

CUMMINS INC
Form 8-K
February 09, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: February 9, 2017

CUMMINS INC.
(Exact name of registrant as specified in its charter)
Indiana 1-4949 35-0257090
(State or other Jurisdiction of (Commission File Number) (I.R.S. Employer Identification No.)
Incorporation)

500 Jackson Street
P. O. Box 3005
Columbus, IN 47202-3005
(Principal Executive Office) (Zip Code)

Registrant's telephone number, including area code: (812) 377-5000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

On February 9, 2017, Cummins Inc. (“Cummins,” “the Company,” “the registrant,” “we,” “our,” or “us”) issued the attached press release reporting its financial results for the fourth quarter and full year of 2016, which is furnished herewith as Exhibit 99.

The information furnished pursuant to this Item 2.02, including Exhibit 99, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Exchange Act.

Item 9.01. Financial Statements and Exhibits.

(d) The following exhibit is furnished pursuant to Item 2.02 herewith:
99-Press Release dated February 9, 2017

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 9, 2017

CUMMINS INC.
/s/ Marsha L. Hunt
Marsha L. Hunt
Vice President - Corporate Controller
(Principal Accounting Officer)

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

| In millions, except per share amounts | Three months ended | | |
|---|--------------------|-------------------|---|
| | December 31, 2016 | December 31, 2015 | |
| NET SALES | \$4,503 | \$ 4,766 | |
| Cost of sales | 3,383 | 3,554 | |
| GROSS MARGIN | 1,120 | 1,212 | |
| OPERATING EXPENSES AND INCOME | | | |
| Selling, general and administrative expenses | 519 | 508 | |
| Research, development and engineering expenses | 158 | 177 | |
| Equity, royalty and interest income from investees | 67 | 75 | |
| Loss contingency charge | — | 60 | |
| Impairment of light-duty diesel assets | — | 211 | |
| Restructuring actions and other charges | — | 90 | |
| Other operating expense, net | (3 |) (12 |) |
| OPERATING INCOME | 507 | 229 | |
| Interest income | 5 | 4 | |
| Interest expense | 18 | 18 | |
| Other income (expense), net | 14 | (3 |) |
| INCOME BEFORE INCOME TAXES | 508 | 212 | |
| Income tax expense | 112 | 34 | |
| CONSOLIDATED NET INCOME | 396 | 178 | |
| Less: Net income attributable to noncontrolling interests | 18 | 17 | |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$378 | \$ 161 | |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | | |
| Basic | \$2.26 | \$ 0.92 | |
| Diluted | \$2.25 | \$ 0.92 | |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | | |
| Basic | 167.6 | 175.5 | |
| Diluted | 168.1 | 175.8 | |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$1.025 | \$ 0.975 | |

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

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

| In millions, except per share amounts | Years ended | |
|---|--------------|----------|
| | December 31, | |
| | 2016 | 2015 |
| NET SALES | \$17,509 | \$19,110 |
| Cost of sales | 13,057 | 14,163 |
| GROSS MARGIN | 4,452 | 4,947 |
| OPERATING EXPENSES AND INCOME | | |
| Selling, general and administrative expenses | 2,046 | 2,092 |
| Research, development and engineering expenses | 636 | 735 |
| Equity, royalty and interest income from investees | 301 | 315 |
| Loss contingency charges | 138 | 60 |
| Impairment of light-duty diesel assets | — | 211 |
| Restructuring actions and other charges | — | 90 |
| Other operating expense, net | (5 |) (17 |
| OPERATING INCOME | 1,928 | 2,057 |
| Interest income | 23 | 24 |
| Interest expense | 69 | 65 |
| Other income, net | 48 | 9 |
| INCOME BEFORE INCOME TAXES | 1,930 | 2,025 |
| Income tax expense | 474 | 555 |
| CONSOLIDATED NET INCOME | 1,456 | 1,470 |
| Less: Net income attributable to noncontrolling interests | 62 | 71 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$1,394 | \$1,399 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | |
| Basic | \$8.25 | \$7.86 |
| Diluted | \$8.23 | \$7.84 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | |
| Basic | 169.0 | 178.0 |
| Diluted | 169.3 | 178.4 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$4.00 | \$3.51 |

