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 1, 2018

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)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 1, 2018, there were 163,311,209 shares of common stock outstanding with a par value of $2.50 per share.

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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

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

In millions, except per share amounts	Three months ended July 1, 2018	Three months ended July 2, 2017	Six months ended July 1, 2018	Six months ended July 2, 2017
NET SALES [(a)] (Note 3)	**$ 6,132**	$ 5,078	**$ 11,702**	$ 9,667
Cost of sales	**4,692**	3,827	**9,062**	7,284
GROSS MARGIN	**1,440**	1,251	**2,640**	2,383
OPERATING EXPENSES AND INCOME				
Selling, general and administrative expenses	**613**	606	**1,190**	1,153
Research, development and engineering expenses	**219**	175	**429**	333
Equity, royalty and interest income from investees (Note 5)	**110**	98	**225**	206
Other operating income (expense), net	**4**	18	**6**	23
OPERATING INCOME	**722**	586	**1,252**	1,126
Interest income	**10**	5	**17**	7
Interest expense	**28**	21	**52**	39
Other income, net	**11**	29	**21**	53
INCOME BEFORE INCOME TAXES	**715**	599	**1,238**	1,147
Income tax expense (Note 6)	**161**	158	**359**	301
CONSOLIDATED NET INCOME	**554**	441	**879**	846
Less: Net income attributable to noncontrolling interests	**9**	17	**9**	26
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	**$ 545**	$ 424	**$ 870**	$ 820
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.				
Basic	**$ 3.33**	$ 2.53	**$ 5.30**	$ 4.90
Diluted	**$ 3.32**	$ 2.53	**$ 5.27**	$ 4.88
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	**163.8**	167.3	**164.3**	167.4
Dilutive effect of stock compensation awards	**0.5**	0.5	**0.7**	0.5
Diluted	**164.3**	167.8	**165.0**	167.9
CASH DIVIDENDS DECLARED PER COMMON SHARE	**$ 1.08**	$ 1.025	**$ 2.16**	$ 2.05

[(a)] Includes sales to nonconsolidated equity investees of $340 million and $637 million and $283 million and $550 million for the three and six months ended July 1, 2018 and July 2, 2017, respectively.

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 1, 2018**	**July 2, 2017**	**July 1, 2018**	**July 2, 2017**
CONSOLIDATED NET INCOME	**$ 554**	$ 441	**$ 879**	$ 846
Other comprehensive income (loss), net of tax (Note 13)				
Change in pension and other postretirement defined benefit plans	**13**	15	**21**	36
Foreign currency translation adjustments	**(299)**	102	**(215)**	182
Unrealized gain on marketable securities	**—**	1	**—**	1
Unrealized gain on derivatives	**—**	—	**7**	1
Total other comprehensive income (loss), net of tax	**(286)**	118	**(187)**	220
COMPREHENSIVE INCOME	**268**	559	**692**	1,066
Less: Comprehensive (loss) income attributable to noncontrolling interests	**(7)**	18	**(14)**	40
COMPREHENSIVE INCOME ATTRIBUTABLE TO CUMMINS INC.	**$ 275**	$ 541	**$ 706**	$ 1,026

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 1, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	**$ 1,318**	$ 1,369
Marketable securities (Note 7)	**214**	198
Total cash, cash equivalents and marketable securities	**1,532**	1,567
Accounts and notes receivable, net		
Trade and other	**3,794**	3,311
Nonconsolidated equity investees	**301**	307
Inventories (Note 8)	**3,559**	3,166
Prepaid expenses and other current assets	**649**	577
Total current assets	**9,835**	8,928
Long-term assets		
Property, plant and equipment	**7,982**	8,058
Accumulated depreciation	**(4,158)**	(4,131)
Property, plant and equipment, net	**3,824**	3,927
Investments and advances related to equity method investees	**1,303**	1,156
Goodwill	**1,079**	1,082
Other intangible assets, net	**940**	973
Pension assets	**1,022**	1,043
Other assets	**912**	966
Total assets	**$ 18,915**	$ 18,075
LIABILITIES		
Current liabilities		
Accounts payable (principally trade)	**$ 2,981**	$ 2,579
Loans payable (Note 9)	**55**	57
Commercial paper (Note 9)	**802**	298
Accrued compensation, benefits and retirement costs	**468**	811
Current portion of accrued product warranty (Note 10)	**464**	454
Current portion of deferred revenue	**479**	500
Other accrued expenses (Note 11)	**806**	915
Current maturities of long-term debt (Note 9)	**49**	63
Total current liabilities	**6,104**	5,677
Long-term liabilities		
Long-term debt (Note 9)	**1,556**	1,588
Postretirement benefits other than pensions	**289**	289
Pensions	**331**	330
Other liabilities and deferred revenue (Note 11)	**2,441**	2,027
Total liabilities	**$ 10,721**	$ 9,911
Commitments and contingencies (Note 12)		
EQUITY		
Cummins Inc. shareholders' equity		
Common stock, $2.50 par value, 500 shares authorized, 222.4 and 222.4 shares issued	**$ 2,239**	$ 2,210
Retained earnings	**12,009**	11,464
Treasury stock, at cost, 59.1 and 56.7 shares	**(5,276)**	(4,905)
Common stock held by employee benefits trust, at cost, 0.5 and 0.5 shares	**(6)**	(7)
Accumulated other comprehensive loss (Note 13)	**(1,667)**	(1,503)
Total Cummins Inc. shareholders' equity	**7,299**	7,259
Noncontrolling interests	**895**	905
Total equity	**$ 8,194**	$ 8,164
Total liabilities and equity	**$ 18,915**	$ 18,075

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

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

In millions	Six months ended July 1, 2018	Six months ended July 2, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	**$ 879**	$ 846
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	**308**	284
Deferred income taxes	**(21)**	—
Equity in income of investees, net of dividends	**(163)**	(132)
Pension contributions under (in excess of) expense, net (Note 4)	**25**	(44)
Other post retirement benefits payments in excess of expense, net (Note 4)	**—**	(8)
Stock-based compensation expense	**28**	23
Loss contingency payments	**(65)**	—
Translation and hedging activities	**(21)**	31
Changes in current assets and liabilities		
Accounts and notes receivable	**(555)**	(488)
Inventories	**(475)**	(264)
Other current assets	**(42)**	21
Accounts payable	**442**	403
Accrued expenses	**94**	132
Changes in other liabilities and deferred revenue	**5**	103
Other, net	**34**	(81)
Net cash provided by operating activities	**473**	826
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	**(186)**	(182)
Investments in internal use software	**(35)**	(40)
Investments in and advances to equity investees	**(15)**	(64)
Investments in marketable securities—acquisitions (Note 7)	**(143)**	(69)
Investments in marketable securities—liquidations (Note 7)	**116**	162
Cash flows from derivatives not designated as hedges	**(9)**	19
Other, net	**36**	14
Net cash used in investing activities	**(236)**	(160)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payments) of commercial paper (Note 9)	**504**	(78)
Payments on borrowings and capital lease obligations	**(33)**	(29)
Distributions to noncontrolling interests	**(11)**	(10)
Dividend payments on common stock	**(355)**	(343)
Repurchases of common stock	**(379)**	(120)
Other, net	**21**	36
Net cash used in financing activities	**(253)**	(544)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(35)**	51
Net (decrease) increase in cash and cash equivalents	**(51)**	173
Cash and cash equivalents at beginning of year	**1,369**	1,120
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 1,318**	$ 1,293

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	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, 2016	$ 556	$ 1,597	$11,040	$ (4,489)	$ (8)	$ (1,821)	$ 6,875	$ 299	$ 7,174
Net income			820				820	26	846
Other comprehensive income (loss), net of tax (Note 13)						206	206	14	220
Issuance of common stock		3					3	—	3
Employee benefits trust activity		12			1		13	—	13
Repurchases of common stock				(120)			(120)	—	(120)
Cash dividends on common stock			(343)				(343)	—	(343)
Distributions to noncontrolling interests							—	(10)	(10)
Stock based awards				23			23	—	23
Other shareholder transactions		16					16	—	16
BALANCE AT JULY 2, 2017	$ 556	$ 1,628	$11,517	$ (4,586)	$ (7)	$ (1,615)	$ 7,493	$ 329	$ 7,822
BALANCE AT DECEMBER 31, 2017	**$ 556**	**$ 1,654**	**$11,464**	**$ (4,905)**	**$ (7)**	**$ (1,503)**	**$ 7,259**	**$ 905**	**$ 8,164**
Impact of adopting accounting standards (Notes 3 and 14)			**30**				**30**	**—**	**30**
Net income			**870**				**870**	**9**	**879**
Other comprehensive income (loss), net of tax (Note 13)						**(164)**	**(164)**	**(23)**	**(187)**
Issuance of common stock		**8**					**8**	**—**	**8**
Employee benefits trust activity		**8**			**1**		**9**	**—**	**9**
Repurchases of common stock				**(379)**			**(379)**	**—**	**(379)**
Cash dividends on common stock			**(355)**				**(355)**	**—**	**(355)**
Distributions to noncontrolling interests							**—**	**(11)**	**(11)**
Stock based awards		**(4)**		**8**			**4**	**—**	**4**
Other shareholder transactions		**17**					**17**	**15**	**32**
BALANCE AT JULY 1, 2018	**$ 556**	**$ 1,683**	**$12,009**	**$ (5,276)**	**$ (6)**	**$ (1,667)**	**$ 7,299**	**$ 895**	**$ 8,194**

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

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 and natural gas engines and engine-related component products, including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems, transmissions, electric power generation systems, batteries and electrified power systems. We sell our products to original equipment manufacturers (OEMs), distributors and other customers worldwide. We serve our customers through a network of approximately 500 wholly-owned and independent distributor locations and over 7,500 dealer locations in more than 190 countries and territories.

NOTE 2. BASIS OF PRESENTATION

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* have been 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 prepared in accordance with GAAP have been 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, 2017. 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 disclosures required by GAAP.

Reclassifications

Certain amounts for prior year periods have been reclassified to conform to the presentation of the current year.

Use of Estimates in Preparation of Financial Statements

Preparation of financial statements in conformity with GAAP 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 and are used for, but not limited to, allowance for doubtful accounts, estimates of future cash flows and other assumptions associated with goodwill and long-lived asset impairment tests, useful lives for depreciation and amortization, warranty programs, determination of discount rate and other assumptions for pension and other postretirement benefit costs, income taxes and deferred tax valuation allowances, lease classification and contingencies. 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 2018 and 2017 ended on July 1 and July 2, 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 excludes the anti-dilutive effect of certain stock options since such options had an exercise price in excess of the monthly average market value of our common stock. The options excluded from diluted earnings per share were as follows:

	Three months ended		Six months ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Options excluded	**909,394**	6,155	**458,130**	61,345

NOTE 3. REVENUE RECOGNITION

Revenue Recognition Accounting Pronouncement Adoption

In May 2014, the Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition to replace all existing revenue recognition guidance and provide a single, comprehensive model for all contracts with customers. The revised standard contains principles to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that we recognize revenue to depict the transfer of goods or services to customers at an amount that we expect to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimation of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments as well as assets recognized from costs incurred to fulfill these contracts.

The standard allows either full or modified retrospective adoption effective for annual and interim periods beginning January 1, 2018. We adopted the standard using the modified retrospective approach. We elected to apply this guidance retrospectively only to contracts that were not completed at January 1, 2018.

