 15.0 percent of sales, excluding the impact of US tax reform.

#### 2017 Highlights:

- The Company returned \$1.2 billion or 51 percent of Operating Cash Flow to shareholders in the form of dividends and share repurchases
- Cummins and Eaton (NYSE:ETN) partnered to form the Eaton Cummins Automated Transmission Technologies joint venture which will capitalize on the secular shift to more automated transmissions in commercial vehicle markets
- The company announced a new electrified power partnership with GILLIG LLC to integrate and optimize new battery electric technology offered by Cummins that will soon power GILLIG zero-emissions transit buses
- Cummins was named to Ethisphere’s 2017 list of World’s Most Ethical Companies for a 10th consecutive year by the Ethisphere Institute
- DiversityInc named Cummins one of the Top 50 Companies for Diversity for the eleventh consecutive year. Cummins ranked No. 21 on the 2017 annual list, which included more than 1,000 participating companies
- Cummins was one of a select number of companies named to the North American Index of the Dow Jones Sustainability Indices, a leading independent organization measuring corporate sustainability in the world

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

#### **Fourth quarter 2017 detail**

##### **Engine Segment**

- Sales - \$2.3 billion, up 16 percent
- Segment EBIT - \$224 million, or 9.8 percent of sales, compared to \$194 million or 9.9 percent of sales

- Segment EBIT was negatively impacted by \$23 million as a result of charges recorded by unconsolidated joint ventures related to recent U.S. tax reform
- On-highway revenues increased 14 percent, and off-highway revenues increased 27 percent primarily due to increased global demand in truck and constructions markets

### **Distribution Segment**

- Sales - \$1.9 billion, up 16 percent
- Segment EBIT - \$97 million, or 5.0 percent of sales, compared to \$122 million or 7.3 percent of sales
- Segment EBIT was negatively impacted by \$4 million as a result of charges recorded by unconsolidated joint ventures related to recent U.S. tax reform
- Revenues in North America increased by 21 percent and in international markets by 7 percent

### **Components Segment**

- Sales - \$1.6 billion, up 32 percent
- Segment EBIT - \$168 million, or 10.8 percent of sales, compared to \$140 million or 11.9 percent of sales
- Segment EBIT was negatively impacted by \$12 million as result of charges recorded by unconsolidated joint ventures related to recent U.S. tax reform
- The Eaton Cummins Automated Transmission joint venture recorded sales of \$95 million and an EBIT loss of \$14 million in the fourth quarter
- Revenues in North America increased by 35 percent, and international sales grew by 30 percent due to higher commercial truck production in North America and China as well as additional content in India with the introduction of Bharat Stage IV in 2017

### **Power Systems Segment**

- Sales - \$1.1 billion, up 18 percent
- Segment EBIT - \$95 million, or 8.6 percent of sales, compared to \$68 million, or 7.3 percent of sales
- Increased demand in mining, oil and gas and power generation markets drove the growth in sales

### **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 58,600 people worldwide and 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. 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/cumminsinc](http://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 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 other risks detailed from time to time in our Securities and Exchange Commission filings, including particularly in the Risk Factors section of our 2016 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**

*EBIT and EBITDA are non-GAAP measures used in this release, and are defined and reconciled to what management believes to be the most comparable GAAP measures 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 and EBITDA are measures 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](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)**

