

August 1, 2017



## Cummins Announces Second Quarter Results; Raises Outlook for 2017

- **Second quarter revenues of \$5.1 billion, GAAP<sup>1</sup> Net Income of \$424 million**
- **EBIT of 12.2 percent of sales, Diluted EPS of \$2.53**
- **The company expects stronger sales growth with full year 2017 revenues to be up 9 to 11 percent, compared to prior guidance of up 4 to 7 percent**
- **EBIT expected to be in the range of 11.75 to 12.5 percent, unchanged from prior guidance**

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

Second quarter revenues of \$5.1 billion increased 12 percent from the same quarter in 2016. Higher demand for trucks and construction equipment in North America and China, and stronger sales to mining, and oil & gas customers were the main drivers of revenue growth. Currency negatively impacted revenues by approximately 1 percent compared to last year, primarily due to the appreciation of the US dollar. Revenues in North America increased 13 percent and international sales grew 11 percent due to strong demand in China and India.

Net income attributable to Cummins in the second quarter was \$424 million (\$2.53 per diluted share), compared to \$406 million (\$2.40 per diluted share) in the same quarter a year ago. The tax rate in the second quarter of 2017 was 26.4 percent.

Earnings before interest and taxes (EBIT) was \$620 million, or 12.2 percent of sales, compared to \$591 million or 13.1 percent of sales a year ago.

“We delivered strong revenue growth in all four operating segments in the second quarter due to improving conditions in a number of important markets where we also have leading share. Earnings increased due to solid operational performance, partially offset by higher warranty costs that resulted in second quarter EBIT that was below our expectations” said Chairman and CEO Tom Linebarger. “As a result of stronger than expected orders in truck and construction markets in North America and China, and improving demand from global mining customers we have raised our 2017 full year outlook.”

Through the end of the second quarter, the Company has returned \$463 million to shareholders in the form of dividends and share repurchase and recently raised its quarterly cash dividend by 5.4 percent. Cummins plans to return 50 percent of its Operating Cash Flow to shareholders in 2017.

The Company continues to execute its strategy to be the leading global powertrain supplier. Cummins and power management company Eaton (NYSE:ETN) have successfully completed the formation of the Eaton Cummins Automated Transmission Technologies joint venture that was announced on April 10, 2017. Cummins and Eaton each own 50 percent of the global joint venture which will design, manufacture, sell and support all future medium-duty and heavy-duty automated transmissions for the commercial vehicle market. Eaton's current medium-duty automated transmission, Prociision®, and next generation heavy-duty automated transmissions, will be part of the business which will also market, sell, and support Eaton's current generation of automated heavy-duty transmissions to OEM customers in North America. Today marks the first day of operations for the joint venture and the financial results will be consolidated within Cummins' Components Segment. We are still in the process of completing the purchase accounting associated with our investment in this new venture, as required by GAAP<sup>1</sup>, but we do not currently expect the joint venture to have a material impact on Cummins' financial results in 2017.

Based on the current forecast, Cummins expects full year 2017 revenues to be up 9 to 11 percent, higher than the prior forecast of up 4 to 7 percent. EBIT is expected to be in the range of 11.75 to 12.5 percent of sales, unchanged from prior guidance. This forecast excludes the impact of our new Eaton Cummins Automated Transmission Technologies joint venture.

Other recent highlights:

- Cummins announced the election of two new members to its Board of Directors - Karen Quintos, Chief Customer Officer, Dell Technologies and Rich Freeland, Cummins President and Chief Operating Officer
- 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

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

## **Second quarter 2017 detail (all comparisons to same period in 2016)**

### **Engine Segment**

- Sales - \$2.3 billion, up 15 percent.
- Segment EBIT - \$277 million, or 12 percent of sales, compared to 206 million or 10.3 percent of sales a year ago
- On-highway revenues increased by 14 percent, and off-highway revenues increased 20 percent primarily due to increased demand in global truck and construction markets

### **Distribution Segment**

- Sales - \$1.7 billion, up 12 percent
- Segment EBIT - \$96 million, or 5.6 percent of sales, compared to \$87 million or 5.6 percent of sales
- Organic sales increased 7 percent and revenue from the acquisition completed in the fourth quarter of 2016 added 6 percent with a negative foreign currency impact of 1 percent