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

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

| In millions, except par value | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,120 | \$ 1,711 |
| Marketable securities | 260 | 100 |
| Total cash, cash equivalents and marketable securities | 1,380 | 1,811 |
| Accounts and notes receivable, net | 3,025 | 2,820 |
| Inventories | 2,675 | 2,707 |
| Prepaid expenses and other current assets | 627 | 609 |
| Total current assets | 7,707 | 7,947 |
| Long-term assets | | |
| Property, plant and equipment, net | 3,800 | 3,745 |
| Investments and advances related to equity method investees | 946 | 975 |
| Goodwill and other intangible assets, net | 812 | 810 |
| Other assets | 1,746 | 1,657 |
| Total assets | \$ 15,011 | \$ 15,134 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable (principally trade) | \$ 1,854 | \$ 1,706 |
| Loans payable | 41 | 24 |
| Commercial paper | 212 | — |
| Accrued expenses | 2,218 | 2,073 |
| Total current liabilities | 4,325 | 3,803 |
| Long-term liabilities | | |
| Long-term debt | 1,568 | 1,576 |
| Other liabilities | 1,944 | 2,005 |
| Total liabilities | \$ 7,837 | \$ 7,384 |
| EQUITY | | |
| Cummins Inc. shareholders' equity | | |
| Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.4 shares issued | \$ 2,153 | \$ 2,178 |
| Retained earnings | 11,040 | 10,322 |
| Treasury stock, at cost, 54.2 and 47.2 shares | (4,489) | (3,735) |
| Common stock held by employee benefits trust, at cost, 0.7 and 0.9 shares | (8) | (11) |
| Accumulated other comprehensive loss | (1,821) | (1,348) |
| Total Cummins Inc. shareholders' equity | 6,875 | 7,406 |
| Noncontrolling interests | 299 | 344 |
| Total equity | \$ 7,174 | \$ 7,750 |
| Total liabilities and equity | \$ 15,011 | \$ 15,134 |

(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 | Years ended December 31, | |
|---|-----------------------------|-----------------|
| | 2016 | 2015 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 1,935 | \$ 2,059 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (531) | (744) |
| Investments in internal use software | (63) | (55) |
| Investments in and advances to equity investees | (41) | (7) |
| Acquisitions of businesses, net of cash acquired | (94) | (117) |
| Investments in marketable securities—acquisitions | (478) | (282) |
| Investments in marketable securities—liquidations | 306 | 270 |
| Proceeds from sale of equity investees | 60 | — |
| Cash flows from derivatives not designated as hedges | (102) | 8 |
| Other, net | 26 | 9 |
| Net cash used in investing activities | (917) | (918) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 111 | 44 |
| Net borrowings of commercial paper | 212 | — |
| Payments on borrowings and capital lease obligations | (163) | (76) |
| Net borrowings (payments) under short-term credit agreements | 19 | (41) |
| Distributions to noncontrolling interests | (65) | (49) |
| Dividend payments on common stock | (676) | (622) |
| Repurchases of common stock | (778) | (900) |
| Acquisition of noncontrolling interests | (98) | (10) |
| Other, net | 29 | 10 |
| Net cash used in financing activities | (1,409) | (1,644) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (200) | (87) |
| Net decrease in cash and cash equivalents | (591) | (590) |
| Cash and cash equivalents at beginning of year | 1,711 | 2,301 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 1,120 | \$ 1,711 |

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

CUMMINS INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)

