

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 | 4,392 | 3,944 |
| 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 | (5) | 32 |
| OPERATING INCOME | 803 | 622 |
| Interest income | 9 | 4 |
| Interest expense | 30 | 18 |
| Other income, net | 23 | 14 |
| INCOME BEFORE INCOME TAXES | 805 | 622 |
| Income tax expense | 107 | 165 |
| CONSOLIDATED NET INCOME | 698 | 457 |
| Less: Net income attributable to noncontrolling interests | 6 | 4 |
| 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 |

(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 | 13,454 | 11,228 |
| 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 | 1 | 55 |
| OPERATING INCOME | 2,055 | 1,748 |
| Interest income | 26 | 11 |
| Interest expense | 82 | 57 |
| Other income, net | 44 | 67 |
| 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 |

(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 | <u>1,407</u> | 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 | <u>9,863</u> | <u>8,928</u> |
| 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 | <u>\$ 18,992</u> | <u>\$ 18,075</u> |
| 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 | <u>6,416</u> | <u>5,677</u> |
| 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 | <u>\$ 10,932</u> | <u>\$ 9,911</u> |
| EQUITY | | |
| Cummins Inc. shareholders' equity | | |

| | | | | |
|---|----|---------------|----|---------------|
| Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.4 shares issued | \$ | 2,151 | \$ | 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 | | <u>7,191</u> | | <u>7,259</u> |
| Noncontrolling interests | | <u>869</u> | | <u>905</u> |
| Total equity | \$ | <u>8,060</u> | \$ | <u>8,164</u> |
| Total liabilities and equity | \$ | <u>18,992</u> | \$ | <u>18,075</u> |

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

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

| In millions | <u>Nine months ended</u> | |
|--|--------------------------|-------------------|
| | <u>September 30,</u> | <u>October 1,</u> |
| | 2018 | 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 |
| | (156) | (166) |
| Equity in income of investees, net of dividends | | |
| 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 | <u>80</u> | <u>(115)</u> |

| | | |
|---|-----------------|-----------------|
| Net cash provided by operating activities | <u>1,388</u> | <u>1,471</u> |
| 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 | <u>(519)</u> | <u>(786)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net borrowings of commercial paper | 502 | 302 |
| | (54) | (38) |
| Payments on borrowings and capital lease obligations | | |
| 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 | <u>(960)</u> | <u>(600)</u> |
| 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 | <u>\$ 1,222</u> | <u>\$ 1,290</u> |

(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⁾ T
Three
months
ended
September
30, 2018

| | | | | | |
|--|---------|----------|----------|--------|------|
| External sales | \$2,082 | \$ 1,927 | \$ 1,297 | \$ 636 | \$ 1 |
| Intersegment sales | 644 | 4 | 457 | 471 | 1 |
| Total sales | 2,726 | 1,931 | 1,754 | 1,107 | 2 |
| Research, development and engineering expenses | 74 | 5 | 71 | 57 | 22 |
| Equity, royalty and interest income from investees | 55 | 9 | 12 | 14 | — |
| Interest income | 3 | 4 | 1 | 1 | — |
| Segment EBITDA | 405 | 155 | 288 | 163 | (30) |
| Depreciation and amortization (3) | 46 | 27 | 44 | 29 | 2 |
| EBITDA as a percentage of total sales | 14.9% | 8.0% | 16.4% | 14.7% | NM |

Three months ended October 1, 2017

| | | | | | |
|--|---------|----------|----------|--------|------|
| External sales | \$1,783 | \$ 1,748 | \$ 1,139 | \$ 615 | \$ — |
| Intersegment sales | 553 | 5 | 394 | 441 | — |
| Total sales | 2,336 | 1,753 | 1,533 | 1,056 | — |
| Research, development and engineering expenses | 83 | 6 | 63 | 61 | — |

| | | | | | |
|--|-------|------|-------|-------|----|
| Equity, royalty and interest income from investees | 58 | 11 | 12 | 14 | — |
| Interest income | 1 | 2 | — | 1 | — |
| Segment EBITDA | 276 | 120 | 259 | 111 | — |
| Depreciation and amortization (3) | 47 | 29 | 42 | 30 | — |
| EBITDA as a percentage of total sales | 11.8% | 6.8% | 16.9% | 10.5% | —% |

"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)

| <u>In millions</u> | <u>Engine</u> | <u>Distribution</u> | <u>Components</u> | <u>Power Systems</u> | <u>Electrified Power</u> | <u>(1) T</u> |
|---|----------------|---------------------|-------------------|----------------------|--------------------------|--------------|
| Nine months ended September 30, 2018 | | | | | | |
| External sales | \$5,945 | \$ 5,762 | \$ 4,012 | \$ 1,922 | \$ 4 | \$ |

| | | | | | |
|--|--------------|--------------|--------------|--------------|-------------|
| Intersegment sales | 1,923 | 16 | 1,382 | 1,505 | 1 |
| Total sales | 7,868 | 5,778 | 5,394 | 3,427 | 5 |
| Research, development and engineering expenses | 229 | 15 | 195 | 174 | 45 |
| Equity, royalty and interest income from investees | 189 | 33 | 42 | 51 | — |
| Interest income | 8 | 9 | 4 | 5 | — |
| Segment EBITDA | 1,053 | 423 | 752 | 491 | (61) |
| Depreciation and amortization (3) | 142 | 81 | 137 | 91 | 4 |
| EBITDA as a percentage of total sales | 13.4% | 7.3% | 13.9% | 14.3% | NM |