### **Components Segment**

- Sales - \$1.5 billion, up 14 percent.
- Segment EBIT - \$190 million, or 13.1 percent of sales, compared to \$190 million or 14.9 percent of sales
- EBIT in the second quarter of 2017 reflects a \$26m unfavorable change in estimate of warranty liability
- International revenue increased 25 percent, primarily due to China and India, in addition to a 6 percent sales increase in North America due to higher heavy and medium-duty truck production

### **Power Systems Segment**

- Sales - \$1.0 billion, up 10 percent
- Segment EBIT - \$61 million, or 6 percent of sales, compared to \$90 million, or 9.8 percent of sales
- EBIT in the second quarter of 2017 reflects a \$31 million accrual for the estimated costs of a quality campaign
- Increased demand in mining and oil & gas markets was the primary driver of revenue growth

### **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 55,400 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 7,400 dealer locations. Cummins earned \$1.39 billion on sales of \$17.5 billion in 2016. 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](https://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 2017. 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 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. 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 |                 |
|----------------------------------------------------|--------------------|-----------------|
|                                                    | July 2,<br>2017    | July 3,<br>2016 |
| <b>NET SALES</b>                                   | <b>\$ 5,078</b>    | <b>\$ 4,528</b> |
| Cost of sales                                      | <b>3,829</b>       | 3,331           |
| <b>GROSS MARGIN</b>                                | <b>1,249</b>       | 1,197           |
| <b>OPERATING EXPENSES AND INCOME</b>               |                    |                 |
| Selling, general and administrative expenses       | <b>596</b>         | 524             |
| Research, development and engineering expenses     | <b>174</b>         | 155             |
| Equity, royalty and interest income from investees | <b>98</b>          | 88              |
| Loss contingency                                   | <b>—</b>           | 39              |
| Other operating income (expense), net              | <b>18</b>          | —               |

|                                                           |               |               |
|-----------------------------------------------------------|---------------|---------------|
| <b>OPERATING INCOME</b>                                   | <b>595</b>    | <b>567</b>    |
| Interest income                                           | 5             | 6             |
| Interest expense                                          | 21            | 16            |
| Other income (expense), net                               | 20            | 18            |
| <b>INCOME BEFORE INCOME TAXES</b>                         | <b>599</b>    | <b>575</b>    |
| Income tax expense                                        | 158           | 148           |
| <b>CONSOLIDATED NET INCOME</b>                            | <b>441</b>    | <b>427</b>    |
| Less: Net income attributable to noncontrolling interests | 17            | 21            |
| <b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>            | <b>\$ 424</b> | <b>\$ 406</b> |

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

|         |         |         |
|---------|---------|---------|
| Basic   | \$ 2.53 | \$ 2.41 |
| Diluted | \$ 2.53 | \$ 2.40 |

**WEIGHTED AVERAGE SHARES OUTSTANDING**

|         |       |       |
|---------|-------|-------|
| Basic   | 167.3 | 168.8 |
| Diluted | 167.8 | 169.0 |

|                                                 |                 |                 |
|-------------------------------------------------|-----------------|-----------------|
| <b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b> | <b>\$ 1.025</b> | <b>\$ 0.975</b> |
|-------------------------------------------------|-----------------|-----------------|

