

CUMMINS INC  
Form 8-K  
February 06, 2018  
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 6, 2018

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))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter)

Emerging growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.



Item 2.02. Results of Operations and Financial Condition.

On February 6, 2018, 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 2017, 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 6, 2018

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 6, 2018

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

(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, |          |
|  | 2017         | 2016     |
| NET SALES  | \$20,428     | \$17,509 |
| Cost of sales  | 15,338       | 13,057   |
| GROSS MARGIN   | 5,090        | 4,452    |
| OPERATING EXPENSES AND INCOME                                    |              |          |
| Selling, general and administrative expenses                     | 2,390        | 2,046    |
| Research, development and engineering expenses                   | 752          | 636      |
| Equity, royalty and interest income from investees               | 357          | 301      |
| Loss contingency   | 5            | 138      |
| Other operating income (expense), net                            | 65           | (5 )     |
| OPERATING INCOME   | 2,365        | 1,928    |
| Interest income  | 18           | 23       |
| Interest expense   | 81           | 69       |
| Other income, net  | 63           | 48       |
| INCOME BEFORE INCOME TAXES                                       | 2,365        | 1,930    |
| Income tax expense   | 1,371        | 474      |
| CONSOLIDATED NET INCOME  | 994          | 1,456    |
| Less: Net (loss) income attributable to noncontrolling interests | (5 )         | 62       |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC.                          | \$999        | \$1,394  |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.           |              |          |
| Basic  | \$5.99       | \$8.25   |
| Diluted  | \$5.97       | \$8.23   |
| WEIGHTED AVERAGE SHARES OUTSTANDING                              |              |          |
| Basic  | 166.6        | 169.0    |
| Diluted  | 167.3        | 169.3    |
| CASH DIVIDENDS DECLARED PER COMMON SHARE                         | \$4.21       | \$4.00   |

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

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

| In millions, except par value  | December 31,<br>2017 | December 31,<br>2016 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Current assets   |                      |                      |
| Cash and cash equivalents  | \$ 1,369             | \$ 1,120             |
| Marketable securities  | 198                  | 260                  |
| Total cash, cash equivalents and marketable securities                               | 1,567                | 1,380                |
| Accounts and notes receivable, net   | 3,618                | 3,025                |
| Inventories  | 3,166                | 2,675                |
| Prepaid expenses and other current assets  | 577                  | 627                  |
| Total current assets   | 8,928                | 7,707                |
| Long-term assets   |                      |                      |
| Property, plant and equipment, net   | 3,927                | 3,800                |
| Investments and advances related to equity method investees                          | 1,156                | 946                  |
| Goodwill   | 1,082                | 480                  |
| Other intangible assets, net   | 973                  | 332                  |
| Pension assets   | 1,043                | 731                  |
| Other assets   | 966                  | 1,015                |
| Total assets   | \$ 18,075            | \$ 15,011            |
| <b>LIABILITIES</b>   |                      |                      |
| Current liabilities  |                      |                      |
| Accounts payable (principally trade)   | \$ 2,579             | \$ 1,854             |
| Loans payable  | 57                   | 41                   |
| Commercial paper   | 298                  | 212                  |
| Accrued compensation, benefits and retirement costs                                  | 811                  | 412                  |
| Current portion of accrued product warranty  | 454                  | 333                  |
| Current portion of deferred revenue  | 500                  | 468                  |
| Other accrued expenses   | 915                  | 970                  |
| Current maturities of long-term debt   | 63                   | 35                   |
| Total current liabilities  | 5,677                | 4,325                |
| Long-term liabilities  |                      |                      |
| Long-term debt   | 1,588                | 1,568                |
| Postretirement benefits other than pensions  | 289                  | 329                  |
| Pensions   | 330                  | 326                  |
| Other liabilities and deferred revenue   | 2,027                | 1,289                |
| Total liabilities  | \$ 9,911             | \$ 7,837             |
| <b>EQUITY</b>  |                      |                      |
| Cummins Inc. shareholders' equity  |                      |                      |
| Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.4 shares issued | \$ 2,210             | \$ 2,153             |
| Retained earnings  | 11,464               | 11,040               |
| Treasury stock, at cost, 56.7 and 54.2 shares  | (4,905)              | (4,489)              |
| Common stock held by employee benefits trust, at cost, 0.5 and 0.7 shares            | (7)                  | (8)                  |
| Accumulated other comprehensive loss   | (1,503)              | (1,821)              |
| Total Cummins Inc. shareholders' equity  | 7,259                | 6,875                |

