UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended July 4, 2021

Commission File Number 1-4949

CUMMINS INC.

(Exact name of registrant as specified in its charter)

Indiana	**35-0257090**
(State of Incorporation)	(IRS Employer Identification No.)

500 Jackson Street
Box 3005
Columbus, Indiana 47202-3005
(Address of principal executive offices)

Telephone (812) 377-5000
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, $2.50 par value	CMI	New York Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	☒	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	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. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 4, 2021, there were 143,607,162 shares of common stock outstanding with a par value of $2.50 per share.

CUMMINS INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

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

In millions, except per share amounts	Three months ended July 4, 2021	Three months ended June 28, 2020	Six months ended July 4, 2021	Six months ended June 28, 2020
NET SALES [a] (Note 2)	**$ 6,111**	$ 3,852	**$ 12,203**	$ 8,863
Cost of sales	**4,633**	2,962	**9,239**	6,679
GROSS MARGIN	**1,478**	890	**2,964**	2,184
OPERATING EXPENSES AND INCOME				
Selling, general and administrative expenses	**600**	470	**1,174**	1,016
Research, development and engineering expenses	**276**	189	**536**	427
Equity, royalty and interest income from investees (Note 4)	**137**	115	**303**	244
Other operating expense, net	**(4)**	(10)	**(12)**	(15)
OPERATING INCOME	**735**	336	**1,545**	970
Interest expense	**29**	23	**57**	46
Other income, net	**73**	49	**74**	93
INCOME BEFORE INCOME TAXES	**779**	362	**1,562**	1,017
Income tax expense (Note 5)	**167**	93	**339**	220
CONSOLIDATED NET INCOME	**612**	269	**1,223**	797
Less: Net income (loss) attributable to noncontrolling interests	**12**	(7)	**20**	10
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	**$ 600**	$ 276	**$ 1,203**	$ 787
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.				
Basic	**$ 4.14**	$ 1.87	**$ 8.24**	$ 5.30
Diluted	**$ 4.10**	$ 1.86	**$ 8.16**	$ 5.29
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING				
Basic	**145.1**	147.6	**146.0**	148.4
Dilutive effect of stock compensation awards	**1.4**	0.4	**1.4**	0.4
Diluted	**146.5**	148.0	**147.4**	148.8

[a] Includes sales to nonconsolidated equity investees of $423 million and $901 million for the three and six months ended July 4, 2021, compared with $ 338 million and $595 million for the comparable periods in 2020.

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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

	Three months ended		Six months ended	
In millions	**July 4, 2021**	**June 28, 2020**	**July 4, 2021**	**June 28, 2020**
CONSOLIDATED NET INCOME	**$ 612**	$ 269	**$ 1,223**	$ 797
Other comprehensive income (loss), net of tax (Note 12)				
Change in pension and other postretirement defined benefit plans	**17**	16	**46**	18
Foreign currency translation adjustments	**22**	(11)	**(34)**	(173)
Unrealized (loss) gain on derivatives	**(38)**	(2)	**34**	(81)
Total other comprehensive income (loss), net of tax	**1**	3	**46**	(236)
COMPREHENSIVE INCOME	**613**	272	**1,269**	561
Less: Comprehensive income (loss) attributable to noncontrolling interests	**5**	(12)	**13**	(12)
COMPREHENSIVE INCOME ATTRIBUTABLE TO CUMMINS INC.	**$ 608**	$ 284	**$ 1,256**	$ 573

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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

In millions, except par value	July 4, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	**$ 2,481**	$ 3,401
Marketable securities (Note 6)	**438**	461
Total cash, cash equivalents and marketable securities	**2,919**	3,862
Accounts and notes receivable, net		
Trade and other	**3,670**	3,440
Nonconsolidated equity investees	**462**	380
Inventories (Note 7)	**4,076**	3,425
Prepaid expenses and other current assets	**804**	790
Total current assets	**11,931**	11,897
Long-term assets		
Property, plant and equipment	**9,109**	9,011
Accumulated depreciation	**(4,935)**	(4,756)
Property, plant and equipment, net	**4,174**	4,255
Investments and advances related to equity method investees	**1,494**	1,441
Goodwill	**1,291**	1,293
Other intangible assets, net	**942**	963
Pension assets	**1,096**	1,042
Other assets (Note 8)	**1,680**	1,733
Total assets	**$ 22,608**	$ 22,624
LIABILITIES		
Current liabilities		
Accounts payable (principally trade)	**$ 3,172**	$ 2,820
Loans payable (Note 9)	**54**	169
Commercial paper (Note 9)	**200**	323
Accrued compensation, benefits and retirement costs	**569**	484
Current portion of accrued product warranty (Note 10)	**661**	674
Current portion of deferred revenue (Note 2)	**805**	691
Other accrued expenses (Note 8)	**1,086**	1,112
Current maturities of long-term debt (Note 9)	**57**	62
Total current liabilities	**6,604**	6,335
Long-term liabilities		
Long-term debt (Note 9)	**3,620**	3,610
Pensions and other postretirement benefits	**617**	630
Accrued product warranty (Note 10)	**674**	672
Deferred revenue (Note 2)	**828**	840
Other liabilities (Note 8)	**1,472**	1,548
Total liabilities	**$ 13,815**	$ 13,635
Commitments and contingencies (Note 11)		
EQUITY		
Cummins Inc. shareholders' equity		
Common stock, $2.50 par value, 500 shares authorized, 222.5 and 222.4 shares issued	**$ 2,405**	$ 2,404
Retained earnings	**16,228**	15,419
Treasury stock, at cost, 78.8 and 74.8 shares	**(8,838)**	(7,779)
Accumulated other comprehensive loss (Note 12)	**(1,929)**	(1,982)
Total Cummins Inc. shareholders' equity	**7,866**	8,062
Noncontrolling interests	**927**	927
Total equity	**$ 8,793**	$ 8,989
Total liabilities and equity	**$ 22,608**	$ 22,624

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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

	Six months ended	
In millions	**July 4, 2021**	**June 28, 2020**
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	**$ 1,223**	$ 797
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	**337**	333
Deferred income taxes	**17**	(11)
Equity in income of investees, net of dividends	**(114)**	(124)
Pension and OPEB expense (Note 3)	**41**	54
Pension contributions and OPEB payments (Note 3)	**(68)**	(82)
Share-based compensation expense	**18**	12
Restructuring payments	**(1)**	(81)
Loss (gain) on corporate owned life insurance	**12**	(38)
Foreign currency remeasurement and transaction exposure	**10**	(2)
Changes in current assets and liabilities		
Accounts and notes receivable	**(331)**	170
Inventories	**(628)**	(224)
Other current assets	**(18)**	95
Accounts payable	**377**	(220)
Accrued expenses	**169**	(422)
Changes in other liabilities	**(34)**	199
Other, net	**(55)**	(99)
Net cash provided by operating activities	**955**	357
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	**(212)**	(152)
Investments in internal use software	**(22)**	(21)
Proceeds from sale of land	**20**	—
Investments in and advances to equity investees	**10**	(17)
Investments in marketable securities—acquisitions	**(362)**	(285)
Investments in marketable securities—liquidations (Note 6)	**381**	254
Cash flows from derivatives not designated as hedges	**12**	(22)
Other, net	**27**	9
Net cash used in investing activities	**(146)**	(234)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments) borrowings of commercial paper	**(123)**	1,367
Payments on borrowings and finance lease obligations	**(33)**	(25)
Net (payments) borrowings under short-term credit agreements	**(102)**	4
Distributions to noncontrolling interests	**(13)**	(13)
Dividend payments on common stock	**(394)**	(388)
Repurchases of common stock	**(1,090)**	(550)
Proceeds from issuing common stock	**26**	32
Other, net	**7**	33
Net cash (used in) provided by financing activities	**(1,722)**	460
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(7)**	39
Net (decrease) increase in cash and cash equivalents	**(920)**	622
Cash and cash equivalents at beginning of year	**3,401**	1,129
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 2,481**	$ 1,751

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

CUMMINS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

In millions, except per share amounts	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Common Stock Held in Trust	Accumulated Other Comprehensive Loss	Total Cummins Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
	Three months ended								
BALANCE AT APRIL 4, 2021	**$ 556**	**$ 1,837**	**$ 15,825**	**$ (8,172)**	**$ —**	**$ (1,937)**	**$ 8,109**	**$ 922**	**$ 9,031**
Net income			**600**				**600**	**12**	**612**
Other comprehensive income (loss), net of tax (Note 12)						**8**	**8**	**(7)**	**1**
Issuance of common stock		**1**					**1**	**—**	**1**
Repurchases of common stock				**(672)**			**(672)**	**—**	**(672)**
Cash dividends on common stock, $1.35 per share			**(197)**				**(197)**	**—**	**(197)**
Share-based awards		**2**		**6**			**8**	**—**	**8**
Other shareholder transactions		**9**					**9**	**—**	**9**
BALANCE AT JULY 4, 2021	**$ 556**	**$ 1,849**	**$ 16,228**	**$ (8,838)**	**$ —**	**$ (1,929)**	**$ 7,866**	**$ 927**	**$ 8,793**
BALANCE AT MARCH 29, 2020	$ 556	$ 1,779	$ 14,728	$ (7,744)	$ (1)	$ (2,250)	$ 7,068	$ 950	$ 8,018
Net income			276				276	(7)	269
Other comprehensive income (loss), net of tax (Note 12)						8	8	(5)	3
Issuance of common stock		1					1	—	1
Employee benefits trust activity		5					5	—	5
Cash dividends on common stock, $1.311 per share			(193)				(193)	—	(193)
Share-based awards		4		15			19	—	19
Other shareholder transactions		8					8	—	8
BALANCE AT JUNE 28, 2020	$ 556	$ 1,797	$ 14,811	$ (7,729)	$ (1)	$ (2,242)	$ 7,192	$ 938	$ 8,130

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

CUMMINS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

	Six months ended								
In millions, except per share amounts	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Treasury Stock**	**Common Stock Held in Trust**	**Accumulated Other Comprehensive Loss**	**Total Cummins Inc. Shareholders' Equity**	**Noncontrolling Interests**	**Total Equity**
BALANCE AT DECEMBER 31, 2020	**$ 556**	**$ 1,848**	**$ 15,419**	**$ (7,779)**	**$ —**	**$ (1,982)**	**$ 8,062**	**$ 927**	**$ 8,989**
Net income			**1,203**				**1,203**	**20**	**1,223**
Other comprehensive income (loss), net of tax (Note 12)						**53**	**53**	**(7)**	**46**
Issuance of common stock		**1**					**1**	**—**	**1**
Repurchases of common stock				**(1,090)**			**(1,090)**	**—**	**(1,090)**
Cash dividends on common stock, $2.70 per share			**(394)**				**(394)**	**—**	**(394)**
Distributions to noncontrolling interests							**—**	**(13)**	**(13)**
Share-based awards		**(4)**		**30**			**26**	**—**	**26**
Other shareholder transactions		**4**		**1**			**5**		**5**
BALANCE AT JULY 4, 2021	**$ 556**	**$ 1,849**	**$ 16,228**	**$ (8,838)**	**$ —**	**$ (1,929)**	**$ 7,866**	**$ 927**	**$ 8,793**
BALANCE AT DECEMBER 31, 2019	$ 556	$ 1,790	$ 14,416	$ (7,225)	$ (2)	$ (2,028)	$ 7,507	$ 958	$ 8,465
Adoption of new accounting standards			(4)				(4)	—	(4)
Net income			787				787	10	797
Other comprehensive loss, net of tax (Note 12)						(214)	(214)	(22)	(236)
Issuance of common stock		10					10	—	10
Employee benefits trust activity		22			1		23	—	23
Repurchases of common stock				(550)			(550)	—	(550)
Cash dividends on common stock, $2.622 per share			(388)				(388)	—	(388)
Distributions to noncontrolling interests							—	(13)	(13)
Share-based awards		(14)		46			32	—	32
Other shareholder transactions		(11)					(11)	5	(6)
BALANCE AT JUNE 28, 2020	$ 556	$ 1,797	$ 14,811	$ (7,729)	$ (1)	$ (2,242)	$ 7,192	$ 938	$ 8,130

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

CUMMINS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Overview

Cummins Inc. ("Cummins," "we," "our" or "us") was founded in 1919 as Cummins Engine Company, a corporation in Columbus, Indiana, and one of the first diesel engine manufacturers. In 2001, we changed our name to Cummins Inc. We are a global power leader that designs, manufactures, distributes and services diesel, natural gas, electric and hybrid powertrains and powertrain-related components including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems, automated transmissions, electric power generation systems, batteries, electrified power systems, hydrogen production and fuel cell products. We sell our products to original equipment manufacturers (OEMs), distributors, dealers and other customers worldwide. We serve our customers through a network of over 500 wholly-owned, joint venture and independent distributor locations and over 9,000 Cummins certified dealer locations with service to approximately 190 countries and territories.

Interim Condensed Financial Statements

The unaudited *Condensed Consolidated Financial Statements* reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of operations, financial position and cash flows. All such adjustments are of a normal recurring nature. The *Condensed Consolidated Financial Statements* were prepared in accordance with accounting principles in the United States of America (GAAP) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Certain information and footnote disclosures normally included in annual financial statements were condensed or omitted as permitted by such rules and regulations.

These interim condensed financial statements should be read in conjunction with the *Consolidated Financial Statements* included in our Annual Report on Form 10-K for the year ended December 31, 2020. Our interim period financial results for the three and six month periods presented are not necessarily indicative of results to be expected for any other interim period or for the entire year. The year-end *Condensed Consolidated Balance Sheet* data was derived from audited financial statements, but does not include all required annual disclosures.

Reclassifications

Certain amounts for prior year periods were reclassified to conform to the current year presentation.

Use of Estimates in Preparation of Financial Statements

Preparation of financial statements requires management to make estimates and assumptions that affect reported amounts presented and disclosed in our *Condensed Consolidated Financial Statements*. Significant estimates and assumptions in these *Condensed Consolidated Financial Statements* require the exercise of judgment. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates.

Reporting Period

Our reporting period usually ends on the Sunday closest to the last day of the quarterly calendar period. The second quarters of 2021 and 2020 ended on July 4 and June 28, respectively. Our fiscal year ends on December 31, regardless of the day of the week on which December 31 falls.

Weighted-Average Diluted Shares Outstanding

The weighted-average diluted common shares outstanding exclude the anti-dilutive effect of certain stock options. The options excluded from diluted earnings per share were as follows:

	Three months ended		Six months ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Options excluded	**3,137**	1,339,359	**2,958**	1,286,774

NOTE 2. REVENUE FROM CONTRACTS WITH CUSTOMERS

Long-term Contracts

The majority of our contracts are for a period of less than one year. We have certain long-term maintenance agreements, construction contracts and extended warranty coverage arrangements that span a period in excess of one year. The aggregate amount of the transaction price for long-term maintenance agreements and construction contracts allocated to performance obligations that were not satisfied as of July 4, 2021, was $812 million. We expect to recognize the related revenue of $164 million over the next 12 months and $648 million over periods up to 10 years. See Note 10, "PRODUCT WARRANTY LIABILITY," for additional disclosures on extended warranty coverage arrangements. Our other contracts generally are for a duration of less than one year, include payment terms that correspond to the timing of costs incurred when providing goods and services to our customers or represent sales-based royalties.