(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                     | Six months ended |                 |
|-----------------------------------------------------------|------------------|-----------------|
|                                                           | July 2, 2017     | July 3, 2016    |
| <b>NET SALES</b>                                          | <b>\$ 9,667</b>  | <b>\$ 8,819</b> |
| Cost of sales                                             | 7,290            | 6,566           |
| <b>GROSS MARGIN</b>                                       | <b>2,377</b>     | <b>2,253</b>    |
| <b>OPERATING EXPENSES AND INCOME</b>                      |                  |                 |
| Selling, general and administrative expenses              | 1,133            | 1,014           |
| Research, development and engineering expenses            | 332              | 321             |
| Equity, royalty and interest income from investees        | 206              | 160             |
| Loss contingency                                          | —                | 39              |
| Other operating income (expense), net                     | 23               | (2)             |
| <b>OPERATING INCOME</b>                                   | <b>1,141</b>     | <b>1,037</b>    |
| Interest income                                           | 7                | 12              |
| Interest expense                                          | 39               | 35              |
| Other income (expense), net                               | 38               | 26              |
| <b>INCOME BEFORE INCOME TAXES</b>                         | <b>1,147</b>     | <b>1,040</b>    |
| Income tax expense                                        | 301              | 280             |
| <b>CONSOLIDATED NET INCOME</b>                            | <b>846</b>       | <b>760</b>      |
| Less: Net income attributable to noncontrolling interests | 26               | 33              |
| <b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>            | <b>\$ 820</b>    | <b>\$ 727</b>   |

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

|         |         |         |
|---------|---------|---------|
| Basic   | \$ 4.90 | \$ 4.27 |
| Diluted | \$ 4.88 | \$ 4.26 |

**WEIGHTED AVERAGE SHARES OUTSTANDING**

|         |       |       |
|---------|-------|-------|
| Basic   | 167.4 | 170.3 |
| Diluted | 167.9 | 170.5 |

|                                                 |                |                |
|-------------------------------------------------|----------------|----------------|
| <b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b> | <b>\$ 2.05</b> | <b>\$ 1.95</b> |
|-------------------------------------------------|----------------|----------------|

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

**CUMMINS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited) (a)

| In millions, except par value                                                        | July 2,<br>2017 | December 31,<br>2016 |
|--------------------------------------------------------------------------------------|-----------------|----------------------|
| <b>ASSETS</b>                                                                        |                 |                      |
| Current assets                                                                       |                 |                      |
| Cash and cash equivalents                                                            | \$ 1,293        | \$ 1,120             |
| Marketable securities                                                                | 174             | 260                  |
| Total cash, cash equivalents and marketable securities                               | 1,467           | 1,380                |
| Accounts and notes receivable, net                                                   | 3,553           | 3,025                |
| Inventories                                                                          | 2,982           | 2,675                |
| Prepaid expenses and other current assets                                            | 600             | 627                  |
| Total current assets                                                                 | 8,602           | 7,707                |
| Long-term assets                                                                     |                 |                      |
| Property, plant and equipment                                                        | 7,804           | 7,635                |
| Accumulated depreciation                                                             | (4,017)         | (3,835)              |
| Property, plant and equipment, net                                                   | 3,787           | 3,800                |
| Investments and advances related to equity method investees                          | 1,162           | 946                  |
| Goodwill                                                                             | 488             | 480                  |
| Other intangible assets, net                                                         | 339             | 332                  |
| Pension assets                                                                       | 852             | 731                  |
| Other assets                                                                         | 1,030           | 1,015                |
| Total assets                                                                         | <u>\$16,260</u> | <u>\$ 15,011</u>     |
| <b>LIABILITIES</b>                                                                   |                 |                      |
| Current liabilities                                                                  |                 |                      |
| Accounts payable (principally trade)                                                 | \$ 2,300        | \$ 1,854             |
| Loans payable                                                                        | 54              | 41                   |
| Commercial paper                                                                     | 134             | 212                  |
| Accrued compensation, benefits and retirement costs                                  | 475             | 412                  |
| Current portion of accrued product warranty                                          | 392             | 333                  |
| Current portion of deferred revenue                                                  | 520             | 468                  |
| Other accrued expenses                                                               | 974             | 970                  |
| Current maturities of long-term debt                                                 | 45              | 35                   |
| Total current liabilities                                                            | 4,894           | 4,325                |
| Long-term liabilities                                                                |                 |                      |
| Long-term debt                                                                       | 1,564           | 1,568                |
| Postretirement benefits other than pensions                                          | 318             | 329                  |
| Pensions                                                                             | 327             | 326                  |
| Other liabilities and deferred revenue                                               | 1,335           | 1,289                |
| Total liabilities                                                                    | <u>\$ 8,438</u> | <u>\$ 7,837</u>      |
| <b>EQUITY</b>                                                                        |                 |                      |
| Cummins Inc. shareholders' equity                                                    |                 |                      |
| Common stock, \$2.50 par value, 500 shares authorized, 222.3 and 222.4 shares issued | \$ 2,184        | \$ 2,153             |
| Retained earnings                                                                    | 11,517          | 11,040               |
| Treasury stock, at cost, 54.7 and 54.2 shares                                        | (4,586)         | (4,489)              |
| Common stock held by employee benefits trust, at cost, 0.6 and 0.7 shares            | (7)             | (8)                  |
| Accumulated other comprehensive loss                                                 | (1,615)         | (1,821)              |
| Total Cummins Inc. shareholders' equity                                              | 7,493           | 6,875                |
| Noncontrolling interests                                                             | 329             | 299                  |
| Total equity                                                                         | <u>\$ 7,822</u> | <u>\$ 7,174</u>      |
| Total liabilities and equity                                                         | <u>\$16,260</u> | <u>\$ 15,011</u>     |