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|                              |           |           |
|------------------------------|-----------|-----------|
| Noncontrolling interests     | 905       | 299       |
| Total equity                 | \$ 8,164  | \$ 7,174  |
| Total liabilities and equity | \$ 18,075 | \$ 15,011 |

(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<br>December 31, |                |
|---|-----------------------------|----------------|
|   | 2017                        | 2016           |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                    | <b>\$2,277</b>              | <b>\$1,939</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                         |                             |                |
| Capital expenditures  | (506 )                      | (531 )         |
| Investments in internal use software                                | (81 )                       | (63 )          |
| Proceeds from disposals of property, plant and equipment            | 110                         | 14             |
| Investments in and advances to equity investees                     | (66 )                       | (41 )          |
| Acquisitions of businesses, net of cash acquired                    | (662 )                      | (94 )          |
| Investments in marketable securities—acquisitions                   | (194 )                      | (478 )         |
| Investments in marketable securities—liquidations                   | 266                         | 306            |
| Proceeds from sale of equity investees                              | —                           | 60             |
| Cash flows from derivatives not designated as hedges                | 76                          | (102 )         |
| Other, net  | 5                           | 12             |
| Net cash used in investing activities                               | (1,052 )                    | (917 )         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                         |                             |                |
| Proceeds from borrowings  | 6                           | 111            |
| Net borrowings of commercial paper                                  | 86                          | 212            |
| Payments on borrowings and capital lease obligations                | (60 )                       | (163 )         |
| Net borrowings under short-term credit agreements                   | 12                          | 19             |
| Distributions to noncontrolling interests                           | (29 )                       | (65 )          |
| Dividend payments on common stock                                   | (701 )                      | (676 )         |
| Repurchases of common stock   | (451 )                      | (778 )         |
| Acquisitions of noncontrolling interests                            | —                           | (98 )          |
| Other, net  | 63                          | 25             |
| Net cash used in financing activities                               | (1,074 )                    | (1,413 )       |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b> | <b>98</b>                   | <b>(200 )</b>  |
| Net increase (decrease) in cash and cash equivalents                | 249                         | (591 )         |
| Cash and cash equivalents at beginning of year                      | 1,120                       | 1,711          |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                   | <b>\$1,369</b>              | <b>\$1,120</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<br>(1) | Power<br>Systems | Total<br>Segment | Intersegment<br>Elimination<br>(2) | Total   |   |
|--|---------|--------------|-------------------|------------------|------------------|------------------------------------|---------|---|
| Three months ended December 31, 2017                   |         |              |                   |                  |                  |                                    |         |   |
| External sales   | \$1,710 | \$1,928      | \$1,180           | \$658            | \$5,476          | \$ —                               | \$5,476 |   |
| Intersegment sales                                     | 577     | 10           | 378               | 445              | 1,410            | (1,410)                            | —       |   |
| Total sales  | 2,287   | 1,938        | 1,558             | 1,103            | 6,886            | (1,410)                            | 5,476   |   |
| Depreciation and amortization (3)                      | 47      | 26           | 46                | 30               | 149              | —                                  | 149     |   |
| Research, development and engineering expenses         | 79      | 5            | 70                | 53               | 207              | —                                  | 207     |   |
| Equity, royalty and interest income from investees (4) | 33      | 9            | —                 | 14               | 56               | —                                  | 56      |   |
| Interest income  | 2       | 2            | 2                 | 1                | 7                | —                                  | 7       |   |
| EBIT   | 224     | 97           | 168               | 95               | 584              | 36                                 | 620     |   |
| EBIT as a percentage of total sales                    | 9.8     | % 5.0        | % 10.8            | % 8.6            | % 8.5            | %                                  | 11.3    | % |
| Three months ended December 31, 2016                   |         |              |                   |                  |                  |                                    |         |   |
| External sales   | \$1,424 | \$1,664      | \$860             | \$555            | \$4,503          | \$ —                               | \$4,503 |   |
| Intersegment sales                                     | 543     | 6            | 317               | 377              | 1,243            | (1,243)                            | —       |   |
| Total sales  | 1,967   | 1,670        | 1,177             | 932              | 5,746            | (1,243)                            | 4,503   |   |
| Depreciation and amortization (3)                      | 41      | 31           | 38                | 28               | 138              | —                                  | 138     |   |
| Research, development and engineering expenses         | 60      | 3            | 47                | 48               | 158              | —                                  | 158     |   |
| Equity, royalty and interest income from investees     | 28      | 14           | 12                | 13               | 67               | —                                  | 67      |   |
| Interest income  | 2       | 1            | 1                 | 1                | 5                | —                                  | 5       |   |
| EBIT   | 194     | 122          | (5) 140           | 68               | (6) 524          | 2                                  | 526     |   |
| EBIT as a percentage of total sales                    | 9.9     | % 7.3        | % 11.9            | % 7.3            | % 9.1            | %                                  | 11.7    | % |