Deferred and Unbilled Revenue

The following is a summary of our unbilled and deferred revenue and related activity:

In millions	July 4, 2021	December 31, 2020
Unbilled revenue	**$ 109**	$ 114
Deferred revenue, primarily extended warranty	**1,633**	1,531

We recognized revenue of $126 million and $280 million for the three and six months ended July 4, 2021, compared with $94 million and $206 million for the comparable periods in 2020, that was included in the deferred revenue balance at the beginning of each year. We did not record any impairment losses on our unbilled revenues during the three and six months ended July 4, 2021 or June 28, 2020.

Disaggregation of Revenue

Consolidated Revenue

The table below presents our consolidated sales by geographic area. Net sales attributed to geographic areas were based on the location of the customer.

	Three months ended		Six months ended	
In millions	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
United States	**$ 3,263**	$ 1,865	**$ 6,323**	$ 4,717
China	**832**	810	**1,789**	1,332
India	**217**	70	**547**	240
Other international	**1,799**	1,107	**3,544**	2,574
Total net sales	**$ 6,111**	$ 3,852	**$ 12,203**	$ 8,863

Segment Revenue

Engine segment external sales by market were as follows:

In millions	Three months ended July 4, 2021	Three months ended June 28, 2020	Six months ended July 4, 2021	Six months ended June 28, 2020
Heavy-duty truck	**$ 666**	$ 221	**$ 1,279**	$ 740
Medium-duty truck and bus	**477**	298	**960**	788
Light-duty automotive	**466**	146	**940**	473
Total on-highway	**1,609**	665	**3,179**	2,001
Off-highway	**311**	272	**636**	515
Total sales	**$ 1,920**	$ 937	**$ 3,815**	$ 2,516

Distribution segment external sales by region were as follows:

In millions	Three months ended July 4, 2021	Three months ended June 28, 2020	Six months ended July 4, 2021	Six months ended June 28, 2020
North America	**$ 1,228**	$ 1,038	**$ 2,394**	$ 2,283
Asia Pacific	**226**	190	**439**	382
Europe	**161**	136	**324**	271
China	**74**	100	**159**	168
Africa and Middle East	**69**	38	**123**	89
Russia	**66**	44	**123**	85
Latin America	**48**	32	**88**	71
India	**41**	23	**90**	59
Total sales	**$ 1,913**	$ 1,601	**$ 3,740**	$ 3,408

Distribution segment external sales by product line were as follows:

In millions	Three months ended July 4, 2021	Three months ended June 28, 2020	Six months ended July 4, 2021	Six months ended June 28, 2020
Parts	**$ 763**	$ 653	**$ 1,517**	$ 1,436
Power generation	**452**	376	**868**	751
Engines	**349**	276	**682**	598
Service	**349**	296	**673**	623
Total sales	**$ 1,913**	$ 1,601	**$ 3,740**	$ 3,408

Components segment external sales by business were as follows:

	Three months ended		Six months ended	
In millions	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Emission solutions	**$ 801**	$ 394	**$ 1,767**	$ 964
Filtration	**303**	206	**604**	455
Turbo technologies	**207**	142	**432**	300
Automated transmissions	**147**	43	**262**	125
Electronics and fuel systems	**98**	91	**215**	147
Total sales	**$ 1,556**	$ 876	**$ 3,280**	$ 1,991

Power Systems segment external sales by product line were as follows:

	Three months ended		Six months ended	
In millions	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Power generation	**$ 381**	$ 224	**$ 732**	$ 493
Industrial	**233**	145	**412**	310
Generator technologies	**85**	59	**167**	125
Total sales	**$ 699**	$ 428	**$ 1,311**	$ 928

NOTE 3. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

We sponsor funded and unfunded domestic and foreign defined benefit pension and other postretirement benefit (OPEB) plans.Contributions to these plans were as follows:

	Three months ended		Six months ended	
In millions	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Defined benefit pension contributions	**$ 12**	$ 10	**$ 54**	$ 66
OPEB payments, net	**5**	12	**14**	16
Defined contribution pension plans	**17**	18	**52**	52

During the remainder of 2021, we anticipate making $10 million in additional defined benefit pension contributions in the U.K. and $9 million in contributions to our U.S. non-qualified benefit plans. These contributions may be made from trusts or company funds either to increase pension assets or to make direct benefit payments to plan participants. We expect our 2021 annual net periodic pension cost to approximate $79 million.

The components of net periodic pension and OPEB costs under our plans were as follows:

	Pension				OPEB	
	U.S. Plans		U.K. Plans			
	Three months ended					
In millions	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Service cost	**$ 35**	$ 33	**$ 9**	$ 7	**$ —**	$ —
Interest cost	**20**	23	**7**	9	**1**	1
Expected return on plan assets	**(50)**	(48)	**(22)**	(18)	**—**	—
Amortization of prior service cost	**—**	1	**1**	—	**—**	—
Recognized net actuarial loss	**12**	10	**8**	9	**—**	—
Net periodic benefit cost	**$ 17**	$ 19	**$ 3**	$ 7	**$ 1**	$ 1

	Pension				OPEB	
	U.S. Plans		U.K. Plans			
	Six months ended					
In millions	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Service cost	**$ 70**	$ 67	**$ 17**	$ 14	**$ —**	$ —
Interest cost	**39**	47	**15**	18	**2**	3
Expected return on plan assets	**(100)**	(97)	**(43)**	(37)	**—**	—
Amortization of prior service cost	**—**	1	**1**	1	**—**	—
Recognized net actuarial loss	**24**	20	**16**	17	**—**	—
Net periodic benefit cost	**$ 33**	$ 38	**$ 6**	$ 13	**$ 2**	$ 3

NOTE 4. EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEES

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

	Three months ended		Six months ended	
In millions	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Manufacturing entities				
Beijing Foton Cummins Engine Co., Ltd.	**$ 46**	$ 34	**$ 85**	$ 51
Dongfeng Cummins Engine Company, Ltd.	**21**	26	**52**	34
Chongqing Cummins Engine Company, Ltd.	**10**	11	**20**	20
All other manufacturers	**29**	23	**90**	78 [(1)]
Distribution entities				
Komatsu Cummins Chile, Ltda.	**9**	7	**15**	17
All other distributors	**1**	—	**4**	—
Cummins share of net income	**116**	101	**266**	200
Royalty and interest income	**21**	14	**37**	44
Equity, royalty and interest income from investees	**$ 137**	$ 115	**$ 303**	$ 244

[(1)] Includes $37 million in favorable adjustments related to tax changes within India's 2020-2021 Union Budget of India (India Tax Law Change) passed in March 2020.

NOTE 5. INCOME TAXES

Our effective tax rates for the three and six months ended July 4, 2021, were 21.4 percent and 21.7 percent, respectively. Our effective tax rates for the three and six months ended June 28, 2020, were 25.7 percent and 21.6 percent, respectively.

The three months ended July 4, 2021, contained unfavorable discrete items of $7 million, primarily due to a $10 million unfavorable statutory change in tax rates, mostly in the UK, partially offset by $3 million of other favorable discrete items.

The six months ended July 4, 2021, contained unfavorable discrete items of $3 million, primarily due to a $10 million unfavorable statutory change in tax rates, mostly in the UK, partially offset by $7 million of other favorable discrete items.

The three months ended June 28, 2020, contained unfavorable discrete items of $14 million, primarily due to changes in tax reserves on certain U.S. tax matters.

The six months ended June 28, 2020, contained $4 million of favorable net discrete tax items, primarily due to the India Tax Law Change passed in March of 2020, partially offset by unfavorable changes in tax reserves in the second quarter of 2020. See Note 4, "INCOME TAXES," of the Notes to the Consolidated Financial Statements of our 2020 Form 10-K for additional information on India Tax Law Changes.

NOTE 6. MARKETABLE SECURITIES

A summary of marketable securities, all of which were classified as current, was as follows:

	July 4, 2021			December 31, 2020		
In millions	**Cost**	**Gross unrealized gains/(losses)[1]**	**Estimated fair value**	**Cost**	**Gross unrealized gains/(losses)[1]**	**Estimated fair value**
Equity securities						
Debt mutual funds	**$ 241**	**$ 3**	**$ 244**	$ 267	$ 5	$ 272
Certificates of deposit	**165**	**—**	**165**	164	—	164
Equity mutual funds	**20**	**8**	**28**	19	5	24
Debt securities	**1**	**—**	**1**	1	—	1
Total marketable securities	**$ 427**	**$ 11**	**$ 438**	$ 451	$ 10	$ 461

[1] Unrealized gains and losses for debt securities are recorded in other comprehensive income while unrealized gains and losses for equity securities are recorded in "Other income, net" in our *Condensed Consolidated Statements of Net Income* .

All debt securities are classified as available-for-sale. All marketable securities presented use a Level 2 fair value measure. The fair value of Level 2 securities is estimated using actively quoted prices for similar instruments from brokers and observable inputs where available, including market transactions and third-party pricing services, or net asset values provided to investors. We do not currently have any Level 3 securities, and there were no transfers between Level 2 or 3 during the six months ended July 4, 2021 or the year ended December 31, 2020.

A description of the valuation techniques and inputs used for our Level 2 fair value measures is as follows:

- *Debt mutual funds* — The fair value measures for the vast majority of these investments are the daily net asset values published on a regulated governmental website. Daily quoted prices are available from the issuing brokerage and are used on a test basis to corroborate this Level 2 input measure.
- *Certificates of deposit* — These investments provide us with a contractual rate of return and generally range in maturity from three months to five years. The counterparties to these investments are reputable financial institutions with investment grade credit ratings. Since these instruments are not tradable and must be settled directly by us with the respective financial institution, our fair value measure is the financial institution's month-end statement.
- *Equity mutual funds* — The fair value measures for these investments are the net asset values published by the issuing brokerage. Daily quoted prices are available from reputable third-party pricing services and are used on a test basis to corroborate this Level 2 input measure.
- *Debt securities* — The fair value measures for these securities are broker quotes received from reputable firms. These securities are infrequently traded on a national exchange and these values are used on a test basis to corroborate our Level 2 input measure.

The proceeds from sales and maturities of marketable securities were as follows:

	Six months ended	
In millions	July 4, 2021	June 28, 2020
Proceeds from sales of marketable securities	**$ 273**	$ 164
Proceeds from maturities of marketable securities	**108**	90
Investments in marketable securities - liquidations	**$ 381**	$ 254

NOTE 7. INVENTORIES

Inventories are stated at the lower of cost or net realizable value.Inventories included the following:

In millions	July 4, 2021	December 31, 2020
Finished products	**$ 2,470**	$ 2,216
Work-in-process and raw materials	**1,767**	1,346
Inventories at FIFO cost	**4,237**	3,562
Excess of FIFO over LIFO	**(161)**	(137)
Total inventories	**$ 4,076**	$ 3,425

NOTE 8. SUPPLEMENTAL BALANCE SHEET DATA

Other assets included the following:

In millions	July 4, 2021	December 31, 2020
Corporate owned life insurance	**$ 482**	$ 508
Operating lease assets	**458**	438
Deferred income taxes	**436**	479
Other	**304**	308
Other assets	**$ 1,680**	$ 1,733

Other accrued expenses included the following:

In millions	July 4, 2021	December 31, 2020
Marketing accruals	**$ 267**	$ 242
Other taxes payable	**238**	256
Current portion of operating lease liabilities	**128**	128
Income taxes payable	**92**	82
Other	**361**	404
Other accrued expenses	**$ 1,086**	$ 1,112

Other liabilities included the following:

In millions	July 4, 2021	December 31, 2020
Operating lease liabilities	**$ 332**	$ 325
Deferred income taxes	**321**	325
One-time transition tax	**255**	289
Accrued compensation	**198**	203
Mark-to-market valuation on interest rate locks	**5**	41
Other long-term liabilities	**361**	365
Other liabilities	**$ 1,472**	$ 1,548

NOTE 9. DEBT

Loans Payable and Commercial Paper

Loans payable, commercial paper and the related weighted-average interest rates were as follows:

In millions	July 4, 2021	December 31, 2020
Loans payable [1]	$ **54**	$ 169
Commercial paper	**200** [2]	323 [3]

[1] Loans payable consist primarily of notes payable to various domestic and international financial institutions. It is not practicable to aggregate these notes and calculate a quarterly weighted-average interest rate.

[2] The weighted-average interest rate, inclusive of all brokerage fees, was 0.12 percent at July 4, 2021 and included $ 200 million of borrowings under the U.S. program.

[3] The weighted-average interest rate, inclusive of all brokerage fees, was negative 0.01 percent at December 31, 2020 and included $123 million of borrowings under the EUR program that were negative 0.34 percent and $ 200 million of borrowings under the U.S. program at 0.19 percent.

We can issue up to $3.5 billion of unsecured, short-term promissory notes (commercial paper) pursuant to the Board of Directors (the Board) authorized commercial paper programs. The programs facilitate the private placement of unsecured short-term debt through third-party brokers. We intend to use the net proceeds from the commercial paper borrowings for general corporate purposes.

Revolving Credit Facilities

We have access to committed credit facilities that total $3.5 billion, including the $1.5 billion 364-day facility that expires August 18, 2021 and our $2.0 billion five-year facility that expires on August 22, 2023. We maintain credit facilities at the current or higher aggregate amounts by renewing or replacing these facilities at or before expiration. These revolving credit facilities are maintained primarily to provide backup liquidity for our commercial paper borrowings and for general corporate purposes. There were no outstanding borrowings under these facilities at July 4, 2021 and December 31, 2020.

At July 4, 2021, the $200 million of outstanding commercial paper effectively reduced the $3.5 billion of revolving credit capacity to $3.3 billion.

At July 4, 2021, we also had an additional $243 million available for borrowings under our international and other domestic credit facilities.

Long-term Debt

A summary of long-term debt was as follows:

In millions	Interest Rate	July 4, 2021	December 31, 2020
Long-term debt			
Senior notes, due 2023	3.65%	**$ 500**	$ 500
Senior notes, due 2025	0.75%	**500**	500
Debentures, due 2027	6.75%	**58**	58
Debentures, due 2028	7.125%	**250**	250
Senior notes, due 2030	1.50%	**850**	850
Senior notes, due 2043	4.875%	**500**	500
Senior notes, due 2050	2.60%	**650**	650
Debentures, due 2098[1]	5.65%	**165**	165
Other debt		**143**	132
Unamortized discount and deferred issuance costs		**(70)**	(72)
Fair value adjustments due to hedge on indebtedness		**42**	48
Finance leases		**89**	91
Total long-term debt		**3,677**	3,672
Less: Current maturities of long-term debt		**57**	62
Long-term debt		**$ 3,620**	$ 3,610

[1] The effective interest rate is 7.48%.