We identified a change in the manner in which we account for certain license income. We license certain technology to our unconsolidated joint ventures that meets the definition of functional under the standard, which requires that revenue be recognized at a point in time rather than the previous requirement of recognizing it over the license term. Using the modified retrospective adoption method, we recorded an adjustment to our opening equity balance at January 1, 2018, to account for the differences between existing license income recorded and what would have been recorded under the new standard for contracts for which we started recognizing revenue prior to the adoption date. There was not a material impact on any individual year from this change.

We also identified transactions where revenue recognition was historically limited to the amount of billings not contingent on our future performance. With the allocation provisions of the new model, we accelerated the timing of revenue recognition for amounts related to satisfied performance obligations that would be delayed under the historical guidance. The impact of this change was not material.

On an ongoing basis, this amendment is not expected to have a material impact on our *Condensed Consolidated Financial Statements,* including our internal controls over financial reporting, but will result in expanded disclosures in the Notes to our *Condensed Consolidated Financial Statements.*

We recorded a net increase to opening retained earnings of $28 million, net of tax, as of January 1, 2018, due to the cumulative impact of adopting the new revenue standard, with the impact primarily related to our technology licenses that now qualify for point in time recognition rather than over time. The impact to any individual financial statement line item as a result of applying the new standard, as compared to the old standard, was not material for the six months ended July 1, 2018.

Revenue Recognition Policies

Revenue Recognition Sales of Products

We sell to customers either through long-term arrangements or standalone purchase orders. Our long-term arrangements generally do not include committed volumes until underlying purchase orders are issued. Our performance obligations vary by contract, but may include diesel and natural gas engines and engine-related component products, including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems, transmissions, electric power generation systems, batteries, parts, maintenance services and extended coverage.

Typically, we recognize revenue on the products we sell at a point in time, generally in accordance with shipping terms, which reflects the transfer of control to the customer. Since control of construction projects transfer to the customer as the work is performed, revenue on these projects is recognized based on the percentage of inputs incurred to date compared to the total expected cost of inputs, which is reflective of the value transferred to the customer. Revenue is recognized under long-term maintenance and other service agreements over the term of the agreement as underlying services are performed based on the percentage of the cost of services provided to date compared to the total expected cost of services to be provided under the contract. Sales of extended coverage are recognized based on the pattern of expected costs over the extended coverage period or, if such a pattern is unknown, on a straight-line basis over the coverage period as the customer is considered to benefit from our stand ready obligation over the coverage period. In all cases, we believe cost incurred is the most representative depiction of the extent of service performed to date on a particular contract.

Our arrangements may include the act of shipping products to our customers after the performance obligation related to that product has been satisfied. We have elected to account for shipping and handling as activities to fulfill the promise to transfer goods and have not allocated revenue to the shipping activity. All related shipping and handling costs are accrued at the time of shipment.

Our sales arrangements may include the collection of sales and other similar taxes that are then remitted to the related taxing authority. We have elected to present the amounts collected for these taxes net of the related tax expense rather than presenting them as additional revenue.

We grant credit limits and terms to customers based upon traditional practices and competitive conditions. Typical terms vary by market, but payments are generally due in 90 days or less from invoicing for most of our product and service sales, while payments on construction and other similar arrangements may be due on an installment basis.

For contracts where the time between cash collection and performance is less than one year, we have elected to use the practical expedient that allows us to ignore the possible existence of a significant financing component within the contract. For contracts where this time period exceeds one year, generally the timing difference is the result of business concerns other than financing. We do have a limited amount of customer financing for which we charge or impute interest, but such amounts are immaterial to our *Condensed Consolidated Statements of Income.*

Sales Incentives

We provide various sales incentives to both our distribution network and OEM customers. These programs are designed to promote the sale of our products in the channel or encourage the usage of our products by OEM customers. When there is uncertainty surrounding these sales incentives, we may limit the amount of revenue we recognize under a contract until the uncertainty has been resolved. Sales incentives primarily fall into three categories:

- Volume rebates;
- Market share rebates; and
- Aftermarket rebates.

For volume rebates, we provide certain customers with rebate opportunities for attaining specified volumes during a particular quarter or year. We consider the expected amount of these rebates at the time of the original sale as we determine the overall transaction price. We update our assessment of the amount of rebates that will be earned quarterly based on our best estimate of the volume levels the customer will reach during the measurement period. For market share rebates, we provide certain customers with rebate opportunities based on the percentage of their production that utilizes our product. These rebates are typically measured either quarterly or annually and we assess them at least quarterly to determine our current estimates of amounts expected to be earned. These estimates are considered in the determination of transaction price at the time of the original sale based on the current market shares, with adjustments made as the level changes. For aftermarket rebates, we provide incentives to promote sales to certain dealers and end-markets. These rebates are typically paid on a quarterly, or more frequent basis. At the time of the sales, we consider the expected amount of these rebates when determining the overall transaction price. Estimates are adjusted at the end of each quarter based on the amounts yet to be paid. These estimates are based on historical experience with the particular program.

Sales Returns

The initial determination of the transaction price may also be impacted by expected product returns. Rights of return do not exist for the majority of our sales other than for quality issues. We do offer certain return rights in our aftermarket business, where some aftermarket customers are permitted to return small amounts of parts and filters each year, and in our power generation business, which sells portable generators to retail customers. An estimate of future returns is accounted for at the time of sale as a reduction in the overall contract transaction price based on historical return rates.

Multiple Performance Obligations

Our sales arrangements may include multiple performance obligations. We identify each of the material performance obligations in these arrangements and allocate the total transaction price to each performance obligation based on its relative selling price. In most cases, the individual performance obligations are also sold separately and we use that price as the basis for allocating revenue to the included performance obligations. When an arrangement includes multiple performance obligations and invoicing to the customer does not match the allocated portion of the transaction price, unbilled revenue or deferred revenue is recorded reflecting that difference. Unbilled and deferred revenue are discussed in more detail below.

Long-term Contracts

Our long-term maintenance agreements often include a variable component of the transaction price. We are generally compensated under such arrangements on a cost per hour of usage basis. We typically can estimate the expected usage over the life of the contract, but reassess the transaction price each quarter and adjust our recognized revenue accordingly. Certain maintenance agreements apply to generators used to provide standby power, which have limited expectations of usage. These agreements may include monthly minimum payments, providing some certainty to the total transaction price. For these particular contracts that relate to standby power, we limit revenue recognized to date to an amount representing the total minimums earned to date under the contract plus any cumulative billings earned in excess of the minimums. We reassess the estimates of progress and transaction price on a quarterly basis. For prime power arrangements, revenue is not subject to such a constraint and is generally equal to the current estimate on a percentage of completion basis times the total expected revenue under the contract.

Most 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 have not been satisfied as of July 1, 2018, was $676 million. We expect to recognize the related revenue of$247 million over the next 12 months and $429 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 or include payment terms that correspond to the value we are providing our customers.

Deferred and Unbilled Revenue

The timing of our billing does not always match the timing of our revenue recognition. We record deferred revenue when we are entitled to bill a customer in advance of when we are permitted to recognize revenue. Deferred revenue may arise in construction contracts, where billings may occur in advance of performance or in accordance with specific milestones. Deferred revenue may also occur in long-term maintenance contracts, where billings are often based on usage of the underlying equipment, which generally follows a predictable pattern that often will result in the accumulation of collections in advance of our performance of the related maintenance services. Finally, deferred revenue exists in our extended coverage contracts, where the cash is collected prior to the commencement of the coverage period. Deferred revenue is included in our *Condensed Consolidated Balance Sheets* as a component of current liabilities for those expected to be recognized in revenue in a period of less than one year and long-term liabilities for those expected to be recognized as revenue in a period beyond one year. Deferred revenue is recognized as revenue as (or when) control of the underlying product, project or service passes to the customer under the related contract.

We recognize unbilled revenue when the revenue has been earned, but not yet billed. Unbilled revenue is included in our*Condensed Consolidated Balance Sheets* as a component of current assets for those expected to be collected in a period of less than one year and long-term assets for those expected to be collected in a period beyond one year. Unbilled revenue relates to our right to consideration for our completed performance under a contract. Unbilled revenue generally arises from contractual provisions that delay a portion of the billings on genset deliveries until commissioning occurs. Unbilled revenue may also occur when billings trail the provision of service in construction and long-term maintenance contracts. We periodically assess our unbilled revenue for impairment.

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

In millions	July 1, 2018	January 1, 2018
Unbilled revenue	**$ 56**	$ 6
Deferred revenue, primarily extended warranty	**1,101**	1,052
Revenue recognized [(1)]	**(206)**	—

[(1)] Relates to year-to-date revenues recognized from amounts included in contract liabilities at the beginning of the period. Revenue recognized in the period from performance obligations satisfied in previous periods was immaterial.

We did not record any impairment losses on our unbilled revenues during the three and six months ended July 1, 2018.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable represent amounts billed to customers and not yet collected or amounts that have been earned, but may not be billed until the passage of time, and are recorded when the right to consideration becomes unconditional. Trade accounts receivable are recorded at the invoiced amount, which approximates net realizable value, and generally do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on our historical collection experience and by performing an analysis of our accounts receivable in light of the current economic environment. We review our allowance for doubtful accounts on a regular basis. In addition, when necessary, we provide an allowance for the full amount of specific accounts deemed to be uncollectible. Account balances are charged off against the allowance in the period in which we determine that it is probable the receivable will not be recovered. The allowance for doubtful accounts balances for the periods ended July 1, 2018 and December 31, 2017, were $16 million and $16 million, respectively, and bad debt write-offs were not material.

Contract Costs

We are required to record an asset for the incremental costs of obtaining a contract with a customer and other costs to fulfill a contract not otherwise required to be immediately expensed when we expect to recover those costs. The only material incremental cost we incur is commission expense, which is generally incurred in the same period as the underlying revenue. Costs to fulfill a contract are generally limited to customer-specific engineering expenses that do not meet the definition of research and development expenses. As a practical expedient, we have elected to recognize these costs of obtaining a contract as an expense when the related contract period is less than one year. When the period exceeds one year, this asset is amortized over the life of the contract. We did not have any material capitalized balances at July 1, 2018.

Extended Warranty

In addition, we sell extended warranty coverage on most of our engines and on certain components. We consider a warranty to be extended coverage in any of the following situations:

- When a warranty is sold separately or is optional (extended coverage contracts, for example) or
- When a warranty provides additional services.

The consideration collected is initially deferred and is recognized as revenue in proportion to the costs expected to be incurred in performing services over the contract period. We compare the remaining deferred revenue balance quarterly to the estimated amount of future claims under extended warranty programs and provide an additional accrual when the deferred revenue balance is less than expected future costs.

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.