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

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

(2) There were no significant unallocated corporate expenses for the three months ended December 31, 2017 and 2016.

(3) Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount and deferred costs included in the Condensed Consolidated Statements of Income as "Interest expense."

(4) U.S. tax legislation passed in December 2017 decreased our equity earnings at certain equity investees, negatively impacting our equity, royalty and interest income from investees by \$23 million, \$4 million and \$12 million for the Engine, Distribution and Components segments, respectively.

(5) Distribution segment EBIT included a gain of \$15 million on the fair value adjustment resulting from the acquisition of the controlling interest in a North American distributor in the fourth quarter of 2016.

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

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CUMMINS INC. AND SUBSIDIARIES  
SEGMENT INFORMATION  
(Unaudited)

| In millions   | Engine  | Distribution | Components<br>(1) | Power<br>Systems | Total<br>Segment | Intersegment<br>Elimination<br>(2) | Total    |   |
|---|---------|--------------|-------------------|------------------|------------------|------------------------------------|----------|---|
| Year ended December 31,<br>2017                           |         |              |                   |                  |                  |                                    |          |   |
| External sales  | \$6,661 | \$7,029      | \$4,363           | \$2,375          | \$20,428         | \$ —                               | \$20,428 |   |
| Intersegment sales  | 2,292   | 29           | 1,526             | 1,683            | 5,530            | (5,530)                            | —        |   |
| Total sales   | 8,953   | 7,058        | 5,889             | 4,058            | 25,958           | (5,530)                            | 20,428   |   |
| Depreciation and amortization<br>(3)                      | 184     | 116          | 163               | 117              | 580              | —                                  | 580      |   |
| Research, development and<br>engineering expenses         | 279     | 19           | 240               | 214              | 752              | —                                  | 752      |   |
| Equity, royalty and interest<br>income from investees (4) | 219     | 44           | 40                | 54               | 357              | —                                  | 357      |   |
| Interest income   | 6       | 6            | 3                 | 3                | 18               | —                                  | 18       |   |
| EBIT  | 959     | 384          | 754               | 294              | 2,391            | 55                                 | 2,446    |   |
| EBIT as a percentage of total<br>sales                    | 10.7    | % 5.4        | % 12.8            | % 7.2            | % 9.2            | %                                  | 12.0     | % |
| Year ended December 31,<br>2016                           |         |              |                   |                  |                  |                                    |          |   |
| External sales  | \$5,774 | \$6,157      | \$3,514           | \$2,064          | \$17,509         | \$ —                               | \$17,509 |   |
| Intersegment sales  | 2,030   | 24           | 1,322             | 1,453            | 4,829            | (4,829)                            | —        |   |
| Total sales   | 7,804   | 6,181        | 4,836             | 3,517            | 22,338           | (4,829)                            | 17,509   |   |
| Depreciation and amortization<br>(3)                      | 163     | 116          | 133               | 115              | 527              | —                                  | 527      |   |
| Research, development and<br>engineering expenses         | 226     | 13           | 208               | 189              | 636              | —                                  | 636      |   |
| Equity, royalty and interest<br>income from investees     | 148     | 70           | 41                | 42               | 301              | —                                  | 301      |   |
| Loss contingency  | 138     | —            | —                 | —                | 138              | —                                  | 138      |   |
| Interest income   | 10      | 4            | 4                 | 5                | 23               | —                                  | 23       |   |
| EBIT  | 686     | 392          | (5) 641           | 263              | (6) 1,982        | 17                                 | 1,999    |   |
| EBIT as a percentage of total<br>sales                    | 8.8     | % 6.3        | % 13.3            | % 7.5            | % 8.9            | %                                  | 11.4     | % |

- (1) The 2017 disclosures include Eaton Cummins Automated Transmission Technologies joint venture results consolidated during the third quarter of 2017.
- (2) Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the years ended December 31, 2017 and 2016. Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount and deferred costs included in the Condensed Consolidated Statements of Income as "Interest expense." The amortization of debt discount and deferred costs was \$3 million for both years ended December 31, 2017 and December 31, 2016.
- (3)

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U.S. tax legislation passed in December 2017 decreased our equity earnings at certain equity investees, negatively (4) impacting our equity, royalty and interest income from investees by \$23 million, \$4 million and \$12 million for the Engine, Distribution and Component segments, respectively.

(5) Distribution segment EBIT included a gain of \$15 million on the fair value adjustment resulting from the acquisition of the controlling interests in a North American distributor in the fourth quarter of 2016.

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

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

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

CUMMINS INC. AND SUBSIDIARIES  
 SELECT FOOTNOTE DATA  
 (Unaudited)