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

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

| In millions                                                                                   | Six months ended |                 |
|-----------------------------------------------------------------------------------------------|------------------|-----------------|
|                                                                                               | July 2, 2017     | July 3, 2016    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                   |                  |                 |
| Consolidated net income                                                                       | \$ 846           | \$ 760          |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities |                  |                 |
| Depreciation and amortization                                                                 | 284              | 259             |
| Deferred income taxes                                                                         | —                | 2               |
| Equity in income of investees, net of dividends                                               | (132)            | (87)            |
| Pension contributions in excess of expense                                                    | (44)             | (82)            |
| Other post-retirement benefits payments in excess of expense                                  | (8)              | (17)            |
| Stock-based compensation expense                                                              | 23               | 20              |
| Restructuring payments                                                                        | —                | (42)            |
| Loss contingency                                                                              | —                | 39              |
| Translation and hedging activities                                                            | 31               | (45)            |
| Changes in current assets and liabilities                                                     |                  |                 |
| Accounts and notes receivable                                                                 | (488)            | (252)           |
| Inventories                                                                                   | (264)            | (101)           |
| Other current assets                                                                          | 21               | 189             |
| Accounts payable                                                                              | 403              | 143             |
| Accrued expenses                                                                              | 132              | (209)           |
| Changes in other liabilities and deferred revenue                                             | 103              | 129             |
| Other, net                                                                                    | (81)             | 32              |
| Net cash provided by operating activities                                                     | 826              | 738             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                   |                  |                 |
| Capital expenditures                                                                          | (182)            | (189)           |
| Investments in internal use software                                                          | (40)             | (27)            |
| Investments in and advances to equity investees                                               | (64)             | (17)            |
| Investments in marketable securities—acquisitions                                             | (69)             | (379)           |
| Investments in marketable securities—liquidations                                             | 162              | 237             |
| Cash flows from derivatives not designated as hedges                                          | 19               | (21)            |
| Other, net                                                                                    | 14               | 5               |
| Net cash used in investing activities                                                         | (160)            | (391)           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                   |                  |                 |
| Proceeds from borrowings                                                                      | 2                | 109             |
| Net (payments) borrowings of commercial paper                                                 | (78)             | 200             |
| Payments on borrowings and capital lease obligations                                          | (29)             | (133)           |
| Distributions to noncontrolling interests                                                     | (10)             | (24)            |
| Dividend payments on common stock                                                             | (343)            | (333)           |
| Repurchases of common stock                                                                   | (120)            | (695)           |
| Other, net                                                                                    | 34               | (20)            |
| Net cash used in financing activities                                                         | (544)            | (896)           |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>                           | 51               | (117)           |
| Net increase (decrease) in cash and cash equivalents                                          | 173              | (666)           |
| Cash and cash equivalents at beginning of year                                                | 1,120            | 1,711           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                             | <b>\$ 1,293</b>  | <b>\$ 1,045</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                                        | Engine  | Distribution | Components | Power Systems | Intersegment Eliminations <sup>(1)</sup> | Total   |
|----------------------------------------------------|---------|--------------|------------|---------------|------------------------------------------|---------|
| <b>Three months ended July 2, 2017</b>             |         |              |            |               |                                          |         |
| External sales                                     | \$1,711 | \$ 1,716     | \$ 1,064   | \$ 587        | \$ —                                     | \$5,078 |
| Intersegment sales                                 | 596     | 6            | 390        | 430           | (1,422)                                  | —       |
| Total sales                                        | 2,307   | 1,722        | 1,454      | 1,017         | (1,422)                                  | 5,078   |
| Depreciation and amortization <sup>(2)</sup>       | 46      | 31           | 38         | 29            | —                                        | 144     |
| Research, development and engineering expenses     | 63      | 4            | 57         | 50            | —                                        | 174     |
| Equity, royalty and interest income from investees | 56      | 13           | 15         | 14            | —                                        | 98      |
| Interest income                                    | 2       | 1            | 1          | 1             | —                                        | 5       |
| Segment EBIT                                       | 277     | 96           | 190        | 61            | (4)                                      | 620     |
| Segment EBIT as a percentage of total sales        | 12.0%   | 5.6 %        | 13.1 %     | 6.0 %         |                                          | 12.2%   |
| <b>Three months ended July 3, 2016</b>             |         |              |            |               |                                          |         |
| External sales                                     | \$1,504 | \$ 1,538     | \$ 933     | \$ 553        | \$ —                                     | \$4,528 |
| Intersegment sales                                 | 498     | 6            | 346        | 368           | (1,218)                                  | —       |
| Total sales                                        | 2,002   | 1,544        | 1,279      | 921           | (1,218)                                  | 4,528   |
| Depreciation and amortization <sup>(2)</sup>       | 41      | 29           | 32         | 29            | —                                        | 131     |
| Research, development and engineering expenses     | 53      | 3            | 51         | 48            | —                                        | 155     |
| Equity, royalty and interest income from investees | 46      | 19           | 12         | 11            | —                                        | 88      |
| Loss contingency                                   | 39      | —            | —          | —             | —                                        | 39      |
| Interest income                                    | 3       | 1            | 1          | 1             | —                                        | 6       |
| Segment EBIT                                       | 206     | 87           | 190        | 90            | 18                                       | 591     |
| Segment EBIT as a percentage of total sales        | 10.3%   | 5.6 %        | 14.9 %     | 9.8 %         |                                          | 13.1%   |