In millions, except per share amounts	Three months ended	
	December 31, 2017	December 31, 2016
<b>NET SALES</b>	\$ 5,476	\$ 4,503
Cost of sales	4,102	3,383
<b>GROSS MARGIN</b>	1,374	1,120
<b>OPERATING EXPENSES AND INCOME</b>		
Selling, general and administrative expenses	633	519
Research, development and engineering expenses	207	158
Equity, royalty and interest income from investees	56	67
Loss contingency	5	—
Other operating income (expense), net	10	(3)
<b>OPERATING INCOME</b>	595	507
Interest income	7	5
Interest expense	24	18
Other income, net	18	14
<b>INCOME BEFORE INCOME TAXES</b>	596	508
Income tax expense	905	112
<b>CONSOLIDATED NET (LOSS) INCOME</b>	(309)	396
Less: Net (loss) income attributable to noncontrolling interests	(35)	18
<b>NET (LOSS) INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	\$ (274)	\$ 378
<b>EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.</b>		
Basic	\$ (1.66)	\$ 2.26
Diluted	\$ (1.65)	\$ 2.25
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>		
Basic	165.4	167.6
Diluted	166.2	168.1
<b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b>	\$ 1.08	\$ 1.025

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

In millions, except per share amounts	Years ended December 31,	
	2017	2016

<b>NET SALES</b>	<b>\$ 20,428</b>	<b>\$ 17,509</b>
Cost of sales	<b>15,338</b>	13,057
<b>GROSS MARGIN</b>	<b>5,090</b>	4,452
<b>OPERATING EXPENSES AND INCOME</b>		
Selling, general and administrative expenses	<b>2,390</b>	2,046
Research, development and engineering expenses	<b>752</b>	636
Equity, royalty and interest income from investees	<b>357</b>	301
Loss contingency	<b>5</b>	138
Other operating income (expense), net	<b>65</b>	(5)
<b>OPERATING INCOME</b>	<b>2,365</b>	1,928
Interest income	<b>18</b>	23
Interest expense	<b>81</b>	69
Other income, net	<b>63</b>	48
<b>INCOME BEFORE INCOME TAXES</b>	<b>2,365</b>	1,930
Income tax expense	<b>1,371</b>	474
<b>CONSOLIDATED NET INCOME</b>	<b>994</b>	1,456
Less: Net (loss) income attributable to noncontrolling interests	<b>(5)</b>	62
<b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	<b>\$ 999</b>	<b>\$ 1,394</b>
<b>EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.</b>		
Basic	<b>\$ 5.99</b>	\$ 8.25
Diluted	<b>\$ 5.97</b>	\$ 8.23
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>		
Basic	<b>166.6</b>	169.0
Diluted	<b>167.3</b>	169.3
<b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b>	<b>\$ 4.21</b>	\$ 4.00

(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	December 31, 2017	December 31, 2016
<b>ASSETS</b>		

## Current assets

Cash and cash equivalents	\$ 1,369	\$ 1,120
Marketable securities	198	260
Total cash, cash equivalents and marketable securities	<u>1,567</u>	<u>1,380</u>
Accounts and notes receivable, net	3,618	3,025
Inventories	3,166	2,675
Prepaid expenses and other current assets	577	627
Total current assets	<u>8,928</u>	<u>7,707</u>

## Long-term assets

Property, plant and equipment, net	3,927	3,800
Investments and advances related to equity method investees	1,156	946
Goodwill	1,082	480
Other intangible assets, net	973	332
Pension assets	1,043	731
Other assets	966	1,015
Total assets	<u>\$ 18,075</u>	<u>\$ 15,011</u>

## LIABILITIES

### Current liabilities

Accounts payable (principally trade)	\$ 2,579	\$ 1,854
Loans payable	57	41
Commercial paper	298	212
Accrued compensation, benefits and retirement costs	811	412
Current portion of accrued product warranty	454	333
Current portion of deferred revenue	500	468
Other accrued expenses	915	970
Current maturities of long-term debt	63	35
Total current liabilities	<u>5,677</u>	<u>4,325</u>

### Long-term liabilities

Long-term debt	1,588	1,568
Postretirement benefits other than pensions	289	329
Pensions	330	326
Other liabilities and deferred revenue	2,027	1,289
Total liabilities	<u>\$ 9,911</u>	<u>\$ 7,837</u>