## BASIS OF PRESENTATION

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

## EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEEES

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

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

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

## INCOME TAXES

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

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

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

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

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

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

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

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

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

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

Condensed Consolidated Statements of Income excluding impacts of Tax Legislation

Cummins Inc. and Subsidiaries  
 Condensed Consolidated Statements of Income

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

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

Cummins Inc. and Subsidiaries  
 Condensed Consolidated Statements of Income

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



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

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

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

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

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

| In millions  | Three months ended<br>December 31, |        | Years ended<br>December 31, |          |  |  |
|--|------------------------------------|--------|-----------------------------|----------|--|--|
|  | 2017                               | 2016   | 2017                        | 2016     |  |  |
| Net (loss) income attributable to Cummins Inc.   | \$(274)                            | \$ 378 | \$999                       | \$ 1,394 |  |  |
| Net (loss) income attributable to Cummins Inc. as a percentage of net sales                | (5.0 )%                            | 8.4 %  | 4.9 %                       | 8.0 %    |  |  |
| Add  |                                    |        |                             |          |  |  |
| Net (loss) income attributable to noncontrolling interests                                 | (35 )                              | 18     | (5 )                        | 62       |  |  |
| Consolidated net (loss) income   | (309 )                             | 396    | 994                         | 1,456    |  |  |
| Add  |                                    |        |                             |          |  |  |
| Interest expense   | 24                                 | 18     | 81                          | 69       |  |  |
| Income tax expense   | 905                                | 112    | 1,371                       | 474      |  |  |
| EBIT   | 620                                | 526    | 2,446                       | 1,999    |  |  |
| Add  |                                    |        |                             |          |  |  |
| Depreciation and amortization  | 149                                | 138    | 580                         | 527      |  |  |
| EBITDA   | 769                                | 664    | 3,026                       | 2,526    |  |  |
| EBITDA as a percentage of net sales  | 14.0 %                             | 14.7 % | 14.8 %                      | 14.4 %   |  |  |
| Impact of tax legislation on equity investees  | 39                                 | —      | 39                          | —        |  |  |
| EBITDA, excluding impact of tax legislation on equity investees                            | \$730                              | \$ 664 | \$3,065                     | \$ 2,526 |  |  |