(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 July 2, 2017 and July 3, 2016.

(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 | Intersegment Eliminations <sup>(1)</sup> | Total   |
|----------------------------------------------------|---------|--------------|------------|---------------|------------------------------------------|---------|
| <b>Six months ended July 2, 2017</b>               |         |              |            |               |                                          |         |
| External sales                                     | \$3,168 | \$ 3,353     | \$ 2,044   | \$1,102       | \$ —                                     | \$9,667 |
| Intersegment sales                                 | 1,162   | 14           | 754        | 797           | (2,727)                                  | —       |
| Total sales                                        | 4,330   | 3,367        | 2,798      | 1,899         | (2,727)                                  | 9,667   |
| Depreciation and amortization <sup>(2)</sup>       | 90      | 61           | 75         | 57            | —                                        | 283     |
| Research, development and engineering expenses     | 117     | 8            | 107        | 100           | —                                        | 332     |
| Equity, royalty and interest income from investees | 128     | 24           | 28         | 26            | —                                        | 206     |
| Interest income                                    | 3       | 2            | 1          | 1             | —                                        | 7       |
| Segment EBIT                                       | 506     | 196          | 369        | 118           | (3)                                      | 1,186   |
| Segment EBIT as a percentage of total sales        | 11.7%   | 5.8 %        | 13.2 %     | 6.2%          |                                          | 12.3%   |
| <b>Six months ended July 3, 2016</b>               |         |              |            |               |                                          |         |
| External sales                                     | \$2,993 | \$ 2,996     | \$ 1,830   | \$1,000       | \$ —                                     | \$8,819 |
| Intersegment sales                                 | 985     | 11           | 686        | 729           | (2,411)                                  | —       |
| Total sales                                        | 3,978   | 3,007        | 2,516      | 1,729         | (2,411)                                  | 8,819   |
| Depreciation and amortization <sup>(2)</sup>       | 80      | 57           | 63         | 58            | —                                        | 258     |
| Research, development and engineering expenses     | 110     | 7            | 107        | 97            | —                                        | 321     |
| Equity, royalty and interest income from investees | 82      | 37           | 20         | 21            | —                                        | 160     |
| Loss contingency                                   | 39      | —            | —          | —             | —                                        | 39      |
| Interest income                                    | 5       | 2            | 2          | 3             | —                                        | 12      |
| Segment EBIT                                       | 403     | 174          | 353        | 136           | 9                                        | 1,075   |