In millions	Three months ended July 1, 2018	Six months ended July 1, 2018
United States	$ 3,384	$ 6,422
China	644	1,194
India	247	482
Other International	1,857	3,604
Total net sales	$ 6,132	$ 11,702

Segment Revenue

Engine segment external sales by market were as follows:

In millions	Three months ended July 1, 2018	Six months ended July 1, 2018
Heavy-duty truck	$ 730	$ 1,344
Medium-duty truck and bus	714	1,341
Light-duty automotive	330	653
Total on-highway	1,774	3,338
Off-highway	276	525
Total sales	$ 2,050	$ 3,863

Distribution segment external sales by region were as follows:

In millions	Three months ended July 1, 2018	Six months ended July 1, 2018
North America	$ 1,349	$ 2,623
Asia Pacific	211	398
Europe	143	274
China	84	161
Africa and Middle East	62	123
India	49	93
Latin America	45	83
Russia	45	80
Total sales	$ 1,988	$ 3,835

Distribution segment external sales by product line were as follows:

In millions	Three months ended July 1, 2018	Six months ended July 1, 2018
Parts	$ 815	$ 1,618
Engines	460	828
Service	368	719
Power generation	345	670
Total sales	$ 1,988	$ 3,835

Components segment external sales by business were as follows:

In millions	Three months ended July 1, 2018	Six months ended July 1, 2018
Emission solutions	$ 735	$ 1,419
Turbo technologies	201	398
Filtration	257	514
Automated transmissions	141	258
Electronics and fuel systems	68	126
Total sales	$ 1,402	$ 2,715

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

In millions	Three months ended July 1, 2018	Six months ended July 1, 2018
Power generation	$ 390	$ 700
Industrial	208	409
Generator technologies	93	177
Total sales	$ 691	$ 1,286

NOTE 4. PENSION AND OTHER POSTRETIREMENT BENEFITS

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

	Three months ended		Six months ended	
In millions	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Defined benefit pension plans				
Voluntary contribution	**$ 4**	$ 41	**$ 7**	$ 84
Mandatory contribution	**5**	—	**11**	—
Defined benefit pension contributions	**$ 9**	$ 41	**$ 18**	$ 84
Other postretirement benefit plans				
Benefit payments (rebates), net	**$ (2)**	$ 3	**$ 5**	$ 18
Defined contribution pension plans	**$ 21**	$ 19	**$ 61**	$ 48

We anticipate making additional defined benefit pension contributions during the remainder of2018 of $20 million for our U.S. and U.K. pension plans. Approximately$14 million of the estimated $38 million of pension contributions for the full year are voluntary. 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 2018 net periodic pension cost to approximate $86 million.

On January 1, 2018, we adopted the new accounting standard related to the presentation of pension and other postretirement benefit costs. See NOTE 15, "RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS," for detailed information about the adoption of this standard.

The components of net periodic pension and other postretirement benefit costs under our plans were as follows:

	Pension					
	U.S. Plans		U.K. Plans		Other Postretirement Benefits	
	Three months ended					
In millions	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Service cost	**$ 30**	$ 26	**$ 7**	$ 7	**$ —**	$ —
Interest cost	**24**	27	**10**	10	**3**	4
Expected return on plan assets	**(49)**	(52)	**(18)**	(17)	**—**	—
Recognized net actuarial loss	**9**	9	**8**	10	**—**	1
Net periodic benefit cost	**$ 14**	$ 10	**$ 7**	$ 10	**$ 3**	$ 5

	Pension					
	U.S. Plans		U.K. Plans		Other Postretirement Benefits	
	Six months ended					
In millions	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Service cost	**$ 60**	$ 53	**$ 15**	$ 13	**$ —**	$ —
Interest cost	**49**	53	**21**	20	**5**	7
Expected return on plan assets	**(98)**	(103)	**(36)**	(34)	**—**	—
Recognized net actuarial loss	**17**	18	**15**	20	**—**	3
Net periodic benefit cost	**$ 28**	$ 21	**$ 15**	$ 19	**$ 5**	$ 10

NOTE 5. EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEES

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

	Three months ended		Six months ended	
In millions	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Manufacturing entities				
Beijing Foton Cummins Engine Co., Ltd.	**$ 24**	$ 22	**$ 45**	$ 55
Dongfeng Cummins Engine Company, Ltd.	**17**	19	**34**	41
Chongqing Cummins Engine Company, Ltd.	**15**	10	**32**	19
Cummins Westport, Inc.	**6**	4	**12**	5
Dongfeng Cummins Emission Solutions Co., Ltd.	**4**	4	**9**	7
All other manufacturers	**24**	19	**49**	39
Distribution entities				
Komatsu Cummins Chile, Ltda.	**6**	8	**13**	15
Cummins share of net income	**96**	86	**194**	181
Royalty and interest income	**14**	12	**31**	25
Equity, royalty and interest income from investees	**$ 110**	$ 98	**$ 225**	$ 206

NOTE 6. INCOME TAXES

Our effective tax rate for the year is expected to approximate 23.0 percent, excluding any discrete tax items that may arise.

Our effective tax rates for the three and six months ended July 1, 2018, were 22.5 percent and 29.0 percent, respectively. The three months ended July 1, 2018, contained only immaterial discrete items. The six months ended July 1, 2018, contained $74 million, or $0.45 per share, of unfavorable net discrete tax items, primarily due to $80 million of discrete items related to the 2017 Tax Cuts and Jobs Act (Tax Legislation). This includes $45 million associated with changes related to the Tax Legislation measurement period adjustment, detailed below, and $35 million associated with the one-time recognition of deferred tax charges at historical tax rates on intercompany profit in inventory.

Our effective tax rates for the three and six months ended July 2, 2017, were 26.4 percent and 26.2 percent, respectively and contained only immaterial discrete tax items.

The SEC issued guidance which addressed the uncertainty in the application of GAAP to the Tax Legislation where certain income tax effects could not be finalized at December 31, 2017. This guidance allows entities to record provisional amounts based on current estimates that are updated on a quarterly basis. As a result, our accounting for the effects of the Tax Legislation is not considered complete at this time. The final transition impacts of the Tax Legislation may differ from our estimates, possibly materially, due to, among other things, changes in interpretations of the Tax Legislation, any legislative action to address questions that arise because of the Tax Legislation, any changes in accounting standards for income taxes or related interpretations in response to the Tax Legislation, or any updates or changes to estimates we have utilized to calculate the transition impacts. The SEC requires final calculations to be completed within the one-year measurement period ending December 22, 2018, and reflect any additional guidance issued throughout the year. Any adjustments of provisional amounts will be reported in the period in which the estimates change. We have made provisional estimates of the effects of the Tax Legislation in three primary areas: (1) the one-time transition tax; (2) the withholding tax accrued on those earnings no longer considered permanently reinvested at December 31, 2017 and (3) our existing deferred tax balances. The Internal Revenue Service (IRS) continues to issue guidance, which required adjustment of the one-time transition tax as shown in the table below.

The changes during the one-year measurement period for the six months ended July 1, 2018, for each group consisted of the following:

In millions		Tax Valuation Adjustments as of July 1, 2018
One-time transition tax	$	40
Withholding tax accrued		5
Net impact of measurement period changes	$	45

NOTE 7. MARKETABLE SECURITIES

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

	July 1, 2018			December 31, 2017		
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	**$ 163**	**$ —**	**$ 163**	$ 170	$ —	$ 170
Certificates of deposit	**34**	**—**	**34**	12	—	12
Equity mutual funds	**14**	**2**	**16**	12	3	15
Available-for-sale debt securities	**1**	**—**	**1**	1	—	1
Total marketable securities	**$ 212**	**$ 2**	**$ 214**	$ 195	$ 3	$ 198

[1] Unrealized gains and losses for available-for-sale debt securities are recorded in other comprehensive income (See NOTE 13, "ACCUMULATED OTHER COMPREHENSIVE LOSS," to our *Condensed Consolidated Financial Statements* for more information). Effective January 1, 2018, with the adoption of the FASB standard, all unrealized gains and losses for equity securities are recorded in other income, net in the *Condensed Consolidated Statements of Income* . See NOTE 15, "RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS," for detailed information about the adoption of this standard.

All marketable securities are classified as Level 2 securities. 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 first half of 2018 and for the year ended December 31, 2017.

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 measure for the vast majority of these investments is the daily net asset value 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.
- *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 measure for these investments is the net asset value 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.
- *Available-for-sale debt securities*— The fair value measure for these securities is broker quotes received from reputable firms. These securities are infrequently traded on a national stock 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:

In millions	Three months ended July 1, 2018	Three months ended July 2, 2017	Six months ended July 1, 2018	Six months ended July 2, 2017
Proceeds from sales of marketable securities	**$ 12**	$ 12	**$ 81**	$ 44
Proceeds from maturities of marketable securities	**22**	3	**35**	118
Investments in marketable securities - liquidations	**$ 34**	$ 15	**$ 116**	$ 162

NOTE 8. INVENTORIES

Inventories are stated at the lower of cost or market. Inventories included the following:

In millions	July 1, 2018	December 31, 2017
Finished products	**$ 2,329**	$ 2,078
Work-in-process and raw materials	**1,355**	1,216
Inventories at FIFO cost	**3,684**	3,294
Excess of FIFO over LIFO	**(125)**	(128)
Total inventories	**$ 3,559**	$ 3,166

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 1, 2018	December 31, 2017
Loans payable (1)	**$ 55**	$ 57
Commercial paper (2)	**802**	298

(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 2.08 percent and 1.56 percent at July 1, 2018 and December 31, 2017, respectively.

We can issue up to $2.75 billion of unsecured, short-term promissory notes ("commercial paper") pursuant to our 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 $2.75 billion, including a $1.0 billion, 364-day facility that expires September 14, 2018 and a $1.75 billion, 5-year facility that expires on November 13, 2020. We intend to maintain credit facilities of a similar aggregate amount by renewing or replacing these facilities before expiration. Revolving credit facilities are maintained primarily to provide backup liquidity for our commercial paper borrowings, letters of credit and general corporate purposes.

Long-term Debt

A summary of long-term debt was as follows:

In millions	July 1, 2018	December 31, 2017
Long-term debt		
Senior notes, 3.65%, due 2023	$ 500	$ 500
Debentures, 6.75%, due 2027	58	58
Debentures, 7.125%, due 2028	250	250
Senior notes, 4.875%, due 2043	500	500
Debentures, 5.65%, due 2098 (effective interest rate 7.48%)	165	165
Other debt	55	76
Unamortized discount	(53)	(54)
Fair value adjustments due to hedge on indebtedness	18	35
Capital leases	112	121
Total long-term debt	1,605	1,651
Less: Current maturities of long-term debt	49	63
Long-term debt	$ 1,556	$ 1,588

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

In millions	2018	2019	2020	2021	2022
Principal payments	$ 30	$ 50	$ 12	$ 8	$ 8

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 1, 2018	December 31, 2017
Fair value of total debt [1]	$ 2,668	$ 2,301
Carrying values of total debt	2,462	2,006

[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 recall programs was as follows:

In millions	July 1, 2018	July 2, 2017
Balance, beginning of year	**$ 1,687**	$ 1,414
Provision for warranties issued	**222**	182
Deferred revenue on extended warranty contracts sold	**139**	101
Campaigns [1]	**403**	57
Payments	**(212)**	(199)
Amortization of deferred revenue on extended warranty contracts	**(118)**	(109)
Changes in estimates for pre-existing warranties	**10**	74
Foreign currency translation	**(6)**	1
Other	**5**	—
Balance, end of period	**$ 2,130**	$ 1,521

[1] See NOTE 12, "COMMITMENTS AND CONTINGENCIES," for additional information on campaigns.