| EBITDA, excluding tax legislation impact on equity investees, as a percentage of net sales | 13.3 %                             | 14.7 % | 15.0 %                      | 14.4 %   |  |  |

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

Engine Segment Sales by Market and Unit Shipments by Engine Classification

Sales for our Engine segment by market were as follows:

2017

| In millions               | Q1      | Q2      | Q3      | Q4      | YTD     |
|---------------------------|---------|---------|---------|---------|---------|
| 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               | \$2,023 | \$2,307 | \$2,336 | \$2,287 | \$8,953 |

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 |

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

2017

| Units       | Q1      | Q2      | Q3      | Q4      | YTD     |
|-------------|---------|---------|---------|---------|---------|
| 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 | 142,600 | 161,300 | 162,900 | 154,700 | 621,500 |

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 |

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

Distribution Segment Sales by Product Line

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

2017

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

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 |

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

Component Segment Sales by Business

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

In the third quarter of 2017, we formed the Eaton Cummins Automated Transmission Technologies joint venture (ECJV), which was consolidated and included in our Components segment as the automated transmissions business. Sales for our Components segment by product line were as follows:

2017

| In millions                  | Q1      | Q2      | Q3      | Q4      | YTD     |
|------------------------------|---------|---------|---------|---------|---------|
| Emission solutions           | \$616   | \$674   | \$696   | \$689   | \$2,675 |
| Turbo technologies           | 287     | 307     | 297     | 288     | 1,179   |
| Filtration                   | 277     | 291     | 287     | 298     | 1,153   |
| Electronics and fuel systems | 164     | 182     | 184     | 188     | 718     |
| Automated transmissions      | —       | —       | 69      | 95      | 164     |
| Total sales                  | \$1,344 | \$1,454 | \$1,533 | \$1,558 | \$5,889 |

2016

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

2015

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

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

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

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

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

2017

| In millions            | Q1    | Q2      | Q3      | Q4      | YTD     |
|------------------------|-------|---------|---------|---------|---------|
| Power generation       | \$526 | \$570   | \$580   | \$629   | \$2,305 |
| Industrial             | 275   | 353     | 385     | 386     | 1,399   |
| Generator technologies | 81    | 94      | 91      | 88      | 354     |
| Total sales            | \$882 | \$1,017 | \$1,056 | \$1,103 | \$4,058 |

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            | \$808 | \$921 | \$856 | \$932 | \$3,517 |

2015

| In millions            | YTD     |
|------------------------|---------|
| Power generation       | \$2,588 |
| Industrial             | 1,121   |
| Generator technologies | 358     |
| Total sales            | \$4,067 |

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

2017

| Units            | Q1    | Q2    | Q3    | Q4    | YTD    |
|------------------|-------|-------|-------|-------|--------|
| Power generation | 1,900 | 2,100 | 2,200 | 2,000 | 8,200  |
| Industrial       | 1,300 | 1,700 | 1,600 | 1,800 | 6,400  |
| Total units      | 3,200 | 3,800 | 3,800 | 3,800 | 14,600 |

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 |