Principal payments required on long-term debt during the next five years are as follows:

In millions	2021	2022	2023	2024	2025
Principal payments	$ 39	$ 57	$ 535	$ 30	$ 506

Interest Rate Risk

We have interest rate lock agreements to reduce the variability of the cash flows of the interest payments on a total of $500 million of fixed rate debt forecast to be issued in 2023 to replace our senior notes at maturity. We recorded a net loss of $33 million and net gain of $28 million in "Other comprehensive income" for the three and six months ended July 4, 2021, compared with a net gain of $10 million and net loss of $69 million for the comparable periods in 2020.

Fair Value of Debt

Based on borrowing rates currently available to us for bank loans with similar terms and average maturities, considering our risk premium, the fair values and carrying values of total debt, including current maturities, were as follows:

In millions	July 4, 2021	December 31, 2020
Fair value of total debt[1]	**$ 4,304**	$ 4,665
Carrying value of total debt	**3,931**	4,164

[1] The fair value of debt is derived from Level 2 inputs.

NOTE 10. PRODUCT WARRANTY LIABILITY

A tabular reconciliation of the product warranty liability, including the deferred revenue related to our extended warranty coverage and accrued product campaigns, was as follows:

	Six months ended	
In millions	July 4, 2021	June 28, 2020
Balance, beginning of year	**$ 2,307**	$ 2,389
Provision for base warranties issued	**302**	161
Deferred revenue on extended warranty contracts sold	**136**	121
Provision for product campaigns issued	**46**	18
Payments made during period	**(283)**	(280)
Amortization of deferred revenue on extended warranty contracts	**(124)**	(115)
Changes in estimates for pre-existing product warranties	**(74)**	(20)
Foreign currency translation and other	**(6)**	(11)
Balance, end of period	**$ 2,304**	$ 2,263

We recognized supplier recoveries of $5 million and $9 million for the three and six months ended July 4, 2021, compared with $2 million and $11 million for the comparable periods in 2020.

Warranty related deferred revenues and warranty liabilities on our *Condensed Consolidated Balance Sheets* were as follows:

In millions	July 4, 2021	December 31, 2020	Balance Sheet Location
Deferred revenue related to extended coverage programs			
Current portion	**$ 279**	$ 261	Current portion of deferred revenue
Long-term portion	**690**	700	Deferred revenue
Total	**$ 969**	$ 961	
Product warranty			
Current portion	**$ 661**	$ 674	Current portion of accrued product warranty
Long-term portion	**674**	672	Accrued product warranty
Total	**$ 1,335**	$ 1,346	
Total warranty accrual	**$ 2,304**	$ 2,307	

Engine System Campaign Accrual

During 2017, the California Air Resources Board (CARB) and the U.S. Environmental Protection Agency (EPA) selected certain of our pre-2013 model year engine systems for additional emissions testing. Some of these engine systems failed CARB and EPA tests as a result of degradation of an aftertreatment component. In the second quarter of 2018, we reached agreement with the CARB and EPA regarding our plans to address the affected populations. From the fourth quarter of 2017 through the second quarter of 2018, we recorded charges for the expected costs of field campaigns to repair these engine systems.

The campaigns launched in the third quarter of 2018 are being completed in phases across the affected population. The total engine system campaign charge, excluding supplier recoveries, was $410 million. In the fourth quarter of 2020, we recorded an additional $20 million charge related to this campaign, as a change in estimate, to bring the total campaign, excluding supplier recoveries, to $430 million. At July 4, 2021, the remaining accrual balance was $109 million.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are subject to numerous lawsuits and claims arising out of the ordinary course of our business, including actions related to product liability; personal injury; the use and performance of our products; warranty matters; product recalls; patent, trademark or other intellectual property infringement; contractual liability; the conduct of our business; tax reporting in foreign jurisdictions; distributor termination; workplace safety; and environmental matters. We also have been identified as a potentially responsible party at multiple waste disposal sites under U.S. federal and related state environmental statutes and regulations and may have joint and several liability for any investigation and remediation costs incurred with respect to such sites. We have denied liability with respect to many of these lawsuits, claims and proceedings and are vigorously defending such lawsuits, claims and proceedings. We carry various forms of commercial, property and casualty, product liability and other forms of insurance; however, such insurance may not be applicable or adequate to cover the costs associated with a judgment against us with respect to these lawsuits, claims and proceedings. We do not believe that these lawsuits are material individually or in the aggregate. While we believe we have also established adequate accruals for our expected future liability with respect to pending lawsuits, claims and proceedings, where the nature and extent of any such liability can be reasonably estimated based upon then presently available information, there can be no assurance that the final resolution of any existing or future lawsuits, claims or proceedings will not have a material adverse effect on our business, results of operations, financial condition or cash flows.

We conduct significant business operations in Brazil that are subject to the Brazilian federal, state and local labor, social security, tax and customs laws. While we believe we comply with such laws, they are complex, subject to varying interpretations and we are often engaged in litigation regarding the application of these laws to particular circumstances.

On April 29, 2019, we announced that we were conducting a formal internal review of our emissions certification process and compliance with emission standards for our pick-up truck applications, following conversations with the EPA and CARB regarding certification of our engines in model year 2019 RAM 2500 and 3500 trucks. This review is being conducted with external advisors to ensure the certification and compliance processes for all of our pick-up truck applications are consistent with our internal policies, engineering standards and applicable laws. In addition, we voluntarily disclosed our formal internal review to the regulators and to other government agencies, the Department of Justice (DOJ) and the SEC, and worked cooperatively with them to ensure a complete and thorough review. We fully cooperated with the DOJ's and the SEC's information requests and inquiries and, based on recent communications with these agencies, we do not expect further inquiries. During conversations with the EPA and CARB about the effectiveness of our pick-up truck applications, the regulators raised concerns that certain aspects of our emissions systems may reduce the effectiveness of our emissions control systems and thereby act as defeat devices. As a result, our internal review focuses, in part, on the regulators’ concerns. We are working closely with the regulators to enhance our emissions systems to improve the effectiveness of all of our pick-up truck applications and to fully address the regulators’ requirements. Based on discussions with the regulators, we have developed a new calibration for the engines in model year 2019 RAM 2500 and 3500 trucks that has been included in all engines shipped since September 2019. During our discussions, the regulators have asked us to look at other model years and other engines. Due to the continuing nature of our formal review, our ongoing cooperation with our regulators and the presence of many unknown facts and circumstances, we cannot predict the final outcome of this review and these regulatory processes, and we cannot provide assurance that the matter will not have a materially adverse impact on our results of operations and cash flows.

Guarantees and Commitments

Periodically, we enter into guarantee arrangements, including guarantees of non-U.S. distributor financings, residual value guarantees on equipment under operating leases and other miscellaneous guarantees of joint ventures or third-party obligations. At July 4, 2021, the maximum potential loss related to these guarantees was $35 million.

We have arrangements with certain suppliers that require us to purchase minimum volumes or be subject to monetary penalties. At July 4, 2021, if we were to stop purchasing from each of these suppliers, the aggregate amount of the penalty would be approximately $115 million. These arrangements enable us to secure supplies of critical components and IT services. We do not currently anticipate paying any penalties under these contracts.

We enter into physical forward contracts with suppliers of platinum and palladium to purchase certain volumes of the commodities at contractually stated prices for various periods, which generally fall within two years. At July 4, 2021, the total commitments under these contracts were $102 million. These arrangements enable us to guarantee the prices of these commodities, which otherwise are subject to market volatility.

We have guarantees with certain customers that require us to satisfactorily honor contractual or regulatory obligations, or compensate for monetary losses related to nonperformance. These performance bonds and other performance-related guarantees were $102 million at July 4, 2021.

Indemnifications

Periodically, we enter into various contractual arrangements where we agree to indemnify a third-party against certain types of losses. Common types of indemnities include:

- product liability and license, patent or trademark indemnifications;
- asset sale agreements where we agree to indemnify the purchaser against future environmental exposures related to the asset sold; and
- any contractual agreement where we agree to indemnify the counterparty for losses suffered as a result of a misrepresentation in the contract.

We regularly evaluate the probability of having to incur costs associated with these indemnities and accrue for expected losses that are probable. Because the indemnifications are not related to specified known liabilities and due to their uncertain nature, we are unable to estimate the maximum amount of the potential loss associated with these indemnifications.

NOTE 12. ACCUMULATED OTHER COMPREHENSIVE LOSS

Following are the changes in accumulated other comprehensive income (loss) by component for the three months ended:

In millions	Change in pensions and other postretirement defined benefit plans	Foreign currency translation adjustment	Unrealized gain (loss) on derivatives	Total attributable to Cummins Inc.	Noncontrolling interests	Total
Balance at April 4, 2021	**$ (706)**	**$ (1,260)**	**$ 29**	**$ (1,937)**		
Other comprehensive income before reclassifications						
Before-tax amount	**—**	**29**	**(45)**	**(16)**	**$ (7)**	**$ (23)**
Tax benefit	**1**	**—**	**9**	**10**	**—**	**10**
After-tax amount	**1**	**29**	**(36)**	**(6)**	**(7)**	**(13)**
Amounts reclassified from accumulated other comprehensive income (loss)(1)	**16**	**—**	**(2)**	**14**	**—**	**14**
Net current period other comprehensive income (loss)	**17**	**29**	**(38)**	**8**	**$ (7)**	**$ 1**
Balance at July 4, 2021	**$ (689)**	**$ (1,231)**	**$ (9)**	**$ (1,929)**		
Balance at March 29, 2020	$ (732)	$ (1,430)	$ (88)	$ (2,250)		
Other comprehensive income before reclassifications						
Before-tax amount	—	(7)	(3)	(10)	$ (5)	$ (15)
Tax benefit	—	1	3	4	—	4
After-tax amount	—	(6)	—	(6)	(5)	(11)
Amounts reclassified from accumulated other comprehensive income (loss)(1)	16	—	(2)	14	—	14
Net current period other comprehensive income (loss)	16	(6)	(2)	8	$ (5)	$ 3
Balance at June 28, 2020	$ (716)	$ (1,436)	$ (90)	$ (2,242)		

(1) Amounts are net of tax. Reclassifications out of accumulated other comprehensive income (loss) and the related tax effects are immaterial for separate disclosure.

Following are the changes in accumulated other comprehensive income (loss) by component for the six months ended:

In millions	Change in pensions and other postretirement defined benefit plans	Foreign currency translation adjustment	Unrealized gain (loss) on derivatives	Total attributable to Cummins Inc.	Noncontrolling interests	Total
Balance at December 31, 2020	**$ (735)**	**$ (1,204)**	**$ (43)**	**$ (1,982)**		
Other comprehensive income before reclassifications						
Before-tax amount	**15**	**(31)**	**48**	**32**	**$ (7)**	**$ 25**
Tax (expense) benefit	**(2)**	**4**	**(13)**	**(11)**	**—**	**(11)**
After-tax amount	**13**	**(27)**	**35**	**21**	**(7)**	**14**
Amounts reclassified from accumulated other comprehensive income (loss)(1)	**33**	**—**	**(1)**	**32**	**—**	**32**
Net current period other comprehensive (loss) income	**46**	**(27)**	**34** (2)	**53**	**$ (7)**	**$ 46**
Balance at July 4, 2021	**$ (689)**	**$ (1,231)**	**$ (9)**	**$ (1,929)**		
Balance at December 31, 2019	$ (734)	$ (1,285)	$ (9)	$ (2,028)		
Other comprehensive income before reclassifications						
Before-tax amount	(19)	(155)	(98)	(272)	$ (22)	$ (294)
Tax benefit	5	4	21	30	—	30
After-tax amount	(14)	(151)	(77)	(242)	(22)	(264)
Amounts reclassified from accumulated other comprehensive income (loss)(1)	32	—	(4)	28	—	28
Net current period other comprehensive income (loss)	18	(151)	(81) (2)	(214)	$ (22)	$ (236)
Balance at June 28, 2020	$ (716)	$ (1,436)	$ (90)	$ (2,242)		

(1) Amounts are net of tax. Reclassifications out of accumulated other comprehensive income (loss) and the related tax effects are immaterial for separate disclosure.

(2) Primarily related to interest rate lock activity. See the Interest Rate Risk section in NOTE 9 "DEBT" for additional information.

NOTE 13. OPERATING SEGMENTS

Operating segments under GAAP are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker (CODM), or decision-making group, in deciding how to allocate resources and in assessing performance. Our CODM is the President and Chief Operating Officer.

Our reportable operating segments consist of Engine, Distribution, Components, Power Systems and New Power. This reporting structure is organized according to the products and markets each segment serves. The Engine segment produces engines (15 liters and smaller) and associated parts for sale to customers in on-highway and various off-highway markets. Our engines are used in trucks of all sizes, buses and recreational vehicles, as well as in various industrial applications, including construction, agriculture, power generation systems and other off-highway applications. The Distribution segment includes wholly-owned and partially-owned distributorships engaged in wholesaling engines, generator sets and service parts, as well as performing service and repair activities on our products and maintaining relationships with various OEMs throughout the world. The Components segment sells filtration products, aftertreatment systems, turbochargers, electronics, fuel systems and automated transmissions. The Power Systems segment is an integrated power provider, which designs, manufactures and sells engines (16 liters and larger) for industrial applications (including mining, oil and gas, marine and rail), standby and prime power generator sets, alternators and other power components. The New Power segment designs, manufactures, sells and supports hydrogen production solutions as well as electrified power systems ranging from fully electric to hybrid along with innovative components and subsystems, including battery and fuel cell technologies. We continue to serve all our markets as they adopt electrification and alternative power technologies, meeting the needs of our OEM partners and end customers.

We use segment earnings or losses before interest expense, income taxes, depreciation and amortization and noncontrolling interests (EBITDA) as the primary basis for the CODM to evaluate the performance of each of our reportable operating segments. We believe EBITDA is a useful measure of our operating performance as it assists investors and debt holders in comparing our performance on a consistent basis without regard to financing methods, capital structure, income taxes or depreciation and amortization methods, which can vary significantly depending upon many factors. Segment amounts exclude certain expenses not specifically identifiable to segments.

The accounting policies of our operating segments are the same as those applied in our *Condensed Consolidated Financial Statements.* We prepared the financial results of our operating segments on a basis that is consistent with the manner in which we internally disaggregate financial information to assist in making internal operating decisions. We allocate certain common costs and expenses, primarily corporate functions, among segments differently than we would for stand-alone financial information prepared in accordance with GAAP. These include certain costs and expenses of shared services, such as information technology, human resources, legal, finance and supply chain management. We do not allocate gains or losses of corporate owned life insurance to individual segments. EBITDA may not be consistent with measures used by other companies.