|                                             |       |       |        |      |       |
|---------------------------------------------|-------|-------|--------|------|-------|
| Segment EBIT as a percentage of total sales | 10.1% | 5.8 % | 14.0 % | 7.9% | 12.2% |
|---------------------------------------------|-------|-------|--------|------|-------|

- (1) Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the six months ended July 2, 2017 and July 3, 2016.
- (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 \$1 million for both of the six months ended July 2, 2017 and July 3, 2016.

A reconciliation of our segment information to the corresponding amounts in the *Condensed Consolidated Statements of Income* is shown in the table below:

| In millions                | Three months ended |                 | Six months ended |                 |
|----------------------------|--------------------|-----------------|------------------|-----------------|
|                            | July 2,<br>2017    | July 3,<br>2016 | July 2,<br>2017  | July 3,<br>2016 |
| Total segment EBIT         | \$ 620             | \$ 591          | \$ 1,186         | \$ 1,075        |
| Less: Interest expense     | 21                 | 16              | 39               | 35              |
| Income before income taxes | <u>\$ 599</u>      | <u>\$ 575</u>   | <u>\$ 1,147</u>  | <u>\$ 1,040</u> |

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

#### EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEEES

Equity, royalty and interest income from investees included in our *Condensed Consolidated Statements of Income* for the reporting periods was as follows:

| In millions                                        | Three months ended |                 | Six months ended |                 |
|----------------------------------------------------|--------------------|-----------------|------------------|-----------------|
|                                                    | July 2,<br>2017    | July 3,<br>2016 | July 2,<br>2017  | July 3,<br>2016 |
| <b>Distribution entities</b>                       |                    |                 |                  |                 |
| Komatsu Cummins Chile, Ltda.                       | \$ 8               | \$ 8            | \$ 15            | \$ 18           |
| North American distributors                        | —                  | 6               | —                | 11              |
| All other distributors                             | —                  | 1               | —                | 1               |
| <b>Manufacturing entities</b>                      |                    |                 |                  |                 |
| Beijing Foton Cummins Engine Co., Ltd.             | 22                 | 22              | 55               | 40              |
| Dongfeng Cummins Engine Company, Ltd.              | 19                 | 15              | 41               | 22              |
| Chongqing Cummins Engine Company, Ltd.             | 10                 | 9               | 19               | 17              |
| All other manufacturers                            | 27                 | 16              | 51               | 32              |
| Cummins share of net income                        | 86                 | 77              | 181              | 141             |
| <b>Royalty and interest income</b>                 | 12                 | 11              | 25               | 19              |
| Equity, royalty and interest income from investees | <u>\$ 98</u>       | <u>\$ 88</u>    | <u>\$ 206</u>    | <u>\$ 160</u>   |