Warranty related deferred revenues and the long-term portion of the warranty liabilities on our *Condensed Consolidated Balance Sheets* were as follows:

In millions	July 1, 2018	December 31, 2017	Balance Sheet Location
Deferred revenue related to extended coverage programs			
Current portion	**$ 228**	$ 231	Current portion of deferred revenue
Long-term portion	**558**	536	Other liabilities and deferred revenue
Total	**$ 786**	$ 767	
Long-term portion of warranty liability	**$ 880**	$ 466	Other liabilities and deferred revenue

NOTE 11. OTHER ACCRUED EXPENSES AND OTHER LIABILITIES AND DEFERRED REVENUE

Other accrued expenses included the following:

In millions	July 1, 2018	December 31, 2017
Other taxes payable	**$ 178**	$ 197
Marketing accruals	**169**	146
Income taxes payable	**102**	77
Other	**357**	495
Other accrued expenses	**$ 806**	$ 915

Other liabilities and deferred revenue included the following:

In millions	July 1, 2018	December 31, 2017
Accrued warranty	**$ 880**	$ 466
Deferred revenue	**622**	604
Deferred income taxes	**400**	391
Income taxes payable[(1)]	**252**	281
Accrued compensation	**152**	151
Other long-term liabilities	**135**	134
Other liabilities and deferred revenue	**$ 2,441**	$ 2,027

[(1)] Long-term income taxes payable are the result of the 2017 Tax Legislation and relate to the non-current portion of the one-time transition tax on accumulated foreign earnings.

NOTE 12. COMMITMENTS AND CONTINGENCIES

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 pursuant to GAAP 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.

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. We recorded charges of $36 million to cost of sales in our *Consolidated Statements of Income* during 2017 for the then expected cost of field campaigns to repair some of these engine systems. We concluded based upon additional emission testing performed, and further discussions with the EPA and CARB in the first quarter of 2018, that the field campaigns should be expanded to include a larger population of our engine systems that are subject to the aftertreatment component degradation, including our model years 2010 through 2015. As a result, we recorded an additional charge of $187 million, or $0.87 per share, to cost of sales in our *Condensed Consolidated Statements of Income* ($94 million recorded in the Components segment and $93 million in the Engine segment) in the first quarter of 2018.

In the second quarter of 2018, we reached agreement with the CARB and EPA regarding our plans to address the affected populations. In finalizing our plans, we have increased the number of systems to be addressed through hardware replacement compared to our assumptions last quarter. As a result of this agreement and considering that the hardware replacement solution is a higher cost approach than that previously assumed on some of the engine systems, we recorded an additional charge of $181 million, or $0.85 per share, to cost of sales in our *Condensed Consolidated Statements of Income* ($91 million recorded in the Engine segment and $90 million in the Components segment) in the second quarter of 2018. With the additional charge in the second quarter of 2018, the total accrual related to this matter is $404 million, which represents our best estimate of the cost to execute the campaigns. The campaigns will launch in phases across the affected population and are expected to begin in the third quarter of 2018 with a projection to be substantially completed by December 31, 2020.

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 1, 2018, the maximum potential loss related to these guarantees was $56 million.

We have arrangements with certain suppliers that require us to purchase minimum volumes or be subject to monetary penalties. At July 1, 2018, if we were to stop purchasing from each of these suppliers, the aggregate amount of the penalty would be approximately $82 million. Most of these arrangements enable us to secure critical components. We do not currently anticipate paying any penalties under these contracts.

We enter into physical forward contracts with suppliers of platinum, palladium and copper to purchase minimum volumes of the commodities at contractually stated prices for various periods, not to exceed two years. At July 1, 2018, the total commitments under these contracts were $62 million. These arrangements enable us to fix 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 $110 million at July 1, 2018.

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 13. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Three months ended						
In millions	**Change in pensions and other postretirement defined benefit plans**	**Foreign currency translation adjustment**	**Unrealized gain (loss) on marketable securities**	**Unrealized gain (loss) on derivatives**	**Total attributable to Cummins Inc.**	**Noncontrolling interests**	**Total**
Balance at April 2, 2017	$ (664)	$ (1,060)	$ (1)	$ (7)	$ (1,732)		
Other comprehensive income before reclassifications							
Before tax amount	—	105	1	(2)	104	$ 1	$ 105
Tax benefit (expense)	—	(4)	(1)	1	(4)	—	(4)
After tax amount	—	101	—	(1)	100	1	101
Amounts reclassified from accumulated other comprehensive loss(1)	15	—	1	1	17	—	17
Net current period other comprehensive income (loss)	15	101	1	—	117	$ 1	$ 118
Balance at July 2, 2017	$ (649)	$ (959)	$ —	$ (7)	$ (1,615)		
Balance at April 1, 2018	$ (681)	$ (720)	$ —	$ 4	$ (1,397)		
Other comprehensive income before reclassifications							
Before tax amount	**—**	**(328)**	**—**	**4**	**(324)**	**$ (17)**	**$(341)**
Tax benefit (expense)	**—**	**45**	**—**	**(2)**	**43**	**—**	**43**
After tax amount	**—**	**(283)**	**—**	**2**	**(281)**	**(17)**	**(298)**
Amounts reclassified from accumulated other comprehensive loss(1)	**13**	**—**	**—**	**(2)**	**11**	**1**	**12**
Net current period other comprehensive income (loss)	**13**	**(283)**	**—**	**—**	**(270)**	**$ (16)**	**$(286)**
Balance at July 1, 2018	**$ (668)**	**$ (1,003)**	**$ —**	**$ 4**	**$ (1,667)**		

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

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

	Six months ended						
In millions	Change in pensions and other postretirement defined benefit plans	Foreign currency translation adjustment	Unrealized gain (loss) on marketable securities[1]	Unrealized gain (loss) on derivatives	Total attributable to Cummins Inc.	Noncontrolling interests	Total
Balance at December 31, 2016	$ (685)	$ (1,127)	$ (1)	$ (8)	$ (1,821)		
Other comprehensive income before reclassifications							
Before tax amount	8	180	2	(8)	182	$ 14	$ 196
Tax benefit (expense)	(3)	(12)	(1)	3	(13)	—	(13)
After tax amount	5	168	1	(5)	169	14	183
Amounts reclassified from accumulated other comprehensive loss[2]	31	—	—	6	37	—	37
Net current period other comprehensive income (loss)	36	168	1	1	206	$ 14	$ 220
Balance at July 2, 2017	$ (649)	$ (959)	$ —	$ (7)	$ (1,615)		
Balance at December 31, 2017	$ (689)	$ (812)	$ 1	$ (3)	$ (1,503)		
Other comprehensive income before reclassifications							
Before tax amount	**(8)**	**(203)**	**—**	**15**	**(196)**	**$ (24)**	**$(220)**
Tax benefit (expense)	**2**	**12**	**—**	**(6)**	**8**	**—**	**8**
After tax amount	**(6)**	**(191)**	**—**	**9**	**(188)**	**(24)**	**(212)**
Amounts reclassified from accumulated other comprehensive loss[2]	**27**	**—**	**(1)**	**(2)**	**24**	**1**	**25**
Net current period other comprehensive income (loss)	**21**	**(191)**	**(1)**	**7**	**(164)**	**$ (23)**	**$(187)**
Balance at July 1, 2018	**$ (668)**	**$ (1,003)**	**$ —**	**$ 4**	**$ (1,667)**		

[1] We adopted the new accounting pronouncement "Accounting for Certain Financial Instruments" on January 1, 2018, which moved the treatment of unrealized gains and losses for non-debt securities directly to the *Condensed Consolidated Statements of Income* on a prospective basis. The impact of adopting this standard includes a one-time cumulative effect adjustment to opening retained earnings of $2 million. See NOTE 15, "RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS," to our *Condensed Consolidated Financial Statements* for more information.

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

NOTE 14. 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 Electrified Power. This reporting structure is organized according to the products and markets each segment serves. The Engine segment produces engines (15 liters and less in size) 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, fuel systems and 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. We formed the Electrified Power segment, effective January 1, 2018, which will provide fully electric and hybrid powertrain solutions along with innovative components and subsystems to serve all our markets as they adopt electrification, meeting the needs of our OEM partners and end customers.

Our Electrified Power segment will design, manufacture, sell and support electrified power systems ranging from fully electric to hybrid. We are currently developing the Cummins Electric Power Battery and the Cummins Hybrid Plug-In systems for urban bus, which are expected to launch in 2019 and 2020, respectively. We also design and manufacture battery modules, packs and systems for commercial, industrial and material handling applications. We use a range of cell chemistries which are suitable for pure electric, hybrid and plug-in hybrid applications. In addition to electrified powertrains for urban bus, we intend to deliver product offerings to future markets, including pick-up and delivery applications and other markets as they adopt electric solutions. We invest in and utilize our internal research and development capabilities, along with strategic acquisitions and partnerships to meet our objectives.

Effective January 1, 2018, we changed our measure to EBITDA (defined as earnings before interest expense, income taxes, noncontrolling interests, depreciation and amortization) as the primary basis for the CODM to evaluate the performance of each of our reportable operating segments. EBITDA assists investors and debt holders in comparing our performance on a consistent basis without regard for depreciation and amortization, which can vary significantly depending upon many factors. Prior periods have been revised to reflect the current presentation. 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 changes in cash surrender value 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	Electrified Power	Total Segment	Intersegment Eliminations [1]	Total
Three months ended July 1, 2018								
External sales	**$ 2,050**	**$ 1,988**	**$ 1,402**	**$ 691**	**$ 1**	**$ 6,132**	**$ —**	**$ 6,132**
Intersegment sales	**646**	**6**	**485**	**555**	**—**	**1,692**	**(1,692)**	**—**
Total sales	**2,696**	**1,994**	**1,887**	**1,246**	**1**	**7,824**	**(1,692)**	**6,132**
Research, development and engineering expenses	**76**	**5**	**62**	**60**	**16**	**219**	**—**	**219**
Equity, royalty and interest income from investees	**67**	**11**	**14**	**18**	**—**	**110**	**—**	**110**
Interest income	**3**	**3**	**2**	**2**	**—**	**10**	**—**	**10**
Segment EBITDA	**362**	**145**	**237**	**186**	**(21)**	**909**	**(12)**	**897**
Depreciation and amortization [2]	**47**	**27**	**47**	**32**	**1**	**154**	**—**	**154**
Three months ended July 2, 2017								
External sales	$ 1,711	$ 1,716	$ 1,064	$ 587	$ —	$ 5,078	$ —	$ 5,078
Intersegment sales	596	6	390	430	—	1,422	(1,422)	—
Total sales	2,307	1,722	1,454	1,017	—	6,500	(1,422)	5,078
Research, development and engineering expenses	63	4	58	50	—	175	—	175
Equity, royalty and interest income from investees	56	13	15	14	—	98	—	98
Interest income	2	1	1	1	—	5	—	5
Segment EBITDA	323	127	228	90	—	768	(4)	764
Depreciation and amortization [2]	46	31	38	29	—	144	—	144

[1] Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the three months ended July 1, 2018 and July 2, 2017.

[2] Depreciation and amortization, as shown on a segment basis, excludes the amortization of debt discount and deferred costs included in the *Condensed Consolidated Statements of Income* as interest expense. A portion of depreciation expense is included in "Research, development and engineering expenses" above.