Summarized financial information regarding our reportable operating segments for the three months ended is shown in the table below:

In millions	Engine	Distribution	Components	Power Systems	New Power	Total Segments
Three months ended July 4, 2021						
External sales	**$ 1,920**	**$ 1,913**	**$ 1,556**	**$ 699**	**$ 23**	**$ 6,111**
Intersegment sales	**571**	**7**	**438**	**444**	**1**	**1,461**
Total sales	**2,491**	**1,920**	**1,994**	**1,143**	**24**	**7,572**
Research, development and engineering expenses	**99**	**12**	**79**	**60**	**26**	**276**
Equity, royalty and interest income (loss) from investees	**104**	**15**	**12**	**9**	**(3)**	**137**
Interest income	**1**	**2**	**1**	**1**	**—**	**5**
EBITDA	**402**	**201**	**301**	**139**	**(60)**	**983**
Depreciation and amortization[1]	**50**	**30**	**46**	**33**	**7**	**166**
Three months ended June 28, 2020						
External sales	$ 937	$ 1,601	$ 876	$ 428	$ 10	$ 3,852
Intersegment sales	486	4	274	349	—	1,113
Total sales	1,423	1,605	1,150	777	10	4,965
Research, development and engineering expenses	65	4	55	41	24	189
Equity, royalty and interest income (loss) from investees	84	11	12	9	(1)	115
Interest income	1	1	1	1	—	4
EBITDA	150	160	141	91	(38)	504
Depreciation and amortization[1]	51	30	47	32	4	164

[1] 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 Net Income* as "Interest expense." A portion of depreciation expense is included in "Research, development and engineering expenses."

Summarized financial information regarding our reportable operating segments for the six months ended is shown in the table below:

In millions	Engine	Distribution	Components	Power Systems	New Power	Total Segments
Six months ended July 4, 2021						
External sales	**$ 3,815**	**$ 3,740**	**$ 3,280**	**$ 1,311**	**$ 57**	**$ 12,203**
Intersegment sales	**1,135**	**15**	**866**	**854**	**2**	**2,872**
Total sales	**4,950**	**3,755**	**4,146**	**2,165**	**59**	**15,075**
Research, development and engineering expenses	**191**	**25**	**154**	**117**	**49**	**536**
Equity, royalty and interest income from investees	**217**	**32**	**31**	**21**	**2**	**303**
Interest income	**4**	**3**	**2**	**2**	**—**	**11**
EBITDA	**756**	**361**	**722**	**265**	**(111)**	**1,993**
Depreciation and amortization[(1)]	**101**	**60**	**94**	**68**	**12**	**335**
Six months ended June 28, 2020						
External sales	$ 2,516	$ 3,408	$ 1,991	$ 928	$ 20	$ 8,863
Intersegment sales	1,065	11	661	733	—	2,470
Total sales	3,581	3,419	2,652	1,661	20	11,333
Research, development and engineering expenses	145	11	123	95	53	427
Equity, royalty and interest income (loss) from investees	162	32	33	18	(1)	244
Interest income	5	2	2	2	—	11
EBITDA	515	318	420	168	(81)	1,340
Depreciation and amortization[(1)]	104	61	95	64	8	332

[(1)] 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 Net Income* as "Interest expense." The amortization of debt discount and deferred costs was $ 2 million and $ 1 million for the six months ended July 4, 2021 and June 28, 2020, respectively. A portion of depreciation expense is included in "Research, development and engineering expenses."

A reconciliation of our total segment sales to total net sales in the *Condensed Consolidated Statements of Net Income* was as follows:

	Three months ended		Six months ended	
In millions	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
Total segment sales	**$ 7,572**	$ 4,965	**$ 15,075**	$ 11,333
Elimination of intersegment sales	**(1,461)**	(1,113)	**(2,872)**	(2,470)
Total net sales	**$ 6,111**	$ 3,852	**$ 12,203**	$ 8,863

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

	Three months ended		Six months ended	
In millions	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
TOTAL SEGMENT EBITDA	**$ 983**	$ 504	**$ 1,993**	$ 1,340
Intersegment elimination	**(9)**	45	**(39)**	55
Less:				
Interest expense	**29**	23	**57**	46
Depreciation and amortization	**166**	164	**335**	332
INCOME BEFORE INCOME TAXES	**779**	362	**1,562**	1,017
Less: Income tax expense	**167**	93	**339**	220
CONSOLIDATED NET INCOME	**612**	269	**1,223**	797
Less: Net income (loss) attributable to noncontrolling interests	**12**	(7)	**20**	10
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	**$ 600**	$ 276	**$ 1,203**	$ 787

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Cummins Inc. and its consolidated subsidiaries are hereinafter sometimes referred to as “Cummins,” “we,” “our” or “us.”

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

Certain parts of this quarterly report contain forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those that are based on current expectations, estimates and projections about the industries in which we operate and management’s beliefs and assumptions. Forward-looking statements are generally accompanied by words such as "anticipates," "expects," "forecasts," "intends," "plans," "believes," "seeks," "estimates," "could," "should," "may" or words of similar meaning. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which we refer to as "future factors," which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Some future factors that could cause our results to differ materially from the results discussed in such forward-looking statements are discussed below and shareholders, potential investors and other readers are urged to consider these future factors carefully in evaluating forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. Future factors that could affect the outcome of forward-looking statements include the following:

GOVERNMENT REGULATION

- any adverse results of our internal review into our emissions certification process and compliance with emission standards;
- increased scrutiny from regulatory agencies, as well as unpredictability in the adoption, implementation and enforcement of emission standards around the world;
- policy changes in international trade;
- the U.K.'s exit from the European Union;
- changes in taxation;
- global legal and ethical compliance costs and risks;
- increasingly stringent environmental laws and regulations;
- future bans or limitations on the use of diesel-powered products;

BUSINESS CONDITIONS / DISRUPTIONS

- supply shortages and supplier financial risk, particularly from any of our single-sourced suppliers, including suppliers that may be impacted by the COVID-19 pandemic;
- market slowdown due to the impacts from the COVID-19 pandemic, other public health crises, epidemics or pandemics;
- impacts to manufacturing and supply chain abilities from an extended shutdown or disruption of our operations due to the COVID-19 pandemic;
- aligning our capacity and production with our demand, including impacts of COVID-19;
- large truck manufacturers and original equipment manufacturers customers discontinuing outsourcing their engine supply needs or experiencing financial distress, particularly related to the COVID-19 pandemic, bankruptcy or change in control;
- a slowdown in infrastructure development and/or depressed commodity prices;
- failure to realize expected results from our investment in Eaton Cummins Automated Transmission Technologies joint venture;
- the actions of, and income from, joint ventures and other investees that we do not directly control;

PRODUCTS AND TECHNOLOGY

- product recalls;
- the development of new technologies that reduce demand for our current products and services;
- lower than expected acceptance of new or existing products or services;

- variability in material and commodity costs;
- product liability claims;
- our sales mix of products;
- protection and validity of our patent and other intellectual property rights;

GENERAL

- disruptions in global credit and financial markets as the result of the COVID-19 pandemic;
- labor relations or work stoppages;
- reliance on our executive leadership team and other key personnel;
- climate change and global warming;
- our plan to reposition our portfolio of product offerings through exploration of strategic acquisitions and divestitures and related uncertainties of entering such transactions;
- exposure to potential security breaches or other disruptions to our information technology systems and data security;
- political, economic and other risks from operations in numerous countries;
- competitor activity;
- increasing competition, including increased global competition among our customers in emerging markets;
- foreign currency exchange rate changes;
- the performance of our pension plan assets and volatility of discount rates, particularly those related to the sustained slowdown of the global economy due to the COVID-19 pandemic;
- the price and availability of energy;
- the outcome of pending and future litigation and governmental proceedings;
- continued availability of financing, financial instruments and financial resources in the amounts, at the times and on the terms required to support our future business; and
- other risk factors described in our 2020 Form 10-K, Part I, Item 1A. under the caption "Risk Factors."

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 quarterly report and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

ORGANIZATION OF INFORMATION

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) was prepared to provide the reader with a view and perspective of our business through the eyes of management and should be read in conjunction with our Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2020 Form 10-K. Our MD&A is presented in the following sections:

- **EXECUTIVE SUMMARY AND FINANCIAL HIGHLIGHTS**
- **RESULTS OF OPERATIONS**
- **OPERATING SEGMENT RESULTS**
- **OUTLOOK**
- **LIQUIDITY AND CAPITAL RESOURCES**
- **APPLICATION OF CRITICAL ACCOUNTING ESTIMATES**

EXECUTIVE SUMMARY AND FINANCIAL HIGHLIGHTS

Overview

We are a global power leader that designs, manufactures, distributes and services diesel, natural gas, electric and hybrid powertrains and powertrain-related components including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems, automated transmissions, electric power generation systems, batteries, electrified power systems, hydrogen production and fuel cell products. We sell our products to original equipment manufacturers (OEMs), distributors, dealers and other customers worldwide. We have long-standing relationships with many of the leading manufacturers in the markets we serve, including PACCAR Inc, Navistar International Corporation, Daimler Trucks North America and Stellantis N.V. We serve our customers through a network of over 500 wholly-owned, joint venture and independent distributor locations and over 9,000 Cummins certified dealer locations with service to approximately 190 countries and territories.

Our reportable operating segments consist of Engine, Distribution, Components, Power Systems and New Power. This reporting structure is organized according to the products and markets each segment serves. The Engine segment produces engines (15 liters and smaller) and associated parts for sale to customers in on-highway and various off-highway markets. Our engines are used in trucks of all sizes, buses and recreational vehicles, as well as in various industrial applications, including construction, agriculture, power generation systems and other off-highway applications. The Distribution segment includes wholly-owned and partially-owned distributorships engaged in wholesaling engines, generator sets and service parts, as well as performing service and repair activities on our products and maintaining relationships with various OEMs throughout the world. The Components segment sells filtration products, aftertreatment systems, turbochargers, electronics, fuel systems and automated transmissions. The Power Systems segment is an integrated power provider, which designs, manufactures and sells engines (16 liters and larger) for industrial applications (including mining, oil and gas, marine and rail), standby and prime power generator sets, alternators and other power components. The New Power segment designs, manufactures, sells and supports hydrogen production solutions as well as electrified power systems ranging from fully electric to hybrid along with innovative components and subsystems, including battery and fuel cell technologies. We continue to serve all our markets as they adopt electrification and alternative power technologies, meeting the needs of our OEM partners and end customers.

Our financial performance depends, in large part, on varying conditions in the markets we serve, particularly the on-highway, construction and general industrial markets. Demand in these markets tends to fluctuate in response to overall economic conditions. Our sales may also be impacted by OEM inventory levels, production schedules and stoppages. Economic downturns in markets we serve generally result in reduced sales of our products and can result in price reductions in certain products and/or markets. As a worldwide business, our operations are also affected by currency, political, economic, public health crises, epidemics or pandemics and regulatory matters, including adoption and enforcement of environmental and emission standards, in the countries we serve. As part of our growth strategy, we invest in businesses in certain countries that carry high levels of these risks such as China, Brazil, India, Mexico, Russia and countries in the Middle East and Africa. At the same time, our geographic diversity and broad product and service offerings have helped limit the impact from a drop in demand in any one industry or customer or the economy of any single country on our consolidated results.

2021 Quarter-to-Date and Year-to-Date Results

A summary of our results is as follows:

In millions, except per share amounts	Three months ended July 4, 2021	Three months ended June 28, 2020	Six months ended July 4, 2021	Six months ended June 28, 2020
Net sales	**$ 6,111**	$ 3,852	**$ 12,203**	$ 8,863
Net income attributable to Cummins Inc.	**600**	276	**1,203**	787
Earnings per common share attributable to Cummins Inc.				
Basic	**$ 4.14**	$ 1.87	**$ 8.24**	$ 5.30
Diluted	**4.10**	1.86	**8.16**	5.29

Our results for the first half of 2020 were significantly impacted by COVID-19 and other targeted shut-downs, which began in late March 2020 in response to both customer plant closures and government actions to slow the spread of the virus. Plants closed in China during the first quarter of 2020 were reopened in late March 2020; however, additional plants and distribution locations around the world were shut down or working at reduced capacities early in the second quarter of 2020. Although these actions did not have a material effect on our results of operations in the first quarter, these actions materially impacted our second quarter results in 2020.

Worldwide revenues increased 59 percent in the three months ended July 4, 2021, compared to the same period in 2020, due to higher demand in all operating segments and all geographic regions due to an improved economic environment and lessening effects from the COVID-19 pandemic. Net sales in the U.S. and Canada improved 74 percent, primarily due to increased demand in North American on-highway markets, which also positively impacted all components businesses. International demand (excludes the U.S. and Canada) improved 42 percent, with higher sales in all geographic regions. The increase in international sales was principally due to higher demand in all components businesses (primarily in Western Europe, India and Latin America), all distribution product lines, power generation equipment and industrial engines (especially mining). Favorable foreign currency fluctuations impacted international sales by 6 percent (primarily the Chinese renminbi, Euro, Australian dollar and British pound). Our industry continues to be unfavorably impacted by supply chain constraints, primarily semiconductor chips, which are limiting our collective ability to meet end-user demand.

Worldwide revenues increased 38 percent in the six months ended July 4, 2021, compared to the same period in 2020, as we experienced higher demand in all operating segments and all geographic regions due to an improved economic environment and lessening effects from the COVID-19 pandemic. Net sales in the U.S. and Canada improved 33 percent, primarily due to increased demand in North American on-highway markets, which also positively impacted all components businesses. International demand (excludes the U.S. and Canada) improved by 44 percent, with higher sales in all geographic regions. The increase in international sales was principally due to higher demand in all components businesses (primarily in China, India and Western Europe), all distribution product lines and power generation equipment. Favorable foreign currency fluctuations impacted international sales by 4 percent (primarily the Chinese renminbi, Euro, Australian dollar and British pound, partially offset by the Brazilian real). Our industry continues to be unfavorably impacted by supply chain constraints, primarily semiconductor chips, which are limiting our collective ability to meet end-user demand.

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The following tables contain sales and EBITDA (defined as earnings or losses before interest expense, income taxes, depreciation and amortization and noncontrolling interests) by operating segment for the three and six months ended July 4, 2021 and June 28, 2020. See Note 13, "OPERATING SEGMENTS," to the *Condensed Consolidated Financial Statements* for additional information and a reconciliation of our segment information to the corresponding amounts in our *Condensed Consolidated Statements of Net Income*.