Nine months ended October 1, 2017

| | | | | | |
|--|---------|----------|----------|----------|------|
| External sales | \$4,951 | \$ 5,101 | \$ 3,183 | \$ 1,717 | \$ — |
| Intersegment sales | 1,715 | 19 | 1,148 | 1,238 | — |
| Total sales | 6,666 | 5,120 | 4,331 | 2,955 | — |
| Research, development and engineering expenses | 200 | 14 | 171 | 161 | — |
| Equity, royalty and interest income from investees | 186 | 35 | 40 | 40 | — |

| | | | | | |
|---------------------------------------|-------|------|-------|------|----|
| Interest income | 4 | 4 | 1 | 2 | — |
| Segment EBITDA | 872 | 377 | 703 | 286 | — |
| Depreciation and amortization (3) | 137 | 90 | 117 | 87 | — |
| EBITDA as a percentage of total sales | 13.1% | 7.4% | 16.2% | 9.7% | —% |

"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 | \$ 805 | \$ 622 | \$ 2,043 | \$ 1,769 |

CUMMINS INC. AND SUBSIDIARIES
SELECT 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 | |
|--|---------------------------|------------------------|---------------------------|------------------------|
| | 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 | \$ 90 | \$ 95 | \$ 315 | \$ 301 |

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)

Total change in operating income

Other non operating income, net

Total change in income before income taxes

| | | | | | |
|------------|------------|------------|------------|-------------|-------------|
| <u>—</u> | <u>(1)</u> | <u>—</u> | <u>(1)</u> | <u>(2)</u> | <u>(1)</u> |
| <u>(6)</u> | <u>(9)</u> | <u>(7)</u> | <u>(9)</u> | <u>(31)</u> | <u>(48)</u> |
| <u>6</u> | <u>9</u> | <u>7</u> | <u>9</u> | <u>31</u> | <u>48</u> |
| <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 | Power | | Total | | Intersegment | | Total |
|-----------------------|-----------------|---------------|---------------|---------------|-----------------|--------------|----------------|
| | Engine | Distribution | Components | Systems | Segment | Eliminations | |
| 2017 | | | | | | | |
| Q1 | \$ 273 | \$ 130 | \$ 216 | \$ 85 | \$ 704 | \$ 1 | \$ 705 |
| Q2 | 323 | 127 | 228 | 90 | 768 | (4) | 764 |
| Q3 | 276 | 120 | 259 | 111 | 766 | 22 | 788 |
| Q4 | 271 | 123 | 214 | 125 | 733 | 36 | 769 |
| 2017 Total | <u>\$ 1,143</u> | <u>\$ 500</u> | <u>\$ 917</u> | <u>\$ 411</u> | <u>\$ 2,971</u> | <u>\$ 55</u> | <u>\$3,026</u> |
| 2016 Total | <u>\$ 849</u> | <u>\$ 508</u> | <u>\$ 774</u> | <u>\$ 378</u> | <u>\$ 2,509</u> | <u>\$ 17</u> | <u>\$2,526</u> |

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

| In millions | Three months ended | | 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 | <u>698</u> | <u>457</u> | <u>1,577</u> | <u>1,303</u> |
| Add: | | | | |
| Interest expense | 30 | 18 | 82 | 57 |
| Income tax expense | 107 | 165 | 466 | 466 |
| Depreciation and amortization | 148 | 148 | 455 | 431 |
| EBITDA | <u>\$ 983</u> | <u>\$ 788</u> | <u>\$ 2,580</u> | <u>\$ 2,257</u> |

| | | | | |
|--|---------------|--------|-----------------|----------|
| <i>EBITDA as a percentage of net sales</i> | 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 |
| <i>EBITDA, excluding engine system campaign charge, as a percentage of net sales</i> | 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 | \$ 655 | \$ 4.05 | \$ 453 | \$ 2.71 |

| 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 | \$ 1,599 | \$ 9.76 | \$ 1,273 | \$ 7.60 |

**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

| <u>In millions</u> | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>YTD</u> |
|---------------------------|----------------|----------------|----------------|-------------|----------------|
| 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

| <u>In millions</u> | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>YTD</u> |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| 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

| <u>Units</u> | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>YTD</u> |
|--------------|----------------|----------------|----------------|-----------|----------------|
| 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

| <u>Units</u> | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> | <u>YTD</u> |
|--------------|----------------|----------------|----------------|----------------|----------------|
| 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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