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	Electrified Power	Total Segment	Intersegment Eliminations [1]	Total
Six months ended July 1, 2018								
External sales	**$3,863**	**$ 3,835**	**$ 2,715**	**$ 1,286**	**$ 3**	**$ 11,702**	**$ —**	**$11,702**
Intersegment sales	**1,279**	**12**	**925**	**1,034**	**—**	**3,250**	**(3,250)**	**—**
Total sales	**5,142**	**3,847**	**3,640**	**2,320**	**3**	**14,952**	**(3,250)**	**11,702**
Research, development and engineering expenses	**155**	**10**	**124**	**117**	**23**	**429**	**—**	**429**
Equity, royalty and interest income from investees	**134**	**24**	**30**	**37**	**—**	**225**	**—**	**225**
Interest income	**5**	**5**	**3**	**4**	**—**	**17**	**—**	**17**
Segment EBITDA	**648**	**268**	**464**	**328**	**(31)**	**1,677**	**(80)**	**1,597**
Depreciation and amortization [2]	**96**	**54**	**93**	**62**	**2**	**307**	**—**	**307**
Six months ended July 2, 2017								
External sales	$3,168	$ 3,353	$ 2,044	$ 1,102	$ —	$ 9,667	$ —	$ 9,667
Intersegment sales	1,162	14	754	797	—	2,727	(2,727)	—
Total sales	4,330	3,367	2,798	1,899	—	12,394	(2,727)	9,667
Research, development and engineering expenses	117	8	108	100	—	333	—	333
Equity, royalty and interest income from investees	128	24	28	26	—	206	—	206
Interest income	3	2	1	1	—	7	—	7
Segment EBITDA	596	257	444	175	—	1,472	(3)	1,469
Depreciation and amortization [2]	90	61	75	57	—	283	—	283

[1] Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the six months ended July 1, 2018 and July 2, 2017.

[2] Depreciation and amortization, as shown on a segment basis, excludes the amortization of debt discount and deferred costs included in the *Condensed Consolidated Statements of Income* as interest expense. The amortization of debt discount and deferred costs was $1 million and $1 million for the six month periods ended July 1, 2018 and July 2, 2017, respectively. A portion of depreciation expense is included in "Research, development and engineering expenses" above.

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

	Three months ended		Six months ended	
In millions	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Total EBITDA	**$ 897**	$ 764	**$ 1,597**	$ 1,469
Less:				
Depreciation and amortization	**154**	144	**307**	283
Interest expense	**28**	21	**52**	39
Income before income taxes	**$ 715**	$ 599	**$ 1,238**	$ 1,147

NOTE 15. RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Recently Adopted

On January 1, 2018, we adopted the new revenue recognition standard in accordance with GAAP.See NOTE 3, "REVENUE RECOGNITION," for detailed information about the adoption of this standard.

In March 2017, the FASB amended its standards related to the presentation of pension and other postretirement benefit costs in the financial statements beginning January 1, 2018. Under the new standard, we are required to separate service costs from all other elements of pension costs and reflect the other elements of pension costs outside of operating income in our *Condensed Consolidated Statements of Income*. In addition, the standard limits the amount eligible for capitalization (into inventory or self-constructed assets) to the amount of service cost. This portion of the standard was applied on a prospective basis. The remainder of the new standard was applied on a retrospective basis using a practical expedient as the estimation basis for the reclassification of prior period non-service cost components of net periodic benefit cost from operating income to non-operating income. As a result, we revised our *Condensed Consolidated Statements of Income* by the following amounts:

	Favorable / (Unfavorable)	
	2017	
In millions	Q1	Q2
Cost of sales	$ 4	$ 2
Selling, general and administrative expenses	(10)	(10)
Research, development and engineering expenses	—	(1)
Total change in operating income	(6)	(9)
Other non operating income, net	6	9
Total change in income before income taxes	$ —	$ —

In August 2016, the FASB amended its standards related to the classification of certain cash receipts and cash payments which became effective for us beginning January 1, 2018. The new standard made eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. Adoption of this standard did not have a material impact on our *Condensed Consolidated Financial Statements*.

In January 2016, the FASB amended its standards related to the accounting for certain financial instruments which became effective for us beginning January 1, 2018. This amendment addresses certain aspects of recognition, measurement, presentation and disclosure. The standard resulted in a cumulative effect increase to opening retained earnings of $2 million in our *Condensed Consolidated Financial Statements.*

Accounting Pronouncements Issued But Not Yet Effective

In August 2017, the FASB amended its standards related to accounting for derivatives and hedging. These amendments allow the initial hedge effectiveness assessment to be performed by the end of the first quarter in which the hedge is designated rather than concurrently with entering into the hedge transaction. The changes also expand the use of a periodic qualitative hedge effectiveness assessment in lieu of an ongoing quantitative assessment performed throughout the life of the hedge. The revision removes the requirement to record ineffectiveness on cash flow hedges through the income statement when a hedge i s considered highly effective, instead deferring all related hedge gains and losses in other comprehensive income until the hedged item impacts earnings. The modifications permit hedging the contractually-specified price of a component of a commodity purchase and revises certain disclosure requirements. The amendments are effective January 1, 2019 and early adoption is permitted in any interim period or fiscal year prior to the effective date. The revised standard is required to be adopted on a modified retrospective basis for any cash flow or net investment hedge relationships that exist on the date of adoption and prospectively for disclosures. We do not expect the amendments to have a material effect on our *Consolidated Financial Statements* and are still evaluating early adoption.

In June 2016, the FASB amended its standards related to accounting for credit losses on financial instruments. This amendment introduces new guidance for accounting for credit losses on instruments including trade receivables and held-to-maturity debt securities. The new rules are effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We do not expect adoption of this standard to have a material impact on our *Consolidated Financial Statements.*

In February 2016, the FASB amended its standards related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard will continue to have two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under today's standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under today's standards. The determination of a lease classification as operating or finance will occur in a manner similar to today's standard. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and non-lease components of an arrangement. The new standard is effective on January 1, 2019, with early adoption permitted. The standard currently requires adoption on a full retrospective basis; however, the FASB has recently approved an amendment to allow adoption on a modified retrospective basis. While the amendment is not yet published, we would expect to adopt on a modified retrospective basis assuming the amendment is published as approved. We are still evaluating the impact the standard could have on our*Consolidated Financial Statements*, including our internal controls over financial reporting. While we have not yet quantified the amount, we do expect the standard will have a material impact on our *Consolidated Balance Sheets* due to the recognition of additional assets and liabilities for operating leases.

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" 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:

- a sustained slowdown or significant downturn in our markets;
- changes in the engine outsourcing practices of significant customers;
- the development of new technologies that reduce demand for our current products and services;
- any significant additional problems in our engine platforms or aftertreatment systems;
- product recalls;
- lower than expected acceptance of new or existing products or services;
- a slowdown in infrastructure development and/or depressed commodity prices;
- unpredictability in the adoption, implementation and enforcement of emission standards around the world;
- the actions of, and income from, joint ventures and other investees that we do not directly control;
- changes in taxation;
- exposure to potential security breaches or other disruptions to our information technology systems and data security;
- a major customer experiencing financial distress;
- our plan to reposition our portfolio of product offerings through exploring strategic acquisitions and divestitures and related uncertainties of entering such transactions;
- supply shortages and supplier financial risk, particularly from any of our single-sourced suppliers;
- competitor activity;
- increasing competition, including increased global competition among our customers in emerging markets;
- policy changes in international trade;
- foreign currency exchange rate changes;
- variability in material and commodity costs;
- failure to realize expected results from our investment in Eaton Cummins Automated Transmission Technologies joint venture;
- political, economic and other risks from operations in numerous countries;
- global legal and ethical compliance costs and risks;
- aligning our capacity and production with our demand;
- product liability claims;
- increasingly stringent environmental laws and regulations;

- future bans or limitations on the use of diesel-powered vehicles;

- the price and availability of energy;
- the performance of our pension plan assets and volatility of discount rates;
- labor relations;
- changes in accounting standards;
- our sales mix of products;
- protection and validity of our patent and other intellectual property rights;
- technological implementation and cost/financial risks in our increasing use of large, multi-year contracts;
- 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 2017 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 2017 Form 10-K. Our MD&A is presented in the following sections:

- Executive Summary and Financial Highlights
- Outlook
- Results of Operations
- Operating Segment Results
- Liquidity and Capital Resources
- Application of Critical Accounting Estimates
- Recently Adopted and Recently Issued Accounting Pronouncements

EXECUTIVE SUMMARY AND FINANCIAL HIGHLIGHTS

We are a global power leader that designs, manufactures, distributes and services diesel and natural gas engines and engine-related component products, including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems, transmissions, electric power generation systems, batteries and electrified power systems. We sell our products to original equipment manufacturers (OEMs), distributors and other customers worldwide. We have long-standing relationships with many of the leading manufacturers in the markets we serve, including PACCAR Inc, Daimler Trucks North America, Navistar International Corporation and Fiat Chrysler Automobiles (Chrysler). We serve our customers through a network of approximately 500 wholly-owned and independent distributor locations and over 7,500 dealer locations in more than 190 countries and territories.

Our reportable operating segments consist of Engine, Distribution, Components, Power Systems and Electrified Power. This reporting structure is organized according to the products and markets each segment serves. The Engine segment produces engines (15 liters and less in size) 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, fuel systems and 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. We formed the Electrified Power segment, effective January 1, 2018, which will provide fully electric and hybrid powertrain solutions along with innovative components and subsystems to serve all our markets as they adopt electrification, meeting the needs of our OEM partners and end customers.

Our Electrified Power segment will design, manufacture, sell and support electrified power systems ranging from fully electric to hybrid. We are currently developing the Cummins Electric Power Battery and the Cummins Hybrid Plug-In systems for urban bus, which are expected to launch in 2019 and 2020, respectively. We also design and manufacture battery modules, packs and systems for commercial, industrial and material handling applications. We use a range of cell chemistries which are suitable for pure electric, hybrid and plug-in hybrid applications. In addition to electrified powertrains for urban bus, we intend to deliver product offerings to future markets, including pick-up and delivery applications and other markets as they adopt electric solutions. We invest in and utilize our internal research and development capabilities, along with strategic acquisitions and partnerships to meet our objectives.

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 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.

Worldwide net sales increased 21 percent in the three months ended July 1, 2018, as compared to the same period in 2017, with all operating segments reporting higher sales. Net sales in the U.S. and Canada improved by 22 percent primarily due to increased demand in the North American on-highway markets (primarily in the heavy- and medium-duty truck and light commercial vehicle markets), increased demand in all of our distribution product lines, sales from the automated transmission business acquired during the third quarter of 2017 and increased industrial demand in the oil and gas markets. International demand growth (excludes the U.S. and Canada) improved net sales by 18 percent, with sales up in most of our markets, especially in China, Europe, Latin America, Asia Pacific and India. The increase in international sales was primarily due to increased on-highway truck demand (especially in Latin America and China), favorable foreign currency impacts of 3 percent of international sales (primarily the Chinese renminbi, Euro and British pound), increased demand in industrial markets (especially construction and mining markets in China and Europe) and increased demand for power generation equipment primarily in China and the Middle East.

Worldwide net sales increased 21 percent in the six months ended July 1, 2018, as compared to the same period in 2017, with all operating segments reporting higher sales. Net sales in the U.S. and Canada improved by 22 percent primarily due to increased demand in the North American on-highway markets (primarily in the heavy- and medium-duty truck and light commercial vehicle markets), increased demand in all of our distribution product lines, sales from the automated transmission business acquired during the third quarter of 2017 and increased industrial demand (especially in the oil and gas and construction markets) International demand growth (excludes the U.S. and Canada) improved net sales by 19 percent, with sales up in most of our markets, especially in China, Europe, Latin America, Asia Pacific and India. The increase in international sales was primarily due to increased on-highway truck demand (especially in Latin America and China), favorable foreign currency impacts of 4 percent of international sales (primarily the the Chinese renminbi, Euro and British pound), increased demand in industrial markets (especially construction and mining markets in China and Europe) and increased demand for power generation equipment primarily in China, the Middle East and Australia.