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

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

| In millions | Engine | Distribution | Components | Power Systems | Intersegment Elimination (1) | Total |
|--|----------|--------------|------------|------------------|------------------------------------|----------|
| Three months ended December 31, 2016 | | | | | | |
| External sales | \$ 1,424 | \$ 1,664 | \$ 860 | \$ 555 | \$ — | \$ 4,503 |
| Intersegment sales | 543 | 6 | 317 | 377 | (1,243) | — |
| Total sales | 1,967 | 1,670 | 1,177 | 932 | (1,243) | 4,503 |
| Depreciation and amortization (2) | 42 | 30 | 38 | 28 | — | 138 |
| Research, development and engineering expenses | 60 | 3 | 47 | 48 | — | 158 |
| Equity, royalty and interest income from investees | 28 | 14 | 12 | 13 | — | 67 |
| Interest income | 2 | 1 | 1 | 1 | — | 5 |
| Segment EBIT | 194 | 122 | (3) 140 | 68 | (4) 2 | 526 |
| Segment EBIT as a percentage of total sales | 9.9 | % 7.3 | % 11.9 | % 7.3 | % | 11.7 |
| Three months ended December 31, 2015 | | | | | | |
| External sales | \$ 1,583 | \$ 1,699 | \$ 906 | \$ 578 | \$ — | \$ 4,766 |
| Intersegment sales | 515 | 8 | 330 | 408 | (1,261) | — |
| Total sales | 2,098 | 1,707 | 1,236 | 986 | (1,261) | 4,766 |
| Depreciation and amortization (2) | 47 | 27 | 27 | 29 | — | 130 |
| Research, development and engineering expenses | 68 | 2 | 53 | 54 | — | 177 |
| Equity, royalty and interest income from investees | 39 | 18 | 9 | 9 | — | 75 |
| Loss contingency charge | 60 | — | — | — | — | 60 |
| Impairment of light-duty diesel assets | 202 | — | 9 | — | — | 211 |
| Restructuring actions and other charges | 17 | 23 | 13 | 26 | 11 | 90 |

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| | | | | | | |
|---|---------|-------|--------|-------|----|-------|
| Interest income | 1 | 1 | 1 | 1 | — | 4 |
| Segment EBIT | (59) | 88 | 153 | 33 | 15 | 230 |
| Segment EBIT as a percentage of total sales | (2.8)% | 5.2 % | 12.4 % | 3.3 % | | 4.8 % |

Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses.

- (1) There were no significant unallocated corporate expenses for the three months ended December 31, 2016 and 2015.
- (2) Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount and deferred costs included in the Condensed Consolidated Statements of Income as "Interest expense." Distribution segment EBIT included a gain of \$15 million on the fair value adjustment resulting from the
- (3) acquisition of the controlling interest in a North American distributor for the three months ended December 31, 2016. See "ACQUISITION" for additional information.
- (4) In the fourth quarter of 2016, we sold our remaining 49 percent interest in Cummins Olayan Energy for \$61 million and recognized a gain of \$17 million.

CUMMINS INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)

| In millions | Engine | Distribution | Components | Power Systems | Intersegment Elimination (1) | Total |
|--|---------|--------------|------------|------------------|------------------------------------|----------|
| Year ended December 31, 2016 | | | | | | |
| External sales | \$5,774 | \$ 6,157 | \$ 3,514 | \$2,064 | \$ — | \$17,509 |
| Intersegment sales | 2,030 | 24 | 1,322 | 1,453 | (4,829) | — |
| Total sales | 7,804 | 6,181 | 4,836 | 3,517 | (4,829) | 17,509 |
| Depreciation and amortization (2) | 163 | 116 | 133 | 115 | — | 527 |
| Research, development and engineering expenses | 226 | 13 | 208 | 189 | — | 636 |
| Equity, royalty and interest income from investees | 148 | 70 | 41 | 42 | — | 301 |
| Loss contingency charges | 138 | — | — | — | — | 138 |
| Interest income | 10 | 4 | 4 | 5 | — | 23 |
| Segment EBIT | 686 | 392 | (3) 641 | 263 | (4) 17 | 1,999 |
| Segment EBIT as a percentage of total sales | 8.8 | % 6.3 | % 13.3 | % 7.5 | % | 11.4 % |
| Year ended December 31, 2015 | | | | | | |
| External sales | \$6,733 | \$ 6,198 | \$ 3,745 | \$2,434 | \$ — | \$19,110 |
| Intersegment sales | 1,937 | 31 | 1,427 | 1,633 | (5,028) | — |
| Total sales | 8,670 | 6,229 | 5,172 | 4,067 | (5,028) | 19,110 |
| Depreciation and amortization (2) | 187 | 105 | 109 | 110 | — | 511 |
| Research, development and engineering expenses | 263 | 10 | 236 | 226 | — | 735 |
| Equity, royalty and interest income from investees | 146 | 78 | 35 | 56 | — | 315 |
| Loss contingency charge | 60 | — | — | — | — | 60 |
| Impairment of light-duty diesel assets | 202 | — | 9 | — | — | 211 |
| Restructuring charges and other actions | 17 | 23 | 13 | 26 | 11 | 90 |
| Interest income | 11 | 4 | 4 | 5 | — | 24 |
| Segment EBIT | 636 | 412 | (3) 727 | 335 | (20) | 2,090 |
| Segment EBIT as a percentage of total sales | 7.3 | % 6.6 | % 14.1 | % 8.2 | % | 10.9 % |