Operating Segments	Three months ended July 4, 2021			Three months ended June 28, 2020			Percent change 2021 vs. 2020	
In millions	Sales	Percent of Total	EBITDA	Sales	Percent of Total	EBITDA	Sales	EBITDA
Engine	**$ 2,491**	**41 %**	**$ 402**	$ 1,423	37 %	$ 150	75 %	NM
Distribution	**1,920**	**31 %**	**201**	1,605	42 %	160	20 %	26 %
Components	**1,994**	**33 %**	**301**	1,150	30 %	141	73 %	NM
Power Systems	**1,143**	**19 %**	**139**	777	20 %	91	47 %	53 %
New Power	**24**	**— %**	**(60)**	10	— %	(38)	NM	(58) %
Intersegment eliminations	**(1,461)**	**(24)%**	**(9)**	(1,113)	(29)%	45	31 %	NM
Total	**$ 6,111**	**100 %**	**$ 974**	$ 3,852	100 %	$ 549	59 %	77 %

"NM" - not meaningful information

Net income attributable to Cummins was $600 million, or $4.10 per diluted share, on sales of $6.1 billion for the three months ended July 4, 2021, versus the comparable prior year period net income attributable to Cummins of $276 million, or $1.86 per diluted share, on sales of $3.9 billion. The increases in net income and earnings per diluted share were driven by higher net sales, increased gross margin and gross margin as a percentage of sales, higher equity, royalty and interest income from investees (primarily in China and India) and a lower effective tax rate, partially offset by higher overall compensation and incremental costs associated with supply chain constraints. The increases in gross margin and gross margin as a percentage of sales were primarily due to higher volumes and improved pricing, partially offset by higher overall compensation, higher premium freight costs due to supply chain constraints and rising commodity costs. Diluted earnings per common share for the three months ended July 4, 2021, benefited $0.04 from fewer weighted-average shares outstanding due to the stock repurchase program.

Operating Segments	Six months ended July 4, 2021			Six months ended June 28, 2020			Percent change 2021 vs. 2020	
In millions	Sales	Percent of Total	EBITDA	Sales	Percent of Total	EBITDA	Sales	EBITDA
Engine	**$ 4,950**	**41 %**	**$ 756**	$ 3,581	40 %	$ 515	38 %	47 %
Distribution	**3,755**	**31 %**	**361**	3,419	39 %	318	10 %	14 %
Components	**4,146**	**34 %**	**722**	2,652	30 %	420	56 %	72 %
Power Systems	**2,165**	**18 %**	**265**	1,661	19 %	168	30 %	58 %
New Power	**59**	**— %**	**(111)**	20	— %	(81)	NM	(37) %
Intersegment eliminations	**(2,872)**	**(24)%**	**(39)**	(2,470)	(28)%	55	16 %	NM
Total	**$ 12,203**	**100 %**	**$ 1,954**	$ 8,863	100 %	$ 1,395	38 %	40 %

"NM" - not meaningful information

Net income attributable to Cummins was $1,203 million, or $8.16 per diluted share, on sales of $12.2 billion for the six months ended July 4, 2021, versus the comparable prior year period net income attributable to Cummins of $787 million, or $5.29 per diluted share, on sales of $8.9 billion. The increases in net income and earnings per diluted share were driven by higher net sales, increased gross margin and higher equity, royalty and interest income from investees (primarily in China due to stronger demand for trucks and construction equipment), partially offset by higher overall compensation, incremental costs associated with supply chain constraints and mark-to-market losses on corporate owned life insurance. The increase in gross margin was primarily due to higher volumes and improved pricing, partially offset by higher overall compensation expenses, increased premium freight costs due to supply chain constraints and rising commodity costs. The decrease in gross margin as a percentage of sales was primarily due to higher overall compensation, increased premium freight costs due to supply chain constraints and rising commodity costs. Diluted earnings per common share for the six months ended July 4, 2021, benefited $0.10 from fewer weighted-average shares outstanding due to the stock repurchase program.

Gross margin, selling, general and administrative and research development and engineering expenses increased due to higher compensation costs (primarily driven by higher variable compensation and the restoration of 2020 salary reductions), which impacted all of our reporting segments for the three and six months ended July 4, 2021.

We generated $955 million of cash from operations for the six months ended July 4, 2021, compared to $357 million for the comparable period in 2020. Refer to the section titled "Cash Flows" in the "LIQUIDITY AND CAPITAL RESOURCES" section for a discussion of items impacting cash flows.

Our debt to capital ratio (total capital defined as debt plus equity) at July 4, 2021, was 30.9 percent, compared to 31.7 percent at December 31, 2020. The decrease was primarily due to $233 million of lower debt balances since December 31, 2020. At July 4, 2021, we had $2.9 billion in cash and marketable securities on hand and access to our $3.5 billion credit facilities, if necessary, to meet currently anticipated working capital, investment and funding needs.

In the first six months of 2021, we purchased $1,090 million, or 4.4 million shares of our common stock.

In July 2021, the Board of Directors (the Board) authorized an increase to our quarterly dividend of 7.4 percent from $1.35 per share to $1.45 per share.

In the first six months of 2021, the investment gain on our U.S. pension trust was 5.2 percent while our U.K. pension trust loss was 1.5 percent. During the remainder of 2021, we anticipate making $10 million in additional defined benefit pension contributions in the U.K. and $9 million in contributions to our U.S. non-qualified benefit plans. We expect our 2021 annual net periodic pension cost to approximate $79 million.

As of the date of this filing, our credit ratings and outlooks from the credit rating agencies remain unchanged.

RESULTS OF OPERATIONS

In millions, except per share amounts	Three months ended July 4, 2021	Three months ended June 28, 2020	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent	Six months ended July 4, 2021	Six months ended June 28, 2020	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent
NET SALES	**$ 6,111**	$ 3,852	$ 2,259	59 %	**$ 12,203**	$ 8,863	$ 3,340	38 %
Cost of sales	**4,633**	2,962	(1,671)	(56) %	**9,239**	6,679	(2,560)	(38)%
GROSS MARGIN	**1,478**	890	588	66 %	**2,964**	2,184	780	36 %
OPERATING EXPENSES AND INCOME								
Selling, general and administrative expenses	**600**	470	(130)	(28) %	**1,174**	1,016	(158)	(16)%
Research, development and engineering expenses	**276**	189	(87)	(46) %	**536**	427	(109)	(26)%
Equity, royalty and interest income from investees	**137**	115	22	19 %	**303**	244	59	24 %
Other operating expense, net	**(4)**	(10)	6	60 %	**(12)**	(15)	3	20 %
OPERATING INCOME	**735**	336	399	NM	**1,545**	970	575	59 %
Interest expense	**29**	23	(6)	(26) %	**57**	46	(11)	(24)%
Other income, net	**73**	49	24	49 %	**74**	93	(19)	(20)%
INCOME BEFORE INCOME TAXES	**779**	362	417	NM	**1,562**	1,017	545	54 %
Income tax expense	**167**	93	(74)	(80) %	**339**	220	(119)	(54)%
CONSOLIDATED NET INCOME	**612**	269	343	NM	**1,223**	797	426	53 %
Less: Net income (loss) attributable to noncontrolling interests	**12**	(7)	(19)	NM	**20**	10	(10)	(100)%
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	**$ 600**	$ 276	$ 324	NM	**$ 1,203**	$ 787	$ 416	53 %
Diluted Earnings Per Common Share Attributable to Cummins Inc.	**$ 4.10**	$ 1.86	$ 2.24	NM	**$ 8.16**	$ 5.29	$ 2.87	54 %

"NM" - not meaningful information

Percent of sales	Three months ended July 4, 2021	Three months ended June 28, 2020	Favorable/(Unfavorable) Percentage Points	Six months ended July 4, 2021	Six months ended June 28, 2020	Favorable/(Unfavorable) Percentage Points
Gross margin	**24.2 %**	23.1 %	1.1	**24.3 %**	24.6 %	(0.3)
Selling, general and administrative expenses	**9.8 %**	12.2 %	2.4	**9.6 %**	11.5 %	1.9
Research, development and engineering expenses	**4.5 %**	4.9 %	0.4	**4.4 %**	4.8 %	0.4

Net Sales

Net sales for the three months ended July 4, 2021, increased by $2,259 millionversus the comparable period in 2020. The primary drivers were as follows:

- Engine segment sales increased 75 percent due to higher volumes in the North American heavy-duty truck and pick-up truck markets and global medium-duty truck markets.
- Components segment sales increased 73 percent largely due to higher emission solutions demand in North America, Western Europe and India.
- Power Systems segment sales increased 47 percent primarily due to higher demand in power generation markets in North America, China and India and global mining markets.
- Distribution segment sales increased 20 percent principally due to higher demand in North America across all product lines.
- Favorable foreign currency fluctuations of 3 percent of total sales, primarily in the Chinese renminbi, Euro, Australian dollar and British pound.

Net sales for the six months ended July 4, 2021, increased $3,340 millionversus the comparable period in 2020. The primary drivers were as follows:

- Components segment sales increased 56 percent largely due to higher emission solutions demand in North America, China and India.
- Engine segment sales increased 38 percent due to increased volumes in the North American heavy-duty truck and pick-up truck markets and global medium-duty truck markets.
- Power Systems segment sales increased 30 percent primarily due to higher demand in power generation markets in North America, China, India and Asia Pacific and global mining markets.
- Distribution segment sales increased 10 percent principally due to higher demand in North America, especially in the whole goods and service product lines.
- Favorable foreign currency fluctuations of 2 percent of total sales, primarily in the Chinese renminbi, Euro, Australian dollar and British pound, partially offset by the Brazilian real.

Sales to international markets (excluding the U.S. and Canada), based on location of customers, for the three and six months ended July 4, 2021, were 43 percent and 44 percent of total net sales compared with 48 percent and 42 percent of total net sales for the comparable periods in 2020. A more detailed discussion of sales by segment is presented in the “OPERATING SEGMENT RESULTS” section.

Cost of Sales

The types of expenses included in cost of sales are the following: parts and material consumption, including direct and indirect materials; salaries, wages and benefits; depreciation on production equipment and facilities and amortization of technology intangibles; estimated costs of warranty programs and campaigns; production utilities; production-related purchasing; warehousing, including receiving and inspection; freight costs; engineering support costs; repairs and maintenance; production and warehousing facility property insurance; rent for production facilities and other production overhead.

Gross Margin

Gross margin increased $588 million for the three months ended July 4, 2021 and increased 1.1 points as a percentage of sales, versus the comparable period in 2020. The increases in gross margin and gross margin as a percentage of sales were primarily due to higher volumes and improved pricing, partially offset by higher overall compensation, higher premium freight costs due to supply chain constraints and rising commodity costs.

Gross margin increased $780 million for the six months ended July 4, 2021 and decreased 0.3 points as a percentage of sales versus the comparable period in 2020. The increase in gross margin was primarily due to higher volumes and improved pricing, partially offset by higher overall compensation expenses, increased premium freight costs due to supply chain constraints and rising commodity costs. The decrease in gross margin as a percentage of sales was primarily due to higher overall compensation, increased premium freight costs due to supply chain constraints and rising commodity costs.

The provision for base warranties issued as a percent of sales for the three and six months ended July 4, 2021, was 2.4 percent and 2.5 percent, respectively, compared to 1.7 percent and 1.8 percent for the comparable periods in 2020. A detailed discussion of gross margin by segment is presented in the “OPERATING SEGMENT RESULTS” section.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $130 million for the three months ended July 4, 2021, versus the comparable period in 2020, primarily due to higher overall compensation. Overall, selling, general and administrative expenses as a percentage of sales decreased to 9.8 percent in the three months ended July 4, 2021, from 12.2 percent in the comparable period in 2020. The decrease in selling, general and administrative expenses as a percentage of sales was mainly due to sales increasing faster than selling, general and administrative expenses, despite higher compensation expenses.

Selling, general and administrative expenses increased $158 million for the six months ended July 4, 2021, versus the comparable period in 2020, primarily due to higher overall compensation. Overall, selling, general and administrative expenses as a percentage of sales decreased to 9.6 percent in the six months ended July 4, 2021, from 11.5 percent in the comparable period in 2020. The decrease in selling, general and administrative expenses as a percentage of sales was primarily due to sales increasing faster than selling, general and administrative expenses, despite higher compensation expenses.

Research, Development and Engineering Expenses

Research, development and engineering expenses increased $87 million for the three months ended July 4, 2021, versus the comparable period in 2020 primarily due to higher overall compensation, increased spending on prototypes and higher consulting expenses. Overall, research, development and engineering expenses as a percentage of sales decreased to 4.5 percent in the three months ended July 4, 2021, from 4.9 percent in the comparable period in 2020.

Research, development and engineering expenses increased $109 million for the six months ended July 4, 2021, versus the comparable period in 2020, primarily due to higher overall compensation and increased spending on prototypes. Overall, research, development and engineering expenses as a percentage of sales decreased to 4.4 percent in the six months ended July 4, 2021, from 4.8 percent in the comparable period in 2020. Research activities continue to focus on development of new products to meet future emission standards around the world, improvements in fuel economy performance of diesel and natural gas powered engines and related components as well as development activities around fully electric, hybrid and hydrogen powertrain solutions.

Equity, Royalty and Interest Income from Investees

Equity, royalty and interest income from investees increased $22 million for the three months ended July 4, 2021, versus the comparable period in 2020, primarily due to increased earnings at Beijing Foton Cummins Engine Co., Ltd. and Tata Cummins Ltd.

Equity, royalty and interest income from investees increased $59 million for the six months ended July 4, 2021, versus the comparable period in 2020, primarily due to higher earnings at Beijing Foton Cummins Engine Co., Ltd., Dongfeng Cummins Engine Co., Ltd., Tata Cummins Ltd. (excluding the 2020 benefits noted below) and Guangxi Cummins Industrial Power Co. These increases were partially offset by the absence of a $37 million favorable adjustment ($18 million of which related to Tata Cummins Ltd.) as the result of tax changes within India's 2020-2021 Union Budget of India (India Tax Law Changes) passed in March 2020 and $18 million of technology fee revenue related to Tata Cummins Ltd., both recorded in the first quarter of 2020. See Note 4, "INCOME TAXES," of the Notes to the Consolidated Financial Statements of our 2020 Form 10-K for additional information on India Tax Law Changes.

Other Operating Expense, Net

Other operating (expense) income, net was as follows:

	Three months ended		Six months ended	
In millions	**July 4, 2021**	**June 28, 2020**	**July 4, 2021**	**June 28, 2020**
Amortization of intangible assets	**$ (5)**	$ (6)	**$ (11)**	$ (11)
Loss on sale of assets, net	**(2)**	(5)	**(1)**	(6)
Loss on write-off of assets	**—**	(3)	**(4)**	(5)
Royalty income, net	**3**	—	**5**	2
Other, net	**—**	4	**(1)**	5
Total other operating expense, net	**$ (4)**	$ (10)	**$ (12)**	$ (15)

Interest Expense

Interest expense increased $6 million and $11 million for the three and six months ended July 4, 2021, versus the comparable periods in 2020, primarily due to increased interest expense associated with our $2 billion senior unsecured notes issued in August of 2020.