Effective January 1, 2018, we changed our measure to EBITDA (defined as earnings before interest expense, income taxes, noncontrolling interests, depreciation and amortization) as a primary basis for the Chief Operating Decision Maker to evaluate the performance of each of our operating segments. EBITDA assists investors and debt holders in comparing our performance on a consistent basis without regard for depreciation and amortization, which can vary significantly depending upon many factors. Prior periods have been revised to reflect the current presentation. The following tables contain sales and EBITDA by operating segment for the three and six months ended July 1, 2018 and July 2, 2017. Refer to the section titled "OPERATING SEGMENT RESULTS" for a more detailed discussion of sales and EBITDA by operating segment, including the reconciliation of segment EBITDA to net income attributable to Cummins Inc.

	Three months ended							
Operating Segments	**July 1, 2018**			**July 2, 2017**			**Percent change**	
		Percent			**Percent**		**2018 vs. 2017**	
In millions	**Sales**	**of Total**	**EBITDA**	**Sales**	**of Total**	**EBITDA**	**Sales**	**EBITDA**
Engine	**$ 2,696**	**44 %**	**$ 362**	$ 2,307	45 %	$ 323	17%	12%
Distribution	**1,994**	**33 %**	**145**	1,722	34 %	127	16%	14%
Components	**1,887**	**31 %**	**237**	1,454	29 %	228	30%	4%
Power Systems	**1,246**	**20 %**	**186**	1,017	20 %	90	23%	NM
Electrified Power	**1**	**— %**	**(21)**	—	— %	—	NM	NM
Intersegment eliminations	**(1,692)**	**(28)%**	**(12)**	(1,422)	(28)%	(4)	19%	NM
Total	**$ 6,132**	**100 %**	**$ 897**	$ 5,078	100 %	$ 764	21%	17%

"NM" - not meaningful information

Net income attributable to Cummins was $545 million, or $3.32 per diluted share, on sales of $6.1 billion for the three months ended July 1, 2018, versus the comparable prior year period net income attributable to Cummins of $424 million, or $2.53 per diluted share, on sales of $5.1 billion. The increase in net income and earnings per diluted share was driven by significantly higher net sales, increased gross margin and a lower effective tax rate as the result ofthe U.S. enacted Tax Cuts and Jobs Act (Tax Legislation), partially offset by higher research, development and engineering expenses. The increase in gross margin was primarily due tohigher volumes, improved pricing and lower material costs, partially offset by $181 million for an Engine System Campaign (a campaign in the Components and Engine segments for engine model years 2010 to 2015 related to degradation of an aftertreatment component) and increased compensation costs. See Note 12, "COMMITMENTS AND CONTINGENCIES," to the *Condensed Consolidated Financial Statements* for additional information on the Engine System Campaign. Diluted earnings per share for the three months ended July 1, 2018, benefited $0.01 from fewer weighted average shares outstanding due to the stock repurchase program.

	Six months ended							
Operating Segments	**July 1, 2018**			**July 2, 2017**			**Percent change**	
		Percent			**Percent**		**2018 vs. 2017**	
In millions	**Sales**	**of Total**	**EBITDA**	**Sales**	**of Total**	**EBITDA**	**Sales**	**EBITDA**
Engine	**$ 5,142**	**44 %**	**$ 648**	$ 4,330	45 %	$ 596	19%	9%
Distribution	**3,847**	**33 %**	**268**	3,367	35 %	257	14%	4%
Components	**3,640**	**31 %**	**464**	2,798	29 %	444	30%	5%
Power Systems	**2,320**	**20 %**	**328**	1,899	19 %	175	22%	87%
Electrified Power	**3**	**— %**	**(31)**	—	— %	—	NM	NM
Intersegment eliminations	**(3,250)**	**(28)%**	**(80)**	(2,727)	(28)%	(3)	19%	NM
Total	**$ 11,702**	**100 %**	**$ 1,597**	$ 9,667	100 %	$ 1,469	21%	9%

"NM" - not meaningful information

Net income attributable to Cummins was $870 million, or $5.27 per diluted share, on sales of $11.7 billion for the six months ended July 1, 2018, versus the comparable prior year period net income attributable to Cummins of $820 million, or $4.88 per diluted share, on sales of $9.7 billion. The increase in net income and earnings per diluted share was driven by significantly higher net sales and increased gross margin, partially offset by higher research, development and engineering expenses, a higher effective tax rate ($74 million of unfavorable net discrete tax items primarily due to $80 million of discrete items for Tax Legislation passed in December 2017) and increased selling, general and administrative expenses. See Note 6, "INCOME TAXES," to the *Condensed Consolidated Financial Statements* for additional information on the tax valuation adjustments. The increase in gross margin was primarily due to higher volumes, improved pricing, lower material costs and favorable mix, partially offset by $368 million for an Engine System Campaign and increased compensation costs. Diluted earnings per share for the six months ended July 1, 2018, benefited $0.03 from fewer weighted average shares outstanding, primarily due to the stock repurchase programs.

We generated $473 million of cash from operations for the six months ended July 1, 2018, compared to $826 million for the comparable period in 2017. Refer to the section titled "Cash Flows" in the "LIQUIDITY AND CAPITAL RESOURCES" section for a discussion of items impacting cash flows.

During the first half of 2018, we repurchased $379 million, or 2.5 million shares of common stock.

Our debt to capital ratio (total capital defined as debt plus equity) at July 1, 2018, was 23.1 percent, compared to 19.7 percent at December 31, 2017. The increase was primarily due to the issuance of commercial paper. At July 1, 2018, we had $1.5 billion in cash and marketable securities on hand and access to our $2.75 billion credit facilities, if necessary, to meet currently anticipated investment and funding needs.

In July 2018, our Board of Directors authorized an increase to our quarterly dividend of 5.6 percent from $1.08 per share to $1.14 per share.

We expect our effective tax rate for the full year of 2018 to approximate 23.0 percent, excluding any discrete tax items.

Our global pension plans, including our unfunded and non-qualified plans, were 116 percent funded at December 31, 2017. Our U.S. qualified plans, which represent approximately 55 percent of the worldwide pension obligation, were 131 percent funded and our U.K. plans were 118 percent funded. We anticipate making additional defined benefit pension contributions during the remainder of 2018 of $20 million for our U.S. and U.K. pension plans. Approximately $14 million of the estimated $38 million of U.K. pension contributions for the full year are voluntary. We expect our 2018 net periodic pension cost to approximate $86 million.

OUTLOOK

Our outlook reflects the following positive trends and challenges to our business that we expect could impact our revenue and earnings potential for the remainder of 2018.

Positive Trends

- We expect North American medium-duty truck and heavy-duty truck demand will remain strong.
- We anticipate demand for pick-up trucks in North America will remain strong.
- We believe demand in global mining markets will remain strong.
- Global construction markets could remain strong.
- We expect power generation markets to remain strong.

Challenges

- We are experiencing cost increases as a result of trade tariffs recently imposed by the U.S. and some of its trading partners. In the event of prolonged trade disputes, demand for our products could be negatively impacted and we could experience additional cost increases.
- Market demand in truck markets in China is expected to decline.
- Marine markets are expected to remain weak.

In summary, we expect demand to improve or remain strong in many of our most important markets.

RESULTS OF OPERATIONS

In millions, except per share amounts	Three months ended July 1, 2018	Three months ended July 2, 2017	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent	Six months ended July 1, 2018	Six months ended July 2, 2017	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent
NET SALES	**$ 6,132**	$ 5,078	$ 1,054	21 %	**$ 11,702**	$ 9,667	$ 2,035	21 %
Cost of sales	**4,692**	3,827	(865)	(23)%	**9,062**	7,284	(1,778)	(24)%
GROSS MARGIN	**1,440**	1,251	189	15 %	**2,640**	2,383	257	11 %
OPERATING EXPENSES AND INCOME								
Selling, general and administrative expenses	**613**	606	(7)	(1)%	**1,190**	1,153	(37)	(3)%
Research, development and engineering expenses	**219**	175	(44)	(25)%	**429**	333	(96)	(29)%
Equity, royalty and interest income from investees	**110**	98	12	12 %	**225**	206	19	9 %
Other operating income (expense), net	**4**	18	(14)	(78)%	**6**	23	(17)	(74)%
OPERATING INCOME	**722**	586	136	23 %	**1,252**	1,126	126	11 %
Interest income	**10**	5	5	100 %	**17**	7	10	NM
Interest expense	**28**	21	(7)	(33)%	**52**	39	(13)	(33)%
Other income, net	**11**	29	(18)	(62)%	**21**	53	(32)	(60)%
INCOME BEFORE INCOME TAXES	**715**	599	116	19 %	**1,238**	1,147	91	8 %
Income tax expense	**161**	158	(3)	(2)%	**359**	301	(58)	(19)%
CONSOLIDATED NET INCOME	**554**	441	113	26 %	**879**	846	33	4 %
Less: Net income attributable to noncontrolling interests	**9**	17	8	47 %	**9**	26	17	65 %
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	**$ 545**	$ 424	$ 121	29 %	**$ 870**	$ 820	$ 50	6 %
Diluted Earnings Per Common Share Attributable to Cummins Inc.	**$ 3.32**	$ 2.53	$ 0.79	31 %	**$ 5.27**	$ 4.88	$ 0.39	8 %

Percent of sales	Three months ended July 1, 2018	Three months ended July 2, 2017	Favorable/(Unfavorable) Percentage Points	Six months ended July 1, 2018	Six months ended July 2, 2017	Favorable/(Unfavorable) Percentage Points
Gross margin	**23.5%**	24.6%	(1.1)	**22.6%**	24.7%	(2.1)
Selling, general and administrative expenses	**10.0%**	11.9%	1.9	**10.2%**	11.9%	1.7
Research, development and engineering expenses	**3.6%**	3.4%	(0.2)	**3.7%**	3.4%	(0.3)

Net Sales

Net sales for the three months ended July 1, 2018, increased by $1.1 billion versus the comparable period in 2017. The primary drivers were as follows:

- Components segment sales increased 30 percent primarily due to higher demand across all businesses, especially the emission solutions business, due to stronger market demand for trucks in North America and Europe, and sales from the automated transmission business acquired in the third quarter of 2017.
- Engine segment sales increased 17 percent primarily due to higher demand across all markets, especially in North American heavy-duty truck and global construction markets.
- Distribution segment sales increased 16 percent primarily due to higher demand in most geographic regions, especially North America, due to increased demand in the engines, parts and service lines of business.
- Power Systems segment sales increased 23 percent primarily due to higher demand for all product lines, especially in industrial markets due to higher demand in North American oil and gas markets and international mining markets and increased power generation demand.
- Foreign currency fluctuations favorably impacted sales by 1 percent of total sales primarily in the Chinese renminbi, Euro and British pound.

Net sales for the six months ended July 1, 2018, increased by $2.0 billion versus the comparable period in 2017. The primary drivers were as follows:

- Components segment sales increased 30 percent primarily due to higher demand across all businesses, especially the emission solutions business, due to stronger market demand for trucks in North America, Europe and India, and sales from the automated transmission business acquired in the third quarter of 2017.

- Engine segment sales increased 19 percent primarily due to higher demand across most markets, especially in North American heavy-duty truck, medium duty truck and bus markets and increased demand in global construction markets.

- Distribution segment sales increased 14 percent primarily due to higher demand in most geographic regions, especially in North America, due to increased demand in the engines, parts and service lines of business.

- Power Systems segment sales increased 22 percent primarily due to higher demand for all product lines, especially in industrial markets due to higher demand in global mining markets, North America oil and gas markets and increased power generation demand.