## EQUITY

### Cummins Inc. shareholders' equity

Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.4 shares issued	\$ 2,210	\$ 2,153
Retained earnings	11,464	11,040
Treasury stock, at cost, 56.7 and 54.2 shares	(4,905)	(4,489)

Common stock held by employee benefits trust, at cost, 0.5 and 0.7 shares	(7)	(8)
Accumulated other comprehensive loss	(1,503)	(1,821)
Total Cummins Inc. shareholders' equity	7,259	6,875
Noncontrolling interests	905	299
Total equity	\$ 8,164	\$ 7,174
Total liabilities and equity	\$ 18,075	\$ 15,011

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

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

In millions	Years ended December 31,	
	2017	2016
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 2,277</b>	<b>\$ 1,939</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(506)	(531)
Investments in internal use software	(81)	(63)
Proceeds from disposals of property, plant and equipment	110	14
Investments in and advances to equity investees	(66)	(41)
Acquisitions of businesses, net of cash acquired	(662)	(94)
Investments in marketable securities—acquisitions	(194)	(478)
Investments in marketable securities—liquidations	266	306
Proceeds from sale of equity investees	—	60
Cash flows from derivatives not designated as hedges	76	(102)
Other, net	5	12
Net cash used in investing activities	(1,052)	(917)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	6	111
Net borrowings of commercial paper	86	212
Payments on borrowings and capital lease obligations	(60)	(163)
Net borrowings under short-term credit agreements	12	19
Distributions to noncontrolling interests	(29)	(65)
Dividend payments on common stock	(701)	(676)
Repurchases of common stock	(451)	(778)
Acquisitions of noncontrolling interests	—	(98)
Other, net	63	25



Net cash used in financing activities	<u>(1,074)</u>	<u>(1,413)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>98</b>	<b>(200)</b>
Net increase (decrease) in cash and cash equivalents	<b>249</b>	<b>(591)</b>
Cash and cash equivalents at beginning of year	<b>1,120</b>	<b>1,711</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b><u>\$ 1,369</u></b>	<b><u>\$ 1,120</u></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)

In millions	<u>Engine</u>	<u>Distribution</u>	<u>Components <sup>(1)</sup></u>	<u>Power Systems</u>	<u>Total Segment</u>	<u>Intersegment Eliminations <sup>(2)</sup></u>
<b>Three months ended December 31, 2017</b>						
External sales	<b>\$1,710</b>	<b>\$ 1,928</b>	<b>\$ 1,180</b>	<b>\$ 658</b>	<b>\$ 5,476</b>	<b>\$ —</b>
Intersegment sales	<b>577</b>	<b>10</b>	<b>378</b>	<b>445</b>	<b>1,410</b>	<b>(1,410)</b>
Total sales	<b>2,287</b>	<b>1,938</b>	<b>1,558</b>	<b>1,103</b>	<b>6,886</b>	<b>(1,410)</b>
Depreciation and amortization <sup>(3)</sup>	<b>47</b>	<b>26</b>	<b>46</b>	<b>30</b>	<b>149</b>	<b>—</b>
Research, development and engineering expenses	<b>79</b>	<b>5</b>	<b>70</b>	<b>53</b>	<b>207</b>	<b>—</b>
Equity, royalty and interest income from investees <sup>(4)</sup>	<b>33</b>	<b>9</b>	<b>—</b>	<b>14</b>	<b>56</b>	<b>—</b>
Interest income	<b>2</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>7</b>	<b>—</b>

EBIT	224	97	168	95	584	36
EBIT as a percentage of total sales	9.8%	5.0%	10.8%	8.6%	8.5%	
<b>Three months ended December 31, 2016</b>						
External sales	\$1,424	\$ 1,664	\$ 860	\$ 555	\$ 4,503	\$ —
Intersegment sales	543	6	317	377	1,243	(1,243)
Total sales	1,967	1,670	1,177	932	5,746	(1,243)
Depreciation and amortization (3)	41	31	38	28	138	—
Research, development and engineering expenses	60	3	47	48	158	—
Equity, royalty and interest income from investees	28	14	12	13	67	—
Interest income	2	1	1	1	5	—
EBIT	194	122 (5)	140	68 (6)	524	2
EBIT as a percentage of total sales	9.9%	7.3%	11.9%	7.3%	9.1%	

(1) The 2017 disclosures include Eaton Cummins Automated Transmission Technologies joint venture results consolidated during the third quarter of 2017.