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

#### 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   |                      | Six months ended      |                        |
|-----------------------------------------------------------------------------|----------------------|----------------------|-----------------------|------------------------|
|                                                                             | July 2, 2017         | July 3, 2016         | July 2, 2017          | July 3, 2016           |
| Net income attributable to Cummins Inc.                                     | <u>\$ 424</u>        | <u>\$ 406</u>        | <u>\$ 820</u>         | <u>\$ 727</u>          |
| <i>Net income attributable to Cummins Inc. as a percentage of net sales</i> | <b>8.3 %</b>         | 9.0 %                | <b>8.5%</b>           | 8.2%                   |
| Add                                                                         |                      |                      |                       |                        |
| Net income attributable to noncontrolling interests                         | <u>17</u>            | <u>21</u>            | <u>26</u>             | <u>33</u>              |
| Consolidated net income                                                     | <u>441</u>           | <u>427</u>           | <u>846</u>            | <u>760</u>             |
| Add                                                                         |                      |                      |                       |                        |
| Interest expense                                                            | <u>21</u>            | <u>16</u>            | <u>39</u>             | <u>35</u>              |
| Income tax expense                                                          | <u>158</u>           | <u>148</u>           | <u>301</u>            | <u>280</u>             |
| Earnings before interest expense and income taxes                           | <u><u>\$ 620</u></u> | <u><u>\$ 591</u></u> | <u><u>\$1,186</u></u> | <u><u>\$ 1,075</u></u> |
| <i>EBIT as a percentage of net sales</i>                                    | <b>12.2 %</b>        | 13.1 %               | <b>12.3%</b>          | 12.2%                  |

## 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:

| <b>2017</b>               |                |                       |                |                |                |
|---------------------------|----------------|-----------------------|----------------|----------------|----------------|
| In millions               | Q1             | Q2                    | Q3             | Q4             | YTD            |
| Heavy-duty truck          | \$ 620         | <b>\$ 714</b>         | \$ —           | \$ —           | \$1,334        |
| Medium-duty truck and bus | 544            | <b>701</b>            | —              | —              | 1,245          |
| Light-duty automotive     | 423            | <b>429</b>            | —              | —              | 852            |
| Off-highway               | 436            | <b>463</b>            | —              | —              | 899            |
| Total sales               | <u>\$2,023</u> | <u><b>\$2,307</b></u> | <u>\$ —</u>    | <u>\$ —</u>    | <u>\$4,330</u> |
| <b>2016</b>               |                |                       |                |                |                |
| In millions               | Q1             | Q2                    | Q3             | Q4             | YTD            |
| 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:

| Units       | Q1             | Q2                    | Q3       | Q4       | YTD            |
|-------------|----------------|-----------------------|----------|----------|----------------|
| Heavy-duty  | 19,200         | <b>24,100</b>         | —        | —        | 43,300         |
| Medium-duty | 60,300         | <b>71,600</b>         | —        | —        | 131,900        |
| Light-duty  | 63,100         | <b>65,600</b>         | —        | —        | 128,700        |
| Total units | <u>142,600</u> | <u><b>161,300</b></u> | <u>—</u> | <u>—</u> | <u>303,900</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         | <b>\$ 759</b>         | \$ —        | \$ —        | \$1,504        |
| Service          | 319            | <b>320</b>            | —           | —           | 639            |
| Power generation | 306            | <b>329</b>            | —           | —           | 635            |
| Engines          | 275            | <b>314</b>            | —           | —           | 589            |
| Total sales      | <u>\$1,645</u> | <u><b>\$1,722</b></u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$3,367</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 an element of the emission solutions business to the fuel systems business to enhance operational, administrative and product development efficiencies. Prior year sales were reclassified to conform with this change.

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

#### 2017

| In millions        | Q1             | Q2                    | Q3          | Q4          | YTD            |
|--------------------|----------------|-----------------------|-------------|-------------|----------------|
| Emission solutions | \$ 616         | <b>\$ 674</b>         | \$ —        | \$ —        | \$1,290        |
| Turbo technologies | 287            | <b>307</b>            | —           | —           | 594            |
| Filtration         | 277            | <b>291</b>            | —           | —           | 568            |
| Fuel systems       | 164            | <b>182</b>            | —           | —           | 346            |
| Total sales        | <u>\$1,344</u> | <u><b>\$1,454</b></u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$2,798</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          |
| 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          |
| 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         | \$ —        | \$ —        | \$1,096        |
| Industrial             | 275           | 353            | —           | —           | 628            |
| Generator technologies | 81            | 94             | —           | —           | 175            |
| Total sales            | <u>\$ 882</u> | <u>\$1,017</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$1,899</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        | —        | —        | 4,000        |
| Industrial       | 1,300        | 1,700        | —        | —        | 3,000        |
| Total units      | <u>3,200</u> | <u>3,800</u> | <u>—</u> | <u>—</u> | <u>7,000</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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