- Foreign currency fluctuations favorably impacted sales by 2 percent of total sales primarily in the Chinese renminbi, Euro and British pound.

Sales to international markets (excluding the U.S. and Canada), based on location of customers, for the three and six months ended July 1, 2018, were 41 percent and 41 percent of total net sales, respectively, compared with 42 percent and 42 percent of total net sales for the comparable periods in 2017. 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 the cost of sales line item include the following: raw materials consumption, including direct and indirect materials; salaries, wages and benefits; depreciation and amortization; estimated costs of warranty programs and campaigns; production utilities; production-related purchasing; warehousing, including receiving and inspection; 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 $189 million for the three months ended July 1, 2018, versus the comparable period in 2017 and decreased 1.1 points as a percentage of sales. The increase in gross margin was primarily due to higher volumes, improved pricing and lower material costs, partially offset by $181 million for an Engine System Campaign (a campaign in the Components and Engine segments for engine model years 2010 to 2015 related to degradation of an aftertreatment component) and increased compensation costs driven by headcount growth to support increased sales. The decrease in gross margin percentage was primarily due to the Engine System Campaign.

Gross margin increased $257 million for the six months ended July 1, 2018, versus the comparable period in 2017, and decreased 2.1 points as a percentage of sales. The increase in gross margin was primarily due to higher volumes, improved pricing, lower material costs and favorable mix, partially offset by $368 million for an Engine System Campaign and increased compensation costs driven by headcount growth to support increased sales. The decrease in gross margin percentage was primarily due to the Engine System Campaign.

The provision for base warranties issued, excluding campaigns, as a percent of sales for the three and six months ended July 1, 2018, was 1.9 percent and 1.9 percent, respectively, compared to 1.8 percent and 1.9 percent for the comparable periods in 2017. A detailed discussion of margin by segment is presented in the "OPERATING SEGMENT RESULTS" section.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $7 million for the three months ended July 1, 2018, versus the comparable period in 2017, primarily due to higher compensation expenses driven by headcount growth and higher consulting expenses. Compensation and related expenses include salaries, fringe benefits and variable compensation. Overall, selling, general and administrative expenses, as a percentage of sales, decreased to 10.0 percent in the three months ended July 1, 2018, from 11.9 percent in the comparable period in 2017.

Selling, general and administrative expenses increased $37 million for the six months ended July 1, 2018, versus the comparable period in 2017, primarily due to higher compensation expenses driven by headcount growth and higher consulting expenses. Overall, selling, general and administrative expenses, as a percentage of sales, decreased to 10.2 percent in the six months ended July 1, 2018, from 11.9 percent in the comparable period in 2017.

Research, Development and Engineering Expenses

Research, development and engineering expenses increased $44 million for the three months ended July 1, 2018, versus the comparable period in 2017, primarily due to investments in the Electrified Power segment, increased compensation expenses driven by headcount growth due to investments in the Electrified Power segment and the automated transmission business acquired in the third quarter of 2017 and higher consulting expenses. Overall, research, development and engineering expenses as a percentage of sales increased to 3.6 percent in the three months ended July 1, 2018, from 3.4 percent in the comparable period in 2017.

Research, development and engineering expenses increased $96 million for the six months ended July 1, 2018, versus the comparable period in 2017, primarily due to investments in the Electrified Power segment, increased compensation expenses driven by headcount growth due to investments in the Electrified Power segment and the automated transmission business acquired in the third quarter of 2017 higher consulting expenses and lower expense recovery. Overall, research, development and engineering expenses as a percentage of sales increased to 3.7 percent in the six months ended July 1, 2018, from 3.4 percent in the comparable period in 2017. Research activities continue to focus on development of new products to meet future emission standards around the world and improvements in fuel economy performance of diesel and natural gas powered engines.

Equity, Royalty and Interest Income from Investees

Equity, royalty and interest income from investees increased $12 million for the three months ended July 1, 2018, versus the comparable period in 2017, primarily due to higher earnings at Chongqing Cummins Engine Company, Ltd., Tata Cummins Ltd. and Beijing Foton Cummins Engine Company, Ltd.

Equity, royalty and interest income from investees increased $19 million for the six months ended July 1, 2018, versus the comparable period in 2017, primarily due to higher earnings at Chongqing Cummins Engine Company, Ltd., Tata Cummins Ltd. and Cummins Westport, partially offset by lower earnings at Beijing Foton Cummins Engine Company, Ltd. and Dongfeng Cummins Engine Company, Ltd.

Other Operating Income (Expense), Net

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

	Three months ended		Six months ended	
In millions	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Royalty income, net	**$ 11**	$ 11	**$ 18**	$ 20
Gain on sale of assets, net	**3**	8	**3**	5
Loss on write off of assets	**(4)**	(1)	**(4)**	(2)
Amortization of intangible assets	**(5)**	(1)	**(10)**	(3)
Other, net	**(1)**	1	**(1)**	3
Total other operating income (expense), net	**$ 4**	$ 18	**$ 6**	$ 23

Interest Income

Interest income for the three and six months ended July 1, 2018, increased $5 million and $10 million, respectively, versus the comparable periods in 2017, primarily due to higher interest rates.

Interest Expense

Interest expense for the three and six months ended July 1, 2018, increased $7 million and $13 million, respectively, versus the comparable periods in 2017, primarily due to higher weighted-average debt outstanding.

Other Income, Net

Other income, net was as follows:

In millions	Three months ended July 1, 2018	Three months ended July 2, 2017	Six months ended July 1, 2018	Six months ended July 2, 2017
Non-service cost, pension and other postretirement benefits	**$ 15**	$ 9	**$ 30**	$ 15
Change in cash surrender value of corporate owned life insurance	**1**	16	**(3)**	29
Dividend income	**—**	2	**2**	3
Bank charges	**(2)**	(2)	**(5)**	(5)
Foreign currency (loss) gain, net	**(13)**	1	**(24)**	3
Other, net	**10**	3	**21**	8
Total other income, net	**$ 11**	$ 29	**$ 21**	$ 53

Income Tax Expense

Our effective tax rate for the year is expected to approximate 23.0 percent, excluding any discrete tax items that may arise.

Our effective tax rates for the three and six months ended July 1, 2018, were 22.5 percent and 29.0 percent, respectively. The three months ended July 1, 2018, contained only immaterial discrete items. The six months ended July 1, 2018, contained $74 million, or $0.45 per share, of unfavorable net discrete tax items, primarily due to $80 million of discrete items related to the 2017 Tax Cuts and Jobs Act (Tax Legislation). This includes $45 million associated with changes related to the Tax Legislation measurement period adjustment and $35 million associated with the one-time recognition of deferred tax charges at historical tax rates on intercompany profit in inventory. See Note 6, "INCOME TAXES," for additional information.

Our effective tax rates for the three and six months ended July 2, 2017, were 26.4 percent and 26.2 percent, respectively, and contained only immaterial discrete tax items.

The change in the effective tax rate for the three months ended July 1, 2018, versus the comparable period in 2017, was primarily due to lower U.S. tax rates in the second quarter of 2018 as a result of Tax Legislation. The change in the effective tax rate for the six months ended July 1, 2018, versus the comparable period in 2017, was primarily due to unfavorable discrete changes associated with the Tax Legislation.

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 1, 2018, decreased $8 million and $17 million, respectively, versus the comparable periods in 2017, primarily due to losses at the automated transmission business acquired in the third quarter of 2017.

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

Net income and diluted earnings per share attributable to Cummins Inc. for thethree months ended July 1, 2018, increased $121 million and $0.79 per share, respectively, versus the comparable period in 2017, primarily due to significantly higher net sales, increased gross margin and a lower effective tax rate as the result ofTax Legislation passed in December 2017, partially offset by higher research, development and engineering expenses.Diluted earnings per share for the three months ended July 1, 2018, benefited $0.01 from fewer weighted average shares outstanding due to the stock repurchase program.

Net income and diluted earnings per share attributable to Cummins Inc. for thesix months ended July 1, 2018, increased $50 million and $0.39 per share, respectively, versus the comparable period in 2017, primarily due to significantly higher net sales and increased gross margin, partially offset by higher research, development and engineering expenses, a higher effective tax rate ($74 million of unfavorable net discrete tax items primarily due to $80 million of discrete items for Tax Legislation passed in December 2017) and increased selling, general and administrative expenses. Diluted earnings per share for the six months ended July 1, 2018, benefited $0.03 from fewer weighted average shares outstanding, primarily due to the stock repurchase programs.

Comprehensive Income - Foreign Currency Translation Adjustment

The foreign currency translation adjustment was a net loss of$299 million and $215 million, respectively, for the three months and six months endedJuly 1, 2018, compared to a net gain of $102 million and $182 million, respectively, for the three and six months endedJuly 2, 2017, and was driven by the following:

	Three months ended			
	July 1, 2018		July 2, 2017	
In millions	Translation adjustment	Primary currency driver vs. U.S. dollar	Translation adjustment	Primary currency driver vs. U.S. dollar
Wholly-owned subsidiaries	**$ (232)**	British pound, Chinese renminbi, Indian rupee, Brazilian real	$ 90	British pound, Chinese renminbi
Equity method investments	**(51)**	Chinese renminbi, Indian rupee, British pound	11	Chinese renminbi
Consolidated subsidiaries with a noncontrolling interest	**(16)**	Indian rupee	1	Indian rupee
Total	**$ (299)**		$ 102	

	Six months ended			
	July 1, 2018		July 2, 2017	
In millions	Translation adjustment	Primary currency driver vs. U.S. dollar	Translation adjustment	Primary currency driver vs. U.S. dollar
Wholly-owned subsidiaries	**$ (162)**	British pound, Indian rupee, Brazilian real, Chinese renminbi	$ 147	British pound, Indian rupee, Chinese renminbi
Equity method investments	**(29)**	Chinese renminbi, Indian rupee, British pound	21	Chinese renminbi, Indian rupee
Consolidated subsidiaries with a noncontrolling interest	**(24)**	Indian rupee	14	Indian rupee
Total	**$ (215)**		$ 182	

OPERATING SEGMENT RESULTS

Our reportable operating segments consist of the Engine, Distribution, Components, Power Systems and Electrified Power segments. This reporting structure is organized according to the products and markets each segment serves. Effective January 1, 2018, we changed our measure to EBITDA as a primary basis for the Chief Operating Decision Maker to evaluate the performance of each of our reportable operating segments. Segment amounts exclude certain expenses not specifically identifiable to segments. See Note 14, "OPERATING SEGMENTS," to the *Condensed Consolidated Financial Statements* for additional information.