(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 December 31, 2017 and 2016.

- (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."
- (4) U.S. tax legislation passed in December 2017 decreased our equity earnings at certain equity investees, negatively impacting our equity, royalty and interest income from investees by \$23 million, \$4 million and \$12 million for the Engine, Distribution and Components segments, respectively.
- (5) Distribution segment EBIT included a gain of \$15 million on the fair value adjustment resulting from the acquisition of the controlling interest in a North American distributor in the fourth quarter of 2016.
- (6) In the fourth quarter of 2016, we sold our remaining 49 percent interest in Cummins Olayan Energy for \$61 million and recognized a gain of \$17 million.

In millions	<u>Engine</u>	<u>Distribution</u>	<u>Components</u> <sup>(1)</sup>	<u>Power Systems</u>	<u>Total Segment</u>	<u>Intersegment Eliminations</u> <sup>(2)</sup>
<b>Year ended December 31, 2017</b>						
External sales	\$6,661	\$ 7,029	\$ 4,363	\$ 2,375	\$20,428	\$ —
Intersegment sales	2,292	29	1,526	1,683	5,530	(5,530)
Total sales	8,953	7,058	5,889	4,058	25,958	(5,530)
Depreciation and amortization <sup>(3)</sup>	184	116	163	117	580	—
Research, development and engineering expenses	279	19	240	214	752	—
Equity, royalty and interest income from investees <sup>(4)</sup>	219	44	40	54	357	—
Interest income	6	6	3	3	18	—
EBIT	959	384	754	294	2,391	55

EBIT as a percentage of total sales	<b>10.7%</b>	<b>5.4%</b>	<b>12.8%</b>	<b>7.2%</b>	<b>9.2%</b>	
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**Year ended  
December  
31, 2016**

External sales	\$5,774	\$ 6,157	\$ 3,514	\$2,064	\$17,509	\$ —
Intersegment sales	<u>2,030</u>	<u>24</u>	<u>1,322</u>	<u>1,453</u>	<u>4,829</u>	<u>(4,829)</u>
Total sales	7,804	6,181	4,836	3,517	22,338	(4,829)
Depreciation and amortization (3)	163	116	133	115	527	—
Research, development and engineering expenses	226	13	208	189	636	—
Equity, royalty and interest income from investees	148	70	41	42	301	—
Loss contingency	138	—	—	—	138	—
Interest income	10	4	4	5	23	—
EBIT	686	392 (5)	641	263 (6)	1,982	17

EBIT as a percentage of total sales	<b>8.8%</b>	<b>6.3%</b>	<b>13.3%</b>	<b>7.5%</b>	<b>8.9%</b>
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(1) The 2017 disclosures include Eaton Cummins Automated Transmission Technologies joint venture results consolidated during the third quarter of 2017.

(2) Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the years ended December 31, 2017 and 2016.

- (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 \$3 million for both years ended December 31, 2017 and December 31, 2016.
- (4) U.S. tax legislation passed in December 2017 decreased our equity earnings at certain equity investees, negatively impacting our equity, royalty and interest income from investees by \$23 million, \$4 million and \$12 million for the Engine, Distribution and Component segments, respectively.
- (5) Distribution segment EBIT included a gain of \$15 million on the fair value adjustment resulting from the acquisition of the controlling interests in a North American distributor in the fourth quarter of 2016.
- (6) In the fourth quarter of 2016, we sold our remaining 49 percent interest in Cummins Olayan Energy for \$61 million and recognized a gain of \$17 million.