Other Income, Net

Other income (expense), net was as follows:

In millions	Three months ended July 4, 2021	Three months ended June 28, 2020	Six months ended July 4, 2021	Six months ended June 28, 2020
Non-service pension and OPEB credit	**$ 25**	$ 16	**$ 49**	$ 32
Gain (loss) on corporate owned life insurance	**20**	21	**(12)**	38
Gain on sale of land	**18**	—	**18**	—
Interest income	**5**	4	**11**	11
Gain on marketable securities, net	**3**	7	**3**	4
Foreign currency gain (loss), net	**3**	(2)	**(2)**	(3)
Other, net	**(1)**	3	**7**	11
Total other income, net	**$ 73**	$ 49	**$ 74**	$ 93

Income Tax Expense

Our effective tax rate for 2021 is expected to approximate 21.5 percent (lowered one percentage point), excluding any discrete items that may arise.

Our effective tax rates for the three and six months ended July 4, 2021, were 21.4 percent and 21.7 percent, respectively. Our effective tax rates for the three and six months ended June 28, 2020, were 25.7 percent and 21.6 percent, respectively.

The three months ended July 4, 2021, contained unfavorable discrete items of $7 million, primarily due to a $10 million unfavorable statutory change in tax rates, mostly in the UK, partially offset by $3 million of other favorable discrete items.

The six months ended July 4, 2021, contained unfavorable discrete items of $3 million, primarily due to a $10 million unfavorable statutory change in tax rates, mostly in the UK, partially offset by $7 million of other favorable discrete items.

The three months ended June 28, 2020, contained unfavorable discrete items of $14 million, primarily due to changes in tax reserves on certain U.S. tax matters.

The six months ended June 28, 2020, contained $4 million of favorable net discrete tax items, primarily due to the India Tax Law Change passed in March of 2020, partially offset by unfavorable changes in tax reserves in the second quarter of 2020. See Note 4, "INCOME TAXES," of the Notes to the Consolidated Financial Statements of our 2020 Form 10-K for additional information on India Tax Law Changes.

Noncontrolling Interests

Noncontrolling interests eliminate the income or loss attributable to non-Cummins ownership interests in our consolidated entities. Noncontrolling interests in income of consolidated subsidiaries for the three and six months ended July 4, 2021, increased $19 million and $10 million, respectively, versus the comparable periods in 2020. The increase for the three months ended July 4, 2021, was primarily due to higher earnings at Cummins India Limited and Eaton Cummins Joint Venture. The increase for the six months ended July 4, 2021, is principally due to higher earnings at Cummins India Limited and Eaton Cummins Joint Venture, partially offset by the absence of a $19 million unfavorable adjustment as the results of India Tax Law Changes passed in March 2020. See Note 4, "INCOME TAXES," of the Notes to the Consolidated Financial Statements of our 2020 Form 10-K for additional information on India Tax Law Changes.

Net Income Attributable to Cummins Inc. and Diluted Earnings Per Common Share Attributable to Cummins Inc.

Net income and diluted earnings per common share attributable to Cummins Inc. for the three months ended July 4, 2021, increased $324 million and $2.24 per diluted share versus the comparable period in 2020, primarily due to higher net sales, increased gross margin and gross margin as a percentage of sales, higher equity, royalty and interest income from investees (primarily in China and India) and a lower effective tax rate, partially offset by higher overall compensation and incremental costs associated with supply chain constraints. Diluted earnings per common share for the three months ended July 4, 2021, benefited $0.04 from fewer weighted-average shares outstanding due to the stock repurchase program.

Net income and diluted earnings per common share attributable to Cummins Inc. for the six months ended July 4, 2021, increased $416 million and $2.87 per diluted share versus the comparable period in 2020, primarily due to higher net sales, increased gross margin and higher equity, royalty and interest income from investees (primarily in China due to stronger demand for trucks and construction equipment), partially offset by higher overall compensation, incremental costs associated with supply chain constraints and mark-to-market losses on corporate owned life insurance. Diluted earnings per common share for the six months ended July 4, 2021, benefited $0.10 from fewer weighted-average shares outstanding due to the stock repurchase program.

Comprehensive Income - Foreign Currency Translation Adjustment

The foreign currency translation adjustment was a net gain of $22 million and net loss of $34 million, respectively, for the three and six months ended July 4, 2021, compared to a net loss of $11 million and $173 million, respectively, for the three and six months ended June 28, 2020 and was driven by the following:

	Three months ended			
	July 4, 2021		June 28, 2020	
In millions	Translation adjustment	Primary currency driver vs. U.S. dollar	Translation adjustment	Primary currency driver vs. U.S. dollar
Wholly-owned subsidiaries	**$ 20**	Brazilian real, Chinese renminbi, offset by Indian rupee, British pound	$ (7)	Brazilian real, Indian rupee, offset by Australian dollar, South African rand
Equity method investments	**9**	Chinese renminbi, offset by Indian rupee	1	British pound, Chinese renminbi, offset by Indian rupee
Consolidated subsidiaries with a noncontrolling interest	**(7)**	Indian rupee	(5)	Indian rupee
Total	**$ 22**		$ (11)	

	Six months ended			
	July 4, 2021		June 28, 2020	
In millions	Translation adjustment	Primary currency driver vs. U.S. dollar	Translation adjustment	Primary currency driver vs. U.S. dollar
Wholly-owned subsidiaries	**$ (28)**	British pound, Indian rupee, offset by Chinese renminbi	$ (131)	Brazilian real, Indian rupee, Chinese renminbi, British pound
Equity method investments	**1**	Chinese renminbi, offset by Indian rupee	(20)	Chinese renminbi, Indian rupee
Consolidated subsidiaries with a noncontrolling interest	**(7)**	Indian rupee	(22)	Indian rupee
Total	**$ (34)**		$ (173)	

OPERATING SEGMENT RESULTS

Our reportable operating segments consist of the Engine, Distribution, Components, Power Systems and New Power segments. This reporting structure is organized according to the products and markets each segment serves. We use segment EBITDA as a primary basis for the Chief Operating Decision Maker to evaluate the performance of each of our reportable operating segments. We believe EBITDA is a useful measure of our operating performance as it assists investors and debt holders in comparing our performance on a consistent basis without regard to financing methods, capital structure, income taxes or depreciation and amortization methods, which can vary significantly depending upon many factors. Segment amounts exclude certain expenses not specifically identifiable to segments. See Note 13, "OPERATING SEGMENTS," to the *Condensed Consolidated Financial Statements* for additional information and a reconciliation of our segment information to the corresponding amounts in our *Condensed Consolidated Statements of Net Income*.

Following is a discussion of results for each of our operating segments.

Engine Segment Results

Financial data for the Engine segment was as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	July 4, 2021	June 28, 2020	Amount	Percent	July 4, 2021	June 28, 2020	Amount	Percent
External sales	**$ 1,920**	$ 937	$ 983	NM	**$ 3,815**	$ 2,516	$ 1,299	52 %
Intersegment sales	**571**	486	85	17 %	**1,135**	1,065	70	7 %
Total sales	**2,491**	1,423	1,068	75 %	**4,950**	3,581	1,369	38 %
Research, development and engineering expenses	**99**	65	(34)	(52) %	**191**	145	(46)	(32) %
Equity, royalty and interest income from investees	**104**	84	20	24 %	**217**	162	55	34 %
Interest income	**1**	1	—	— %	**4**	5	(1)	(20) %
Segment EBITDA	**402**	150	252	NM	**756**	515	241	47 %
			Percentage Points				Percentage Points	
Segment EBITDA as a percentage of total sales	**16.1 %**	10.5 %	5.6		**15.3 %**	14.4 %	0.9	

"NM" - not meaningful information

Sales for our Engine segment by market were as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	July 4, 2021	June 28, 2020	Amount	Percent	July 4, 2021	June 28, 2020	Amount	Percent
Heavy-duty truck	**$ 839**	$ 415	$ 424	NM	**$ 1,666**	$ 1,165	$ 501	43 %
Medium-duty truck and bus	**688**	391	297	76 %	**1,362**	1,009	353	35 %
Light-duty automotive	**484**	180	304	NM	**965**	533	432	81 %
Total on-highway	**2,011**	986	1,025	NM	**3,993**	2,707	1,286	48 %
Off-highway	**480**	437	43	10 %	**957**	874	83	9 %
Total sales	**$ 2,491**	$ 1,423	$ 1,068	75 %	**$ 4,950**	$ 3,581	$ 1,369	38 %
			Percentage Points				Percentage Points	
On-highway sales as percentage of total sales	**81 %**	69 %	12		**81 %**	76 %	5	

"NM" - not meaningful information

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

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
	July 4, 2021	June 28, 2020	Amount	Percent	July 4, 2021	June 28, 2020	Amount	Percent
Heavy-duty	**29,400**	15,900	13,500	85 %	**60,100**	41,700	18,400	44 %
Medium-duty	**67,500**	44,900	22,600	50 %	**140,600**	106,100	34,500	33 %
Light-duty	**68,100**	29,800	38,300	NM	**136,600**	79,200	57,400	72 %
Total unit shipments	**165,000**	90,600	74,400	82 %	**337,300**	227,000	110,300	49 %

Sales

Engine segment sales for the three months ended July 4, 2021, increased $1,068 million versus the comparable period in 2020. The following were the primary drivers by market:

- Heavy-duty truck sales increased $424 million principally due to higher volumes in North America with shipments up 219 percent.
- Light-duty automotive sales increased $304 million primarily due to increased pick-up truck sales in North America with shipments up 272 percent.
- Medium-duty truck and bus sales increased $297 million mainly due to higher global medium-duty demand, especially in North America, Western Europe, Brazil and Mexico.

Our industry continues to be unfavorably impacted by supply chain constraints, primarily semiconductor chips, which are limiting our collective ability to meet end-user demand.

Engine segment sales for the six months ended July 4, 2021, increased $1,369 million versus the comparable period in 2020. The following were the primary drivers by market:

- Heavy-duty truck sales increased $501 million principally due to higher volumes in North America with shipments up 85 percent.
- Light-duty truck automotive sales increased $432 million primarily due to higher pick-up sales in North America with shipments up 113 percent.
- Medium-duty truck and bus sales increased $353 million mainly due to higher global medium-duty demand, especially in North America, Western Europe and Brazil, partially offset by lower bus sales, mainly in North America and Western Europe.

Our industry continues to be unfavorably impacted by supply chain constraints, primarily semiconductor chips, which are limiting our collective ability to meet end-user demand.

Segment EBITDA

Engine segment EBITDA for the three months ended July 4, 2021, increased $252 million versus the comparable period in 2020, primarily due to higher gross margin and increased equity, royalty and interest income from investees, partially offset by higher selling, general and administrative expenses and increased research, development and engineering expenses. The increase in gross margin and gross margin as a percentage of sales was mainly due to higher volumes and favorable pricing, partially offset by higher overall compensation, increased premium freight due to supply chain constraints and rising commodity costs. The increase in selling, general and administrative expenses was due to higher overall compensation and higher consulting expenses. The increase in research, development and engineering expenses was due to higher overall compensation and increased spending on prototypes. The increase in equity, royalty and interest income from investees was principally due to increased earnings at Beijing Foton Cummins Engine Co., Ltd. and Tata Cummins Ltd.

Engine segment EBITDA for the six months ended July 4, 2021, increased $241 million versus the comparable period in 2020, primarily due to higher gross margin and increased equity, royalty and interest income from investees, partially offset by increased selling, general and administrative expenses and higher research, development and engineering expenses. The increase in gross margin and gross margin as a percentage of sales was mainly due to higher volumes and improved pricing, partially offset by higher overall compensation, increased premium freight due to supply chain constraints and rising commodity costs. Selling, general and administrative expenses increased principally due to higher overall compensation. The increase in research, development and engineering expenses was primarily due to higher overall compensation and increased spending on prototypes. The increase in equity, royalty and interest income from investees was largely due to increased earnings at Beijing Foton Cummins Engine Co., Ltd., Dongfeng Cummins Engine Co., Ltd., Tata Cummins Ltd. (excluding the 2020 benefits noted below) and Guangxi Cummins Industrial Power Co., partially offset by the absence of an $18 million favorable adjustment related to India Tax Law Changes passed in March 2020 and $18 million of technology fee revenue both recorded in the first quarter of 2020 in Tata Cummins Ltd. See Note 4, "INCOME TAXES," of the Notes to the Consolidated Financial Statements of our 2020 Form 10-K for additional information on India Tax Law Changes.

Distribution Segment Results

Financial data for the Distribution segment was as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	**July 4, 2021**	**June 28, 2020**	**Amount**	**Percent**	**July 4, 2021**	**June 28, 2020**	**Amount**	**Percent**
External sales	**$ 1,913**	$ 1,601	$ 312	19 %	**$ 3,740**	$ 3,408	$ 332	10 %
Intersegment sales	**7**	4	3	75 %	**15**	11	4	36 %
Total sales	**1,920**	1,605	315	20 %	**3,755**	3,419	336	10 %
Research, development and engineering expenses	**12**	4	(8)	NM	**25**	11	(14)	NM
Equity, royalty and interest income from investees	**15**	11	4	36 %	**32**	32	—	— %
Interest income	**2**	1	1	100 %	**3**	2	1	50 %
Segment EBITDA	**201**	160	41	26 %	**361**	318	43	14 %
			Percentage Points				**Percentage Points**	
Segment EBITDA as a percentage of total sales	**10.5 %**	10.0 %	0.5		**9.6 %**	9.3 %	0.3	

"NM" - not meaningful information

Sales for our Distribution segment by region were as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	**July 4, 2021**	**June 28, 2020**	**Amount**	**Percent**	**July 4, 2021**	**June 28, 2020**	**Amount**	**Percent**
North America	**$ 1,230**	$ 1,041	$ 189	18 %	**$ 2,401**	$ 2,287	$ 114	5 %
Asia Pacific	**227**	190	37	19 %	**441**	386	55	14 %
Europe	**161**	136	25	18 %	**324**	272	52	19 %
China	**77**	101	(24)	(24) %	**164**	169	(5)	(3) %
Africa and Middle East	**69**	38	31	82 %	**123**	89	34	38 %
Russia	**66**	44	22	50 %	**123**	86	37	43 %
Latin America	**48**	32	16	50 %	**88**	71	17	24 %
India	**42**	23	19	83 %	**91**	59	32	54 %
Total sales	**$ 1,920**	$ 1,605	$ 315	20 %	**$ 3,755**	$ 3,419	$ 336	10 %

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

In millions	Three months ended July 4, 2021	Three months ended June 28, 2020	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent	Six months ended July 4, 2021	Six months ended June 28, 2020	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent
Parts	**$ 765**	$ 654	$ 111	17 %	**$ 1,522**	$ 1,441	$ 81	6 %
Power generation	**454**	377	77	20 %	**872**	753	119	16 %
Engines	**351**	277	74	27 %	**685**	600	85	14 %
Service	**350**	297	53	18 %	**676**	625	51	8 %
Total sales	**$ 1,920**	$ 1,605	$ 315	20 %	**$ 3,755**	$ 3,419	$ 336	10 %

Sales

Distribution segment sales for the three months ended July 4, 2021, increased $315 million versus the comparable period in 2020. The following were the primary drivers by region:

- North American sales increased $189 million, representing 60 percent of the total change in Distribution segment sales, due to higher demand in all product lines.
- Improved demand in Asia Pacific and Africa and Middle East.
- Favorable foreign currency fluctuations, primarily in the Australian dollar, Canadian dollar and Euro.