(1) Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses.

(2) There were no significant unallocated corporate expenses for the years ended December 31, 2016 and 2015.

(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 were \$3 million for both the years ended December 31, 2016 and December 31, 2015.

(4) Distribution segment EBIT included gains of \$15 million and \$18 million on the fair value adjustments resulting from the acquisition of the controlling interests in North American distributors for the years ended December 31, 2016 and December 31, 2015.

(5)

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In the fourth quarter of 2016, we sold our remaining 49 percent interest in Cummins Olayan Energy for \$61 million and recognized a gain of \$17 million.

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

| In millions | Three months ended | | Years ended | |
|----------------------------|--------------------|-------------------|-------------------|-------------------|
| | December 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| Total segment EBIT | \$ 526 | \$ 230 | \$1,999 | \$ 2,090 |
| Less: Interest expense | 18 | 18 | 69 | 65 |
| Income before income taxes | \$ 508 | \$ 212 | \$1,930 | \$ 2,025 |

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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 | | Years ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| Distribution entities | | | | |
| Komatsu Cummins Chile, Ltda. | \$ 8 | \$ 8 | \$ 34 | \$ 31 |
| North American distributors | 3 | 6 | 21 | 33 |
| All other distributors | (2) | 1 | — | 3 |
| Manufacturing entities | | | | |
| Dongfeng Cummins Engine Company, Ltd. | 14 | 11 | 46 | 51 |
| Chongqing Cummins Engine Company, Ltd. | 10 | 9 | 38 | 41 |
| Beijing Foton Cummins Engine Co., Ltd. | (7) | 15 | 52 | 62 |
| All other manufacturers | 29 | 11 | 69 | 52 |
| Cummins share of net income | 55 | 61 | 260 | 273 |
| Royalty and interest income | 12 | 14 | 41 | 42 |
| Equity, royalty and interest income from investees | \$ 67 | \$ 75 | \$ 301 | \$ 315 |

CUMMINS INC. AND SUBSIDIARIES
 SELECTED FOOTNOTE DATA
 (Unaudited)

ACQUISITION

The Distribution segment North American distributor acquisition in the fourth quarter of 2016 was as follows:

| Entity Acquired | Date of Acquisition | Additional Payments to Interest Acquired | Acquisition Related Debt Retirements | Total Purchase Consideration | Type of Acquisition ⁽¹⁾ | Gain Recognized | Goodwill Acquired | Intangible Assets Recognized | Net Sales Previous Fiscal Year Ended |
|-------------------------------|---------------------|--|--------------------------------------|------------------------------|------------------------------------|-----------------|-------------------|------------------------------|--------------------------------------|
| Cummins Pacific LLC (Pacific) | 10/04/16 | 50 % | \$ 30 | \$ 67 | \$ 99 ⁽²⁾ COMB | \$ 15 | \$ 4 | \$ 8 | \$ 391 |

The results from Pacific were included in Distribution segment results subsequent to the acquisition date. Pacific

⁽¹⁾ was accounted for as business combination (COMB) with gains recognized based on the requirement to remeasure our pre-existing ownership to fair value in accordance with GAAP.