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		Years ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Total EBIT	\$ 620	\$ 526	\$ 2,446	\$ 1,999
Less: Interest expense	24	18	81	69
Income before income taxes	\$ 596	\$ 508	\$ 2,365	\$ 1,930

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

**BASIS OF PRESENTATION**

Our consolidated financial statements were prepared based on proposed guidance provided by the Financial Accounting Standards Board in their Exposure Draft (ED) released on January 18, 2018, regarding the reclassification of certain stranded effects of income taxes in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017. The ED was not final on our earnings release date of February 6, 2018, but is expected to be final when we file our 2017 Form 10-K the week of February 12, 2018.

**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:

Three months ended	Years ended
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In millions	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
<b>Distribution entities</b>				
Komatsu Cummins Chile, Ltda.	\$ 7	\$ 8	\$ 30	\$ 34
North American distributors	—	3	—	21
All other distributors	—	(2)	(1)	—
<b>Manufacturing entities</b>				
Dongfeng Cummins Engine Company, Ltd.	17	14	73	46
Beijing Foton Cummins Engine Co., Ltd.	15	(7)	94	52
Chongqing Cummins Engine Company, Ltd.	11	10	41	38
Dongfeng Cummins Emission Solutions Co., Ltd.	3	4	13	9
Shanghai Fleetguard Filter Co., Ltd.	2	3	12	10
Cummins Westport, Inc.	— (1)	6	9 (1)	11
All other manufacturers	(12) (1)	16	37 (1)	39
Cummins share of net income	43	55	308	260
Royalty and interest income	13	12	49	41
Equity, royalty and interest income from investees	\$ 56	\$ 67	\$ 357	\$ 301

(1) U.S. tax legislation passed in December 2017 decreased our equity earnings at certain equity investees, including a \$7 million unfavorable impact to Cummins Westport, Inc. due to the remeasurement of deferred taxes and a \$32 million unfavorable impact to "All other manufacturers" due to withholding tax adjustments on foreign earnings.

## INCOME TAXES

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (Tax Legislation). Among other things, the Tax Legislation changed the U.S. statutory rate to 21 percent effective January 1, 2018. The impact of the Tax Legislation resulted in a net incremental charge to our *Condensed Consolidated Statements of Income* of \$777 million. The components of the 2017 charge were as follows:

In millions	<u>Impact of Tax Legislation</u>
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Increase in income tax expense	\$ 781
Decrease in equity, royalty and other income from investees	39
Increase in income attributable to noncontrolling interests	(43)
Net impact of Tax Legislation	<u>\$ 777</u>

The \$781 million increase in tax expense is composed of three elements - the remeasurement of deferred taxes, a one-time transitional tax on unrepatriated earnings and withholding taxes on foreign earnings.

We remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21 percent. We are still analyzing certain aspects of the Tax Legislation and refining our calculations, which could potentially affect the measurement of these balances. The provisional amount related to the remeasurement of our deferred tax balance is an incremental tax expense of \$152 million.

The one-time transition tax is based on our total post-1986 unrepatriated earnings and profits not previously subject to U.S. income tax. The recorded provisional amount for our one-time transition tax is a tax expense of \$298 million.

Withholding tax is an additional cost associated with the distribution of earnings from some jurisdictions. As a result of the Tax Legislation, we reconsidered previous assertions regarding earnings that were considered permanently reinvested, which requires us to record withholding taxes on earnings likely to be distributed in the foreseeable future. The assertion as to which earnings are permanently reinvested for purposes of calculating withholding tax is provisional as we refine the underlying calculations of the amount of earnings subject to the tax and the rate at which it will be taxed. The recorded provisional amount for the withholding tax resulted in an incremental tax expense of \$331 million.