Distribution segment sales for the six months ended July 4, 2021, increased $336 million versus the comparable period in 2020. The following were the primary drivers by region:

- North American sales increased $114 million, representing 34 percent of the total change in Distribution segment sales, due to higher demand in whole goods and service.
- Improved demand in Asia Pacific, Europe and Russia.
- Favorable foreign currency fluctuations, mainly in the Australian dollar, Euro and Canadian dollar.

Segment EBITDA

Distribution segment EBITDA for the three months ended July 4, 2021, increased $41 million versus the comparable period in 2020, primarily due to higher gross margin, an $18 million gain on sale of land and favorable foreign currency fluctuations (principally in the Australian dollar, South African rand and Canadian dollar), partially offset by increased selling, general and administrative expenses. The increase in gross margin and gross margin as a percentage of sales was mainly due to higher volume and favorable foreign currency fluctuations (primarily in the Australian dollar, Canadian dollar and South African rand), partially offset by higher overall compensation. The increase in selling, general and administrative expenses was due to higher overall compensation.

Distribution segment EBITDA for the six months ended July 4, 2021, increased $43 million versus the comparable period in 2020, primarily due to higher gross margin, an $18 million gain on sale of land and favorable foreign currency fluctuations (principally in the Australian dollar), partially offset by increased selling, general and administrative expenses. The increase in gross margin and gross margin as a percentage of sales was mainly due to higher volumes, favorable foreign currency fluctuations (primarily in the Australian dollar, Canadian dollar and South African rand) and improved pricing, partially offset by higher overall compensation. The increase in selling, general and administrative expenses was due to higher overall compensation, partially offset by decreased consulting expenses and lower travel costs.

Components Segment Results

Financial data for the Components segment was as follows:

In millions	Three months ended July 4, 2021	Three months ended June 28, 2020	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent	Six months ended July 4, 2021	Six months ended June 28, 2020	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent
External sales	**$ 1,556**	$ 876	$ 680	78 %	**$ 3,280**	$ 1,991	$ 1,289	65 %
Intersegment sales	**438**	274	164	60 %	**866**	661	205	31 %
Total sales	**1,994**	1,150	844	73 %	**4,146**	2,652	1,494	56 %
Research, development and engineering expenses	**79**	55	(24)	(44) %	**154**	123	(31)	(25) %
Equity, royalty and interest income from investees	**12**	12	—	— %	**31**	33	(2)	(6) %
Interest income	**1**	1	—	— %	**2**	2	—	— %
Segment EBITDA	**301**	141	160	NM	**722**	420	302	72 %
			Percentage Points				Percentage Points	
Segment EBITDA as a percentage of total sales	**15.1 %**	12.3 %	2.8		**17.4 %**	15.8 %	1.6	

"NM" - not meaningful information

Sales for our Components segment by business were as follows:

In millions	Three months ended July 4, 2021	Three months ended June 28, 2020	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent	Six months ended July 4, 2021	Six months ended June 28, 2020	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent
Emission solutions	**$ 882**	$ 472	$ 410	87 %	**$ 1,917**	$ 1,136	$ 781	69 %
Filtration	**374**	255	119	47 %	**746**	567	179	32 %
Turbo technologies	**351**	216	135	63 %	**718**	486	232	48 %
Electronics and fuel systems	**241**	164	77	47 %	**504**	338	166	49 %
Automated transmissions	**146**	43	103	NM	**261**	125	136	NM
Total sales	**$ 1,994**	$ 1,150	$ 844	73 %	**$ 4,146**	$ 2,652	$ 1,494	56 %

Sales

Components segment sales for the three months ended July 4, 2021, increased $844 million versus the comparable period in 2020. The following were the primary drivers by business:

- Emission solutions sales increased $410 million primarily due to stronger demand in North America, Western Europe and India.
- Turbo technologies sales increased $135 million principally due to higher demand in North America and Western Europe.
- Filtration sales increased $119 million mainly due to stronger demand in North America, Europe, Latin America and Asia Pacific.
- Favorable foreign currency fluctuations, primarily in the Chinese renminbi and Euro.

Our industry continues to be unfavorably impacted by supply chain constraints, primarily semiconductor chips, which are limiting our collective ability to meet end-user demand.

Components segment sales for the six months ended July 4, 2021, increased $1,494 million versus the comparable period in 2020. The following were the primary drivers by business:

- Emission solutions sales increased $781 million principally due to stronger demand in North America, China and India.
- Turbo technologies sales increased $232 million mainly due to higher demand in North America, Western Europe and China.
- Filtration sales increased $179 million primarily due to stronger market demand in North America, Europe, China and Asia Pacific.

- Favorable foreign currency fluctuations primarily in the Chinese renminbi and Euro.

Our industry continues to be unfavorably impacted by supply chain constraints, primarily semiconductor chips, which are limiting our collective ability to meet end-user demand.

Segment EBITDA

Components segment EBITDA for the three months ended July 4, 2021, increased $160 million versus the comparable period in 2020, as higher gross margin was partially offset by higher selling, general and administrative expenses and increased research, development and engineering expenses. The increase in gross margin and gross margin as a percentage of sales was mainly due to higher volumes, partially offset by higher overall compensation, increased premium freight due to supply chain constraints and rising commodity costs. Selling, general and administrative expenses and research, development and engineering expenses increased due to higher overall compensation.

Components segment EBITDA for the six months ended July 4, 2021, increased $302 million versus the comparable period in 2020, as higher gross margin was partially offset by higher selling, general and administrative expenses, increased research, development and engineering expenses and lower equity, royalty and interest income from investees. The increase in gross margin and gross margin as a percentage of sales was mainly due to higher volumes and favorable mix, partially offset by higher overall compensation, increased premium freight due to supply chain constraints and rising commodity costs. Selling, general and administrative expenses and research, development and engineering expenses increased due to higher overall compensation. The decrease in equity, royalty and interest income from investees was principally due to the absence of a $14 million favorable adjustment related to India Tax Law Changes passed in March 2020 in Fleetguard Filters Private Ltd., partially offset by higher earnings at Fleetguard Filters Private Ltd. (excluding the absence of 2020 tax benefit noted above). See Note 4, "INCOME TAXES," of the Notes to the Consolidated Financial Statements of our 2020 Form 10-K for additional information on India Tax Law Changes.

Power Systems Segment Results

Financial data for the Power Systems segment was as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	**July 4, 2021**	**June 28, 2020**	**Amount**	**Percent**	**July 4, 2021**	**June 28, 2020**	**Amount**	**Percent**
External sales	**$ 699**	$ 428	$ 271	63 %	**$ 1,311**	$ 928	$ 383	41 %
Intersegment sales	**444**	349	95	27 %	**854**	733	121	17 %
Total sales	**1,143**	777	366	47 %	**2,165**	1,661	504	30 %
Research, development and engineering expenses	**60**	41	(19)	(46) %	**117**	95	(22)	(23) %
Equity, royalty and interest income from investees	**9**	9	—	— %	**21**	18	3	17 %
Interest income	**1**	1	—	— %	**2**	2	—	— %
Segment EBITDA	**139**	91	48	53 %	**265**	168	97	58 %
			Percentage Points				**Percentage Points**	
Segment EBITDA as a percentage of total sales	**12.2 %**	11.7 %	0.5		**12.2 %**	10.1 %	2.1	

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

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	**July 4, 2021**	**June 28, 2020**	**Amount**	**Percent**	**July 4, 2021**	**June 28, 2020**	**Amount**	**Percent**
Power generation	**$ 655**	$ 424	$ 231	54 %	**$ 1,266**	$ 943	$ 323	34 %
Industrial	**399**	291	108	37 %	**723**	587	136	23 %
Generator technologies	**89**	62	27	44 %	**176**	131	45	34 %
Total sales	**$ 1,143**	$ 777	$ 366	47 %	**$ 2,165**	$ 1,661	$ 504	30 %

Sales

Power Systems segment sales for the three months ended July 4, 2021, increased $366 million versus the comparable period in 2020. The following were the primary drivers by product line:

- Power generation sales increased $231 million due to higher demand in North America, China and India.

- Industrial sales increased $108 million due to stronger demand in global mining markets and higher demand in oil and gas markets in China.
- Favorable foreign currency fluctuations, primarily in the Chinese renminbi and British pound.

Power Systems segment sales for the six months ended July 4, 2021, increased $504 million versus the comparable period in 2020. The following were the primary drivers by product line:

- Power generation sales increased $323 million due to higher demand in North America, China, India and Asia Pacific.
- Industrial sales increased $136 million due to higher demand in global mining markets.
- Favorable foreign currency fluctuations primarily in the Chinese renminbi, British pound and Euro.

Segment EBITDA

Power Systems segment EBITDA for the three months ended July 4, 2021, increased $48 million versus the comparable period in 2020, as higher gross margin was partially offset by increased selling, general and administrative expenses and higher research, development and engineering expenses. The increase in gross margin and gross margin as a percentage of sales was mainly due to higher volumes and improved pricing, partially offset by unfavorable mix and higher overall compensation. Selling, general and administrative expenses increased primarily due to higher overall compensation. Research, development and engineering expenses increased primarily due to higher overall compensation and increased spending on prototypes.

Power Systems segment EBITDA for the six months ended July 4, 2021, increased $97 million versus the comparable period in 2020, mainly due to higher gross margin and favorable foreign currency fluctuations (primarily in the Chinese Renminbi), partially offset by higher selling, general and administrative expenses and increased research, development and engineering expenses. The increase in gross margin and gross margin as a percentage of sales was mainly due to higher volumes and improved pricing, partially offset by unfavorable mix and higher overall compensation. Selling, general and administrative expenses and research, development and engineering expenses increased principally due to higher overall compensation.

New Power Segment Results

The New Power segment designs, manufactures, sells and supports hydrogen production solutions as well as electrified power systems ranging from fully electric to hybrid along with innovative components and subsystems, including battery and fuel cell technologies. The New Power segment is currently in the development phase with a primary focus on research and development activities for our power systems, components and subsystems. Financial data for the New Power segment was as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	**July 4, 2021**	**June 28, 2020**	**Amount**	**Percent**	**July 4, 2021**	**June 28, 2020**	**Amount**	**Percent**
External sales	**$ 23**	$ 10	$ 13	NM	**$ 57**	$ 20	$ 37	NM
Intersegment sales	**1**	—	1	NM	**2**	—	2	NM
Total sales	**24**	10	14	NM	**59**	20	39	NM
Research, development and engineering expenses	**26**	24	(2)	(8)%	**49**	53	4	8 %
Equity, royalty and interest (loss) income from investees	**(3)**	(1)	(2)	NM	**2**	(1)	3	NM
Segment EBITDA	**(60)**	(38)	(22)	(58)%	**(111)**	(81)	(30)	(37)%

"NM" - not meaningful information

OUTLOOK

COVID-19 Impact

The acceleration of the COVID-19 vaccine distribution around the world is helping curb the spread of the virus and will hopefully allow the majority of our manufacturing facilities to remain open to meet increasing customer demand. While the vaccination effort continues to progress globally, many markets are still dealing with rising cases, new COVID variants and slower vaccination rollout. We continue to take necessary precautions at all our facilities both in the U.S. and abroad to mitigate the spread of the disease and prioritize the health and safety of our employees. While we are optimistic that continued vaccination distribution globally will minimize the impacts of the virus, there is still a risk of increased cases or new virus variants resulting in lower customer demand, additional facility shutdowns or supply chain constraints in the future.

In March 2021, we gained approval as a COVID-19 vaccine administrator at several U.S. sites and began offering the vaccine to our employees and their families at certain facilities in the U.S. During the second quarter of 2021, we received approval and began providing vaccines to our employees in other international locations as allowed. We continue to collaborate with health officials around the world to provide employees with access to COVID-19 vaccines. That work differs geographically due to the variability in vaccine accessibility and distribution. Our global network of medical professionals is always focused on efforts to ensure the safety of all Cummins employees, their families and our communities.

Business Outlook

Our outlook reflects the following positive trends and challenges to our business for the remainder of 2021.

Positive Trends

- We expect demand for pick-up trucks in North America to remain strong.
- We estimate North American medium-duty and heavy-duty truck demand will continue to improve from 2020 levels.
- We believe market demand for trucks in India will improve from 2020 levels.
- We anticipate our aftermarket business will continue to improve, driven primarily by increased truck utilization in North America.
- Our liquidity of $6.2 billion in cash, marketable securities and available credit facilities strengthens our position to deal with any uncertainties that may arise in the remainder of 2021.

Challenges

- Supply constraints driven by strong demand in multiple end markets and regions may lead to increased costs, including higher premium freight.
- Continued increases in material and commodity costs could negatively impact earnings.
- The shortage of key components, such as semiconductor chips, may lead to manufacturing delays, increased costs and the loss of sales.
- We expect market demand in truck and construction markets in China to decline from record levels in 2020.
- We may close or restructure certain manufacturing and distribution facilities as we evaluate the appropriate size and structure of our manufacturing and distribution capacity, which could result in additional charges.

Separation of Filtration Business

On August 3, 2021, we announced our exploration of strategic alternatives for our filtration business. Potential strategic alternatives to be explored include the separation of our filtration business into a stand-alone company. The execution of this exploration process is dependent upon business and market conditions, along with a number of other factors and considerations.

LIQUIDITY AND CAPITAL RESOURCES

Key Working Capital and Balance Sheet Data

We fund our working capital with cash from operations and short-term borrowings, including commercial paper, when necessary. Various assets and liabilities, including short-term debt, can fluctuate significantly from month to month depending on short-term liquidity needs. As a result, working capital is a prime focus of management's attention. Working capital and balance sheet measures are provided in the following table:

Dollars in millions		July 4, 2021		December 31, 2020
Working capital [(1)]	**$**	**5,327**	$	5,562
Current ratio		**1.81**		1.88
Accounts and notes receivable, net	**$**	**4,132**	$	3,820
Days' sales in receivables		**59**		69
Inventories	**$**	**4,076**	$	3,425
Inventory turnover		**4.8**		4.2
Accounts payable (principally trade)	**$**	**3,172**	$	2,820
Days' payable outstanding		**57**		68
Total debt	**$**	**3,931**	$	4,164
Total debt as a percent of total capital		**30.9 %**		31.7 %

(1) Working capital includes cash and cash equivalents.