⁽²⁾ The "Total Purchase Consideration" represents the total amount that will or is estimated to be paid to complete the acquisition. A portion of the acquisition payment has not yet been made and will be paid in future periods in accordance with the purchase contract. The total outstanding consideration at December 31, 2016, for this entity was \$2 million.

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

Net income and diluted earnings per share (EPS) attributable to Cummins Inc. excluding special items
 We believe these are useful measures of our operating performance for the periods presented as they illustrate our operating performance without regard to special items including tax adjustments. These measures are not in accordance with, or an alternative for, accounting principles generally accepted in the United States of America (GAAP) and may not be consistent with measures used by other companies. It should be considered supplemental data. The following table reconciles net income attributable to Cummins Inc. to net income attributable to Cummins Inc. excluding special items for the following periods:

| | Three months ended | | Three months ended | |
|---|--------------------|----------------|--------------------|----------------|
| | December 31, 2016 | | December 31, 2015 | |
| | In Net million | Diluted EPS | Net Income | Diluted EPS |
| Net income attributable to Cummins Inc. | \$378 | \$ 2.25 | \$ 161 | \$ 0.92 |
| Add Impairment of light-duty diesel assets, net of tax (1) | — | | 133 | 0.75 |
| Restructuring actions and other charges, net of tax (2) | — | | 61 | 0.35 |
| Net income attributable to Cummins Inc. excluding special items | \$378 | \$ 2.25 | \$ 355 | \$ 2.02 |
| | Years ended | | | |

| | December 31, 2016 | December 31, 2015 | | |
|---|----------------------|----------------------|----------------|---------|
| In Net millions | Diluted EPS | Net Income | Diluted EPS | |
| Net income attributable to Cummins Inc. | \$1,394 | \$ 8.23 | \$1,399 | \$ 7.84 |
| Add Impairment of light-duty diesel assets, net of tax (1) | — | 133 | 0.75 | |
| Restructuring actions and other charges, net of tax (2) | — | 61 | 0.34 | |
| Net income attributable to Cummins Inc. excluding special items | \$1,394 | \$ 8.23 | \$1,593 | \$ 8.93 |

(1) In the fourth quarter of 2015, we recorded a \$211 million charge for impairment of our light-duty diesel assets.

(2) In the fourth quarter of 2015, we recorded a \$90 million charge for restructuring actions and other charges.

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

Earnings before interest, income taxes, noncontrolling interests and special items

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

| In millions | Three months ended | | Years ended | |
|---|--------------------|---------------|---------------|---------------|
| | December 2016 | December 2015 | December 2016 | December 2015 |
| Net income attributable to Cummins Inc. | \$378 | \$ 161 | \$1,394 | \$ 1,399 |
| Net income attributable to Cummins Inc. as a percentage of net sales | 8.4 % | 3.4 % | 8.0 % | 7.3 % |
| Add | | | | |
| Net income attributable to noncontrolling interests | 18 | 17 | 62 | 71 |
| Consolidated net income | 396 | 178 | 1,456 | 1,470 |
| Add | | | | |
| Interest expense | 18 | 18 | 69 | 65 |
| Income tax expense | 112 | 34 | 474 | 555 |
| Earnings before interest expense and income taxes | 526 | 230 | 1,999 | 2,090 |
| EBIT as a percentage of net sales | 11.7 % | 4.8 % | 11.4 % | 10.9 % |
| Add | | | | |
| Impairment of light-duty diesel assets | — | 211 | — | 211 |
| Restructuring actions and other charges | — | 90 | — | 90 |
| Earnings before interest expense, income taxes and special items | \$526 | \$ 531 | \$1,999 | \$ 2,391 |
| Earnings before interest expense, income taxes and special items as a percentage of net sales | 11.7 % | 11.1 % | 11.4 % | 12.5 % |

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

Engine Segment Sales by Market and Unit Shipments by Engine Classification

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

• Heavy-duty truck - We manufacture diesel and natural gas engines that range from 310 to 605 horsepower serving global heavy-duty truck customers worldwide, primarily in North America, Latin America and Australia.