Our unconsolidated equity investees were also unfavorably impacted by the new tax legislation by \$39 million, due to \$32 million of withholding taxes on foreign earnings and \$7 million due to the remeasurement of deferred taxes. In addition, our noncontrolling interests included a \$43 million credit related to the withholding taxes on foreign earnings.

Our income tax rates are generally less than the 35 percent U.S. statutory income tax rate, primarily because of lower taxes on foreign earnings and research tax credits. Our effective tax rate for 2017 was 151.8 percent and 58.0 percent for the fourth quarter and full year, respectively, compared to 22.0 percent and 24.6 percent for the fourth quarter and full year in 2016. Our 2017 effective tax rate excluding the Tax Legislation was 19.5 percent and 24.5 percent for the fourth quarter and full year, respectively.

We expect our 2018 effective tax rate to be 23 percent, excluding any discrete items (including adjustments to provisional estimates) that may arise.

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

## Condensed Consolidated Statements of Income excluding impacts of Tax Legislation

### Cummins Inc. and Subsidiaries Condensed Consolidated Statements of Income

	Three months ended December 31, 2017		
In millions, except per share amounts	As Reported Under GAAP	Excluding Tax Legislation Impact	Adjusted Excluding Tax Impact
<b>NET SALES</b>	\$ 5,476	\$ —	\$ 5,476
Cost of sales	4,102	—	4,102
<b>GROSS MARGIN</b>	1,374	—	1,374
<b>OPERATING EXPENSES AND INCOME</b>			
Selling, general and administrative expenses	633	—	633
Research, development and engineering expenses	207	—	207
Equity, royalty and interest income from investees	56	39	95
Loss contingency	5	—	5
Other operating income (expense), net	10	—	10
<b>OPERATING INCOME</b>	595	39	634
Interest income	7	—	7
Interest expense	24	—	24
Other income, net	18	—	18
<b>INCOME BEFORE INCOME TAXES</b>	596	39	635
Income tax expense	905	(781)	124
<b>CONSOLIDATED NET (LOSS) INCOME</b>	(309)	820	511
Less: Net (loss) income attributable to noncontrolling interests	(35)	43	8
<b>NET (LOSS) INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	\$ (274)	\$ 777	\$ 503
<b>EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.</b>			
Basic	\$ (1.66)	\$ 4.70	\$ 3.04
Diluted	\$ (1.65)	\$ 4.68	\$ 3.03
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>			
Basic	165.4	—	165.4
Diluted	166.2	—	166.2
<b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b>	\$ 1.08	\$ —	\$ 1.08



**Cummins Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Income**

	Year ended December 31, 2017		
In millions, except per share amounts	As Reported Under GAAP	Excluding Tax Legislation Impact	Adjusted Excluding Tax Impact
<b>NET SALES</b>	<b>\$ 20,428</b>	<b>\$ —</b>	<b>\$ 20,428</b>
Cost of sales	15,338	—	15,338
<b>GROSS MARGIN</b>	<b>5,090</b>	<b>—</b>	<b>5,090</b>
<b>OPERATING EXPENSES AND INCOME</b>			
Selling, general and administrative expenses	2,390	—	2,390
Research, development and engineering expenses	752	—	752
Equity, royalty and interest income from investees	357	39	396
Loss contingency	5	—	5
Other operating income (expense), net	65	—	65
<b>OPERATING INCOME</b>	<b>2,365</b>	<b>39</b>	<b>2,404</b>
Interest income	18	—	18
Interest expense	81	—	81
Other income, net	63	—	63
<b>INCOME BEFORE INCOME TAXES</b>	<b>2,365</b>	<b>39</b>	<b>2,404</b>
Income tax expense	1,371	(781)	590
<b>CONSOLIDATED NET INCOME</b>	<b>994</b>	<b>820</b>	<b>1,814</b>
Less: Net (loss) income attributable to noncontrolling interests	(5)	43	38
<b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	<b>\$ 999</b>	<b>\$ 777</b>	<b>\$ 1,776</b>
 <b>EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.</b>			
Basic	\$ 5.99	\$ 4.66	\$ 10.65
Diluted	\$ 5.97	\$ 4.65	\$ 10.62
 <b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>			
Basic	166.6	—	166.6
Diluted	167.3	—	167.3
 <b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b>	 <b>\$ 4.21</b>	 <b>\$ —</b>	 <b>\$ 4.21</b>