Cash Flows

Cash and cash equivalents were impacted as follows:

	Six months ended					
In millions		July 4, 2021		June 28, 2020		Change
Net cash provided by operating activities	**$**	**955**	$	357	$	598
Net cash used in investing activities		**(146)**		(234)		88
Net cash (used in) provided by financing activities		**(1,722)**		460		(2,182)
Effect of exchange rate changes on cash and cash equivalents		**(7)**		39		(46)
Net (decrease) increase in cash and cash equivalents	**$**	**(920)**	$	622	$	(1,542)

Net cash provided by operating activities increased $598 million for the six months ended July 4, 2021, versus the comparable period in 2020, primarily due to higher consolidated net income of $426 million and lower working capital requirements of $170 million. During the first six months of 2021, the lower working capital requirements resulted in a cash outflow of $431 million compared to a cash outflow of $601 million in the comparable period in 2020, mainly due to higher accounts payable and accrued expenses, partially offset by higher accounts and notes receivable, inventories and other current assets.

Net cash used in investing activities decreased $88 million for the six months ended July 4, 2021, versus the comparable period in 2020, primarily due to higher net liquidations of marketable securities of $50 million, changes in cash flows from derivatives not designated as hedges of $34 million, lower investments in and advances to equity investees of $27 million and proceeds from sale of land of $20 million, partially offset by higher capital expenditures of $60 million.

Net cash used in financing activities increased $2,182 million for the six months ended July 4, 2021, versus the comparable period in 2020, primarily due to lower net borrowings of commercial paper of $1,490 million, higher repurchases of common stock of $540 million and higher net payments under short-term credit agreements of $106 million.

The effect of exchange rate changes on cash and cash equivalents for the six months ended July 4, 2021, versus the comparable period in 2020, decreased $46 million primarily due to unfavorable fluctuations in the British pound of $57 million, partially offset by favorable fluctuations in the Chinese renminbi.

Sources of Liquidity

Cash provided by operations is typically our principal source of liquidity with $955 million generated in the six months ended July 4, 2021. Our sources of liquidity include:

	July 4, 2021			
In millions	**Total**	**U.S.**	**International**	**Primary location of international balances**
Cash and cash equivalents	$ 2,481	$ 1,006	$ 1,475	Singapore, China, Belgium, Mexico, Australia, Canada
Marketable securities [(1)]	438	94	344	India
Total	$ 2,919	$ 1,100	$ 1,819	
Available credit capacity				
Revolving credit facilities [(2)]	$ 3,300			
International and other uncommitted domestic credit facilities	$ 243			

(1) The majority of marketable securities could be liquidated into cash within a few days.

(2) The five-year credit facility for $2.0 billion and the 364-day credit facility for $1.5 billion, maturing August 2023 and August 2021, respectively, are maintained primarily to provide backup liquidity for our commercial paper borrowings and general corporate purposes. At July 4, 2021, we had $200 million of commercial paper outstanding, which effectively reduced the available capacity under our revolving credit facilities to $3.3 billion.

Cash, Cash Equivalents and Marketable Securities

A significant portion of our cash flow is generated outside the U.S. We manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. As a result, we do not anticipate any local liquidity restrictions to preclude us from funding our operating needs with local resources.

If we distribute our foreign cash balances to the U.S. or to other foreign subsidiaries, we could be required to accrue and pay withholding taxes, for example, if we repatriated cash from certain foreign subsidiaries whose earnings we asserted are completely or partially permanently reinvested. Foreign earnings for which we assert permanent reinvestment outside the U.S. consist primarily of earnings of our China, India and Netherlands domiciled subsidiaries. At present, we do not foresee a need to repatriate any earnings for which we asserted permanent reinvestment. However, to help fund cash needs of the U.S. or other international subsidiaries as they arise, we repatriate available cash from certain foreign subsidiaries whose earnings are not permanently reinvested when it is cost effective to do so.

Debt Facilities and Other Sources of Liquidity

We have access to committed credit facilities that total $3.5 billion, including the $1.5 billion 364-day facility that expires August 18, 2021 and our $2.0 billion five-year facility that expires on August 22, 2023. We maintain credit facilities at the current or higher aggregate amounts by renewing or replacing these facilities at or before expiration. These revolving credit facilities are maintained primarily to provide backup liquidity for our commercial paper borrowings and for general corporate purposes. There were no outstanding borrowings under these facilities at July 4, 2021.

We can issue up to $3.5 billion of unsecured, short-term promissory notes (commercial paper) pursuant to the Board of Directors (the Board) authorized commercial paper programs. The programs facilitate the private placement of unsecured short-term debt through third-party brokers. We intend to use the net proceeds from the commercial paper borrowings for general corporate purposes. The total combined borrowing capacity under the revolving credit facilities and commercial programs should not exceed $3.5 billion. See Note 9, "DEBT," to our *Condensed Consolidated Financial Statements* for additional information.

At July 4, 2021, we had $200 million of commercial paper outstanding, which effectively reduced the available capacity under our revolving credit facilities to $3.3 billion.

Supply Chain Financing

We currently have supply chain financing programs with financial intermediaries, which provide certain vendors the option to be paid by financial intermediaries earlier than the due date on the applicable invoice. When a vendor utilizes the program and receives an early payment from a financial intermediary, they take a discount on the invoice. We then pay the financial intermediary the face amount of the invoice on the regularly scheduled due date. We do not reimburse vendors for any costs they incur for participation in the program and their participation is completely voluntary. As a result, all amounts owed to the financial intermediaries are presented as "Accounts payable" in our *Condensed Consolidated Balance Sheets*.

Uses of Cash

Stock Repurchases

In December 2019, the Board authorized the acquisition of up to $2.0 billion of additional common stock upon completion of the 2018 repurchase plan. In the first six months of 2021, we made the following purchases under the 2019 stock repurchase program:

In millions, except per share amounts	Shares Purchased	Average Cost Per Share	Total Cost of Repurchases	Remaining Authorized Capacity [(1)]
April 4	1.7	$ 247.35	$ 418	$ 1,576
July 4	**2.7**	**252.66**	**672**	904
Total	4.4	250.60	$ 1,090	

(1) The remaining authorized capacity under these plans was calculated based on the cost to purchase the shares but excludes commission expenses in accordance with the authorized plan.

We intend to repurchase outstanding shares from time to time during 2021 to enhance shareholder value.

Dividends

In July 2021, the Board authorized an increase to our quarterly dividend of 7.4 percent from $1.35 per share to $1.45 per share.

We paid dividends of $394 million during the six months ended July 4, 2021.

Capital Expenditures

Capital expenditures, including spending on internal use software, for the six months ended July 4, 2021, were $234 million versus $173 million in the comparable period in 2020. We plan to spend an estimated $725 million to $775 million in 2021 on capital expenditures, excluding internal use software, with over 50 percent of these expenditures expected to be invested in North America. In addition, we plan to spend an estimated $60 million to $70 million on internal use software in 2021.

Current Maturities of Short and Long-Term Debt

We had $200 million of commercial paper outstanding at July 4, 2021, that matures in less than one year. The maturity schedule of our existing long-term debt does not require significant cash outflows until 2023 when our 3.65% senior notes are due. Required annual long-term debt principal payments range from $30 million to $535 million over the next five years (including the remainder of 2021). See Note 9, "DEBT," to the *Condensed Consolidated Financial Statements* for additional information.

Pensions

Our global pension plans, including our unfunded and non-qualified plans, were 112 percent funded at December 31, 2020. Our U.S. defined benefit plan, which represented approximately 52 percent of the worldwide pension obligation, was 128 percent funded, and our U.K. defined benefit plan was 114 percent funded at December 31, 2020. The funded status of our pension plans is dependent upon a variety of variables and assumptions including return on invested assets, market interest rates and levels of voluntary contributions to the plans. In the first six months of 2021, the investment gain on our U.S. pension trust was 5.2 percent while our U.K. pension trust loss was 1.5 percent. Approximately 70 percent of our pension plan assets are held in highly liquid investments such as fixed income and equity securities. The remaining 30 percent of our plan assets are held in less liquid, but market valued investments, including real estate, private equity, venture capital, opportunistic credit and insurance contracts. During the remainder of 2021, we anticipate making $10 million in additional defined benefit pension contributions in the U.K. and $9 million in contributions to our U.S. non-qualified benefit plans. These contributions may be made from trusts or company funds either to increase pension assets or to make direct benefit payments to plan participants. We expect our 2021 annual net periodic pension cost to approximate $79 million.

Credit Ratings

Our rating and outlook from each of the credit rating agencies as of the date of filing are shown in the table below:

Credit Rating Agency [1]	Long-Term Senior Debt Rating	Short-Term Debt Rating	Outlook
Standard and Poor's Rating Services	A+	A1	Stable
Moody's Investors Service, Inc.	A2	P1	Stable

[1] Credit ratings are not recommendations to buy, are subject to change, and each rating should be evaluated independently of any other rating. In addition, we undertake no obligation to update disclosures concerning our credit ratings, whether as a result of new information, future events or otherwise.

Management's Assessment of Liquidity

Our financial condition and liquidity remain strong. Our solid balance sheet and credit ratings enable us to have ready access to credit and the capital markets. We assess our liquidity in terms of our ability to generate adequate cash to fund our operating, investing and financing activities. We believe our existing cash and marketable securities, operating cash flow and revolving credit facilities provide us with the financial flexibility needed to fund common stock repurchases, dividend payments, targeted capital expenditures, projected pension obligations, acquisitions, working capital and debt service obligations through 2021 and beyond. We continue to generate significant cash from operations and maintain access to our expanded revolving credit facilities and commercial paper programs as noted above.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

A summary of our significant accounting policies is included in Note 1, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," of the Notes to the Consolidated Financial Statements of our 2020 Form 10-K, which discusses accounting policies that we have selected from acceptable alternatives.

Our *Condensed Consolidated Financial Statements* are prepared in accordance with generally accepted accounting principles that often require management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts presented and disclosed in the financial statements. Management reviews these estimates and assumptions based on historical experience, changes in business conditions including the impacts of COVID-19 and other relevant factors they believe to be reasonable under the circumstances. In any given reporting period, our actual results may differ from the estimates and assumptions used in preparing our *Condensed Consolidated Financial Statements.*

Critical accounting estimates are defined as follows: the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made; different estimates reasonably could have been used; or if changes in the estimate are reasonably likely to occur from period to period and the change would have a material impact on our financial condition or results of operations. Our senior management has discussed the development and selection of our accounting policies, related accounting estimates and the disclosures set forth below with the Audit Committee of the Board. Our critical accounting estimates disclosed in the Form 10-K address estimating liabilities for warranty programs, assessing goodwill impairment, accounting for income taxes and pension benefits.

A discussion of our critical accounting estimates may be found in the "Management's Discussion and Analysis" section of our 2020 Form 10-K under the caption "APPLICATION OF CRITICAL ACCOUNTING ESTIMATES." Within the context of these critical accounting estimates, we are not currently aware of any reasonably likely events or circumstances that would result in different policies or estimates being reported in the first six months of 2021.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

A discussion of quantitative and qualitative disclosures about market risk may be found in Item 7A of our 2020 Form 10-K. There have been no material changes in this information since the filing of our 2020 Form 10-K.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, our CEO and our CFO concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) accumulated and communicated to management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended July 4, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The matters described under "Legal Proceedings" in Note 11, "COMMITMENTS AND CONTINGENCIES," to the *Condensed Consolidated Financial Statements* are incorporated herein by reference.

ITEM 1A. Risk Factors

In addition to other information set forth in this report, you should consider other risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2020, which could materially affect our business, financial condition or future results. The risks described in our 2020 Annual Report on Form 10-K or the "CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION" in this Quarterly report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently judge to be immaterial also may materially adversely affect our business, financial condition or operating results.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following information is provided pursuant to Item 703 of Regulation S-K:

	Issuer Purchases of Equity Securities			
Period	**Total Number of Shares Purchased [1]**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) [2]**
April 5 - May 9	876,599	$ 258.95	876,599	$ 1,349
May 10 - June 6	645,153	259.28	645,153	1,182
June 7- July 4	1,139,363	244.06	1,139,363	904
Total	2,661,115	252.66	2,661,115	

[1] Shares purchased represent shares under the Board authorized share repurchase program.

[2] Shares repurchased under our Key Employee Stock Investment Plan only occur in the event of a participant default, which cannot be predicted, and were excluded from this column.

In December 2019, the Board authorized the acquisition of up to $2.0 billion of additional common stock upon completion of the 2018 repurchase plan. During the three months ended July 4, 2021, we repurchased $672 million of common stock under the 2019 authorization. The dollar value remaining available for future purchases under the 2019 program at July 4, 2021, was $904 million.

Our Key Employee Stock Investment Plan allows certain employees, other than officers, to purchase shares of common stock on an installment basis up to an established credit limit. We hold participants' shares as security for the loans and would, in effect, repurchase shares only if the participant defaulted in repayment of the loan. Shares associated with participants' sales are sold as open-market transactions via a third-party broker.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

The exhibits listed in the following Exhibit Index are filed as part of this Quarterly Report on Form 10-Q.

CUMMINS INC.
EXHIBIT INDEX

Exhibit No.	Description of Exhibit
31(a)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed with this quarterly report on Form 10-Q are the following documents formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Net Income for the three and six months ended July 4, 2021 and June 28, 2020, (ii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended July 4, 2021 and June 28, 2020, (iii) the Condensed Consolidated Balance Sheets at July 4, 2021 and December 31, 2020, (iv) the Condensed Consolidated Statements of Cash Flows for the six months ended July 4, 2021 and June 28, 2020, (v) the Condensed Consolidated Statements of Changes in Equity for the three and six months ended July 4, 2021 and June 28, 2020 and (vi) Notes to Condensed Consolidated Financial Statements.

SIGNATURES

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 thereunto duly authorized.

Cummins Inc.

Date: August 3, 2021

By:	/s/ MARK A. SMITH	By:	/s/ CHRISTOPHER C. CLULOW
	Mark A. Smith		Christopher C. Clulow
	Vice President and Chief Financial Officer		*Vice President-Corporate Controller*
	(Principal Financial Officer)		*(Principal Accounting Officer)*

EXHIBIT 31(a)

Certification

I, N. Thomas Linebarger, certify that:

1. I have reviewed this report on Form 10-Q of Cummins Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2021

/s/ N. THOMAS LINEBARGER

N. Thomas Linebarger

Chairman and Chief Executive Officer

EXHIBIT 31(b)

Certification

I, Mark A. Smith, certify that:

1. I have reviewed this report on Form 10-Q of Cummins Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 3, 2021

/s/ MARK A. SMITH

Mark A. Smith

Vice President and Chief Financial Officer

EXHIBIT 32

Cummins Inc.

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Cummins Inc. (the “Company”) on Form 10-Q for the period ended July 4, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of such officer's knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 3, 2021	/s/ N. THOMAS LINEBARGER
	N. Thomas Linebarger
	Chairman and Chief Executive Officer
August 3, 2021	/s/ MARK A. SMITH
	Mark A. Smith
	Vice President and Chief Financial Officer