• Medium-duty truck and bus - We manufacture diesel and natural gas engines ranging from 130 to 450 horsepower serving medium-duty truck and bus customers worldwide, with key markets including North America, Latin America, China, Europe and India. Applications include pickup and delivery trucks, vocational truck, school bus, transit bus and shuttle bus. We also provide diesel engines for Class A motor homes (RVs), primarily in North America.

• Light-duty automotive (Pickup and Light Commercial Vehicle (LCV)) - We manufacture 105 to 385 horsepower diesel engines, including engines for the pickup truck market for Chrysler and Nissan in North America, and LCV markets in Europe, Latin America and Asia.

• Off-highway - We manufacture diesel engines that range from 48 to 715 horsepower to key global markets including mining, marine, rail, oil and gas, defense, agriculture and construction equipment and also to the power generation business for standby, mobile and distributed power generation solutions throughout the world.

Sales for our Engine segment by market were as follows:

2016

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|---------------------------|---------|---------|---------|---------|---------|
| Heavy-duty truck | \$631 | \$622 | \$625 | \$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 | \$1,976 | \$2,002 | \$1,859 | \$1,967 | \$7,804 |

2015

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

2014

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

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

Unit shipments by engine classification (including unit shipments to Power Systems and off-highway engine units included in their respective classification) were as follows:

2016

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|-------------|---------|---------|---------|---------|---------|
| 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 | 136,800 | 140,100 | 123,300 | 136,500 | 536,700 |

2015

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

2014

| Units | YTD |
|-------------|---------|
| Heavy-duty | 122,100 |
| Medium-duty | 266,800 |
| Light-duty | 204,400 |
| Total units | 593,300 |

Distribution Segment Sales by Product Line

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 | \$1,463 | \$1,544 | \$1,504 | \$1,670 | \$6,181 |

2015

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

CUMMINS INC. AND SUBSIDIARIES
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 (Unaudited)

Component Segment Sales by Business

2016

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|--------------------|---------|---------|---------|---------|---------|
| Emission solutions | \$607 | \$624 | \$540 | \$546 | \$2,317 |
| Turbo technologies | 265 | 276 | 241 | 254 | 1,036 |
| Filtration | 252 | 262 | 244 | 252 | 1,010 |
| Fuel systems | 113 | 117 | 118 | 125 | 473 |
| Total sales | \$1,237 | \$1,279 | \$1,143 | \$1,177 | \$4,836 |

2015

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

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

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

Power generation - We design, manufacture, sell and support back-up and prime power generators ranging from 2 kilowatts to 3.5 megawatts, as well as controls, paralleling systems and transfer switches, for applications such as consumer, commercial, industrial, data centers, health care, telecommunications and waste water treatment plants. We also provide turnkey solutions for distributed generation and energy management applications using natural gas or biogas as a fuel. We also serve global rental accounts for diesel and gas generator sets.

Industrial - We design, manufacture, sell and support diesel and natural gas high-horsepower engines up to 5,500 horsepower for a wide variety of equipment in the mining, rail, defense, oil and gas, and commercial marine applications throughout the world. Across these markets, we have major customers in North America, Europe, the Middle East, Africa, China, Korea, Japan, Latin America, India, Russia, Southeast Asia, South Pacific and Mexico.

Generator technologies - We design, manufacture, sell and support A/C generator/alternator products for internal consumption and for external generator set assemblers. Our products are sold under the Stamford, AVK and Markon brands and range in output from 3 kilovolt-amperes (kVA) to 12,000 kVA.

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

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

2016

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------|-------|-------|-------|-------|---------|
| Power generation | \$520 | \$597 | \$545 | \$573 | \$2,235 |
| Industrial | 215 | 240 | 233 | 275 | 963 |
| Generator technologies | 73 | 84 | 78 | 84 | 319 |
| Total sales | \$808 | \$921 | \$856 | \$932 | \$3,517 |

2015

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

2014

| In millions | YTD |
|------------------------|---------|
| Power generation | \$2,633 |
| Industrial | 1,331 |
| Generator technologies | 450 |
| Total sales | \$4,414 |

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

2016

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

2015

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

2014

| Units | YTD |
|------------------|--------|
| Power generation | 8,700 |
| Industrial | 6,100 |
| Total units | 14,800 |