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Reconciliation of Non GAAP measures - 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, accounting principles generally accepted in the United States and may not be consistent with measures used by other companies. It should be considered supplemental data. Below is a reconciliation of "Net income attributable to Cummins Inc." to EBIT for each of the applicable periods:

In millions	Three months ended		Years ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Net (loss) income attributable to Cummins Inc.	\$ (274)	\$ 378	\$ 999	\$ 1,394
<i>Net (loss) income attributable to Cummins Inc. as a percentage of net sales</i>	<i>(5.0)%</i>	<i>8.4%</i>	<i>4.9%</i>	<i>8.0%</i>
Add				
Net (loss) income attributable to noncontrolling interests	(35)	18	(5)	62
Consolidated net (loss) income	(309)	396	994	1,456
Add				
Interest expense	24	18	81	69
Income tax expense	905	112	1,371	474
EBIT	620	526	2,446	1,999
<i>EBIT as a percentage of net sales</i>	<i>11.3%</i>	<i>11.7%</i>	<i>12.0%</i>	<i>11.4%</i>
Impact of tax legislation on equity investees	39	—	39	—
EBIT, excluding impact of tax legislation on equity investees	\$ 659	\$ 526	\$ 2,485	\$ 1,999
<i>EBIT, excluding impact of tax legislation on equity investees, as a percentage of net sales</i>	<i>12.0%</i>	<i>11.7%</i>	<i>12.2%</i>	<i>11.4%</i>

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

We define EBITDA as earnings before interest expense, income tax expense, noncontrolling interests, depreciation and amortization in income of consolidated subsidiaries. We will use EBITDA to assess and measure the performance of our operating segments and also as a component in measuring our variable compensation programs beginning January 1, 2018. This measure is not in accordance with, or an alternative for, accounting principles generally accepted in the United States and may not be consistent with measures used by other companies. It should be considered supplemental data. Below is a reconciliation of "Net income attributable to Cummins Inc." to EBITDA for each of the applicable periods:

In millions	Three months ended		Years ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Net (loss) income attributable to Cummins Inc.	\$ (274)	\$ 378	\$ 999	\$ 1,394
<i>Net (loss) income attributable to Cummins Inc. as a percentage of net sales</i>	<b>(5.0)%</b>	8.4%	<b>4.9%</b>	8.0%
Add				
Net (loss) income attributable to noncontrolling interests	(35)	18	(5)	62
Consolidated net (loss) income	<b>(309)</b>	396	<b>994</b>	1,456
Add				
Interest expense	24	18	81	69
Income tax expense	905	112	1,371	474
EBIT	<b>620</b>	526	<b>2,446</b>	1,999
Add				
Depreciation and amortization	149	138	580	527
EBITDA	<b>769</b>	664	<b>3,026</b>	2,526
<i>EBITDA as a percentage of net sales</i>	<b>14.0%</b>	14.7%	<b>14.8%</b>	14.4%

Impact of tax legislation on equity investees	<u>39</u>	<u>—</u>	<u>39</u>	<u>—</u>
EBITDA, excluding impact of tax legislation on equity investees	<u>\$ 730</u>	<u>\$ 664</u>	<u>\$ 3,065</u>	<u>\$ 2,526</u>
<i>EBITDA, excluding tax legislation impact on equity investees, as a percentage of net sales</i>	<b>13.3%</b>	14.7%	<b>15.0%</b>	14.4%

**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:

**2017**

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

**2016**

<b>In millions</b>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>YTD</u>
Heavy-duty truck	\$ 631	\$ 622	\$ 625	\$ 565	\$2,443
Medium-duty truck and bus	549	600	517	606	2,272
Light-duty automotive	433	394	345	409	1,581
Off-highway	363	386	372	387	1,508
Total sales	<u>\$1,976</u>	<u>\$2,002</u>	<u>\$1,859</u>	<u>\$1,967</u>	<u>\$7,804</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:

**2017**

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

## 2016

Units	Q1	Q2	Q3	Q4	YTD
Heavy-duty	19,700	20,700	20,100	18,500	79,000
Medium-duty	55,400	62,300	53,400	58,000	229,100
Light-duty	61,700	57,100	49,800	60,000	228,600
Total units	<u>136,800</u>	<u>140,100</u>	<u>123,300</u>	<u>136,500</u>	<u>536,700</u>

## Distribution Segment Sales by Product Line

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

### 2017

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

### 2016

In millions	Q1	Q2	Q3	Q4	YTD
Parts	\$ 648	\$ 642	\$ 643	\$ 694	\$2,627
Service	299	297	299	320	1,215
Power generation	275	326	291	347	1,239
Engines	241	279	271	309	1,100
Total sales	<u>\$1,463</u>	<u>\$1,544</u>	<u>\$1,504</u>	<u>\$1,670</u>	<u>\$6,181</u>

## Component Segment Sales by Business

In the first quarter of 2017, our Components segment reorganized its reporting structure to move our electronics business out of the emission solutions business and into the fuel systems business to enhance operational, administrative and product development efficiencies. Prior year sales were reclassified to conform with this change. We renamed our fuel systems business to electronics and fuel systems.

In the third quarter of 2017, we formed the Eaton Cummins Automated Transmission Technologies joint venture (ECJV), which was consolidated and included in our Components

segment as the automated transmissions business.

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

### 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>

### 2016

In millions	Q1	Q2	Q3	Q4	YTD
Emission solutions	\$ 589	\$ 603	\$ 522	\$ 524	\$2,238
Turbo technologies	265	276	241	254	1,036
Filtration	252	262	244	252	1,010
Electronics and fuel systems	131	138	136	147	552
Total sales	<u>\$1,237</u>	<u>\$1,279</u>	<u>\$1,143</u>	<u>\$1,177</u>	<u>\$4,836</u>

### 2015

In millions	YTD
Emission solutions	\$2,449
Turbo technologies	1,141
Filtration	1,010
Electronics and fuel systems	572
Total sales	<u>\$5,172</u>

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

In the first quarter of 2017, our Power Systems segment reorganized its product lines to better reflect how the segment is managed. Prior year sales were reclassified to reflect these changes.

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

### 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	<b>88</b>	354
Total sales	<u>\$ 882</u>	<u>\$1,017</u>	<u>\$1,056</u>	<u><b>\$1,103</b></u>	<u>\$4,058</u>

## 2016

In millions	Q1	Q2	Q3	Q4	YTD
Power generation	\$ 518	\$ 602	\$ 543	\$ 593	\$2,256
Industrial	215	236	235	255	941
Generator technologies	75	83	78	84	320
Total sales	<u>\$ 808</u>	<u>\$ 921</u>	<u>\$ 856</u>	<u>\$ 932</u>	<u>\$3,517</u>

## 2015

In millions	YTD
Power generation	\$2,588
Industrial	1,121
Generator technologies	358
Total sales	<u>\$4,067</u>

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

## 2017

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

## 2016

Units	Q1	Q2	Q3	Q4	YTD
Power generation	1,800	2,200	2,000	1,900	7,900
Industrial	1,000	1,100	1,000	1,300	4,400
Total units	<u>2,800</u>	<u>3,300</u>	<u>3,000</u>	<u>3,200</u>	<u>12,300</u>

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