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 1, 2018	July 2, 2017	Amount	Percent	July 1, 2018	July 2, 2017	Amount	Percent
External sales	**$ 2,050**	$ 1,711	$ 339	20 %	**$ 3,863**	$ 3,168	$ 695	22 %
Intersegment sales	**646**	596	50	8 %	**1,279**	1,162	117	10 %
Total sales	**2,696**	2,307	389	17 %	**5,142**	4,330	812	19 %
Research, development and engineering expenses	**76**	63	(13)	(21)%	**155**	117	(38)	(32)%
Equity, royalty and interest income from investees	**67**	56	11	20 %	**134**	128	6	5 %
Interest income	**3**	2	1	50 %	**5**	3	2	67 %
Segment EBITDA	**362**	323	39	12 %	**648**	596	52	9 %
			Percentage Points				Percentage Points	
Segment EBITDA as a percentage of total sales	**13.4%**	14.0%		(0.6)	**12.6%**	13.8%		(1.2)

Sales for our Engine segment by market were as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	July 1, 2018	July 2, 2017	Amount	Percent	July 1, 2018	July 2, 2017	Amount	Percent
Heavy-duty truck	**$ 920**	$ 714	$ 206	29%	**$ 1,735**	$ 1,334	$ 401	30 %
Medium-duty truck and bus	**777**	701	76	11%	**1,469**	1,245	224	18 %
Light-duty automotive	**444**	429	15	3%	**846**	852	(6)	(1)%
Total on-highway	**2,141**	1,844	297	16%	**4,050**	3,431	619	18 %
Off-highway	**555**	463	92	20%	**1,092**	899	193	21 %
Total sales	**$ 2,696**	$ 2,307	$ 389	17%	**$ 5,142**	$ 4,330	$ 812	19 %

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 1, 2018	July 2, 2017	Amount	Percent	July 1, 2018	July 2, 2017	Amount	Percent
Heavy-duty	**32,000**	24,100	7,900	33%	**58,600**	43,300	15,300	35%
Medium-duty	**83,500**	71,600	11,900	17%	**157,500**	131,900	25,600	19%
Light-duty	**68,500**	65,600	2,900	4%	**130,400**	128,700	1,700	1%
Total unit shipments	**184,000**	161,300	22,700	14%	**346,500**	303,900	42,600	14%

Sales

Engine segment sales for the three months ended July 1, 2018, increased $389 million versus the comparable period in 2017. The following were the primary drivers by market:

- Heavy-duty truck sales increased $206 million primarily due to higher demand in North American heavy-duty truck markets with increased shipments of 38 percent.

- Off-highway sales increased $92 million primarily due to improved demand in global construction markets, with increased international unit shipments of 39 percent primarily in China and Europe, and increased unit shipments of 10 percent in North America.

- Medium-duty truck and bus sales increased $76 million primarily due to higher demand in North American medium-duty truck markets with increased engine shipments of 15 percent.

Total on-highway-related sales for the three months ended July 1, 2018, were 79 percent of total Engine segment sales, versus 80 percent for the comparable period in 2017.

Engine segment sales for the six months ended July 1, 2018, increased $812 million versus the comparable period in 2017. The following were the primary drivers by market:

- Heavy-duty truck sales increased $401 million primarily due to higher demand in North American heavy-duty truck markets with increased shipments of 42 percent.

- Medium-duty truck and bus sales increased $224 million primarily due to higher demand in North American medium-duty truck markets with increased engine shipments of 19 percent.

- Off-highway sales increased $193 million due to improved demand in global construction markets with increased international unit shipments of 42 percent, primarily in China and Europe, and increased unit shipments of 27 percent in North America.

Total on-highway-related sales for the six months ended July 1, 2018, were 79 percent of total Engine segment sales, versus 79 percent for the comparable period in 2017.

Segment EBITDA

Engine segment EBITDA for the three months ended July 1, 2018, increased $39 million versus the comparable period in 2017, primarily due to higher gross margin, higher equity, royalty and interest income from investees and lower selling, general and administrative expenses, partially offset by increased research, development and engineering expenses. The increase in gross margin was primarily due to higher volumes and favorable pricing, partially offset by increased Engine System Campaign costs of $91 million. The increase in research, development and engineering expenses was primarily due to higher compensation expense and lower expense recovery. The increase in equity, royalty and interest income from investees was primarily due to higher earnings at Tata Cummins Ltd., Beijing Foton Cummins Engine Co., Ltd. and Cummins Westport, Inc.

Engine segment EBITDA for the six months ended July 1, 2018, increased $52 million versus the comparable period in 2017, primarily due to higher gross margin, lower selling, general and administrative expenses and higher equity, royalty and interest income from investees, partially offset by increased research, development and engineering expenses. The increase in gross margin was primarily due to higher volumes and favorable pricing, partially offset by increased Engine System Campaign costs of $184 million. The increase in research, development and engineering expenses was primarily due to higher compensation expense, lower expense recovery and higher consulting expenses. The increase in equity, royalty and interest income from investees was primarily due to higher earnings at Tata Cummins Ltd. and Cummins Westport, Inc., partially offset by lower earnings at Beijing Foton Cummins Engine Co.

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 1, 2018	July 2, 2017	Amount	Percent	July 1, 2018	July 2, 2017	Amount	Percent
External sales	**$ 1,988**	$ 1,716	$ 272	16 %	**$ 3,835**	$ 3,353	$ 482	14 %
Intersegment sales	**6**	6	—	— %	**12**	14	(2)	(14)%
Total sales	**1,994**	1,722	272	16 %	**3,847**	3,367	480	14 %
Research, development and engineering expenses	**5**	4	(1)	(25)%	**10**	8	(2)	(25)%
Equity, royalty and interest income from investees	**11**	13	(2)	(15)%	**24**	24	—	— %
Interest income	**3**	1	2	NM	**5**	2	3	NM
Segment EBITDA	**145**	127	18	14 %	**268**	257	11	4 %
			Percentage Points				Percentage Points	
Segment EBITDA as a percentage of total sales	**7.3%**	7.4%	(0.1)		**7.0%**	7.6%	(0.6)	

"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 1, 2018	July 2, 2017	Amount	Percent	July 1, 2018	July 2, 2017	Amount	Percent
North America	**$ 1,353**	$ 1,131	$ 222	20 %	**$ 2,629**	$ 2,244	$ 385	17 %
Asia Pacific	**212**	187	25	13 %	**401**	357	44	12 %
Europe	**143**	107	36	34 %	**275**	204	71	35 %
China	**84**	75	9	12 %	**162**	133	29	22 %
Africa and Middle East	**62**	86	(24)	(28)%	**122**	181	(59)	(33)%
India	**50**	52	(2)	(4)%	**95**	95	—	— %
Russia	**45**	41	4	10 %	**80**	75	5	7 %
Latin America	**45**	43	2	5 %	**83**	78	5	6 %
Total sales	**$ 1,994**	$ 1,722	$ 272	16 %	**$ 3,847**	$ 3,367	$ 480	14 %

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

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	July 1, 2018	July 2, 2017	Amount	Percent	July 1, 2018	July 2, 2017	Amount	Percent
Parts	**$ 817**	$ 759	$ 58	8%	**$ 1,625**	$ 1,504	$ 121	8%
Engines	**461**	314	147	47%	**828**	589	239	41%
Service	**370**	320	50	16%	**722**	639	83	13%
Power generation	**346**	329	17	5%	**672**	635	37	6%
Total sales	**$ 1,994**	$ 1,722	$ 272	16%	**$ 3,847**	$ 3,367	$ 480	14%

Sales

Distribution segment sales for the three months ended July 1, 2018, increased $272 million versus the comparable period in 2017. The following were the primary drivers by region:

- North American sales increased $222 million, representing 82 percent of the total change in Distribution segment sales, primarily due to increased demand in the engines, parts and service lines of business.
- European sales increased $36 million primarily due to an increase in demand for whole goods.

- Foreign currency fluctuations favorably impacted sales primarily in the Euro, Chinese renminbi and Canadian dollar.

Distribution segment sales for the six months ended July 1, 2018, increased $480 million versus the comparable period in 2017. The following were the primary drivers by region:

- North American sales increased $385 million, representing 80 percent of the total change in Distribution segment sales, primarily due to increased demand in the engines, parts and service lines of business.

- European sales increased $71 million primarily due to an increase in demand for whole goods.

- Foreign currency fluctuations favorably impacted sales primarily in the Euro, Chinese renminbi, Canadian dollar and Australian dollar.

Segment EBITDA

Distribution segment EBITDA for the three months ended July 1, 2018, increased $18 million versus the comparable period in 2017, primarily due to higher gross margin. The increase in gross margin was primarily due to higher volumes, partially offset by increased compensation expenses.

Distribution segment EBITDA for the six months ended July 1, 2018, increased $11 million versus the comparable period in 2017, primarily due to higher gross margin, partially offset by increased selling, general and administrative expenses and higher research, development and engineering expenses. The increase in gross margin was primarily due to higher volumes and improved pricing, partially offset by increased compensation expenses. The increase in selling, general and administrative expenses was primarily due to higher compensation expenses and increased consulting expenses.

Components Segment Results

Financial data for the Components segment was as follows:

	Three months ended		Favorable/		Six months ended		Favorable/	
	July 1,	July 2,	(Unfavorable)		July 1,	July 2,	(Unfavorable)	
In millions	2018	2017	Amount	Percent	2018	2017	Amount	Percent
External sales	**$ 1,402**	$ 1,064	$ 338	32 %	**$ 2,715**	$ 2,044	$ 671	33 %
Intersegment sales	**485**	390	95	24 %	**925**	754	171	23 %
Total sales	**1,887**	1,454	433	30 %	**3,640**	2,798	842	30 %
Research, development and engineering expenses	**62**	58	(4)	(7)%	**124**	108	(16)	(15)%
Equity, royalty and interest income from investees	**14**	15	(1)	(7)%	**30**	28	2	7 %
Interest income	**2**	1	1	100 %	**3**	1	2	NM
Segment EBITDA	**237**	228	9	4 %	**464**	444	20	5 %
			Percentage Points				Percentage Points	
Segment EBITDA as a percentage of total sales	**12.6%**	15.7%	(3.1)		**12.7%**	15.9%	(3.2)	

"NM" - not meaningful information

Sales for our Components segment by business were as follows:

	Three months ended		Favorable/		Six months ended		Favorable/	
	July 1,	July 2,	(Unfavorable)		July 1,	July 2,	(Unfavorable)	
In millions	2018	2017	Amount	Percent	2018	2017	Amount	Percent
Emission solutions	**$ 841**	$ 674	$ 167	25%	**$ 1,616**	$ 1,290	$ 326	25%
Turbo technologies	**355**	307	48	16%	**695**	594	101	17%
Filtration	**324**	291	33	11%	**644**	568	76	13%
Electronics and fuel systems	**226**	182	44	24%	**427**	346	81	23%
Automated transmissions	**141**	—	141	NM	**258**	—	258	NM
Total sales	**$ 1,887**	$ 1,454	$ 433	30%	**$ 3,640**	$ 2,798	$ 842	30%

"NM" - not meaningful information

Sales

Components segment sales for the three months ended July 1, 2018, increased $433 million, across all lines of business, versus the comparable period in 2017. The following were the primary drivers by business:

- Emission solutions sales increased $167 million primarily due to stronger market demand for trucks in North America and Europe.
- Automated transmissions, consolidated during the third quarter of 2017, delivered sales of $141 million in North America.
- Turbo technologies sales increased $48 million primarily due to higher demand in North America and Western Europe.
- Electronics and fuel systems sales increased $44 million primarily due to higher demand in North America.
- Filtration sales increased $33 million primarily due to higher demand in North America and Western Europe.
- Foreign currency fluctuations favorably impacted sales primarily in the Chinese renminbi and Euro.

Components segment sales for the six months ended July 1, 2018, increased $842 million, across all lines of business, versus the comparable period in 2017. The following were the primary drivers by business:

- Emission solutions sales increased $326 million primarily due to stronger market demand for trucks in North America, Europe and India, and increased sales of products to meet new emission standards in India.
- Automated transmissions, consolidated during the third quarter of 2017, delivered sales of $258 million in North America.
- Turbo technologies sales increased $101 million primarily due to higher demand in North America and Western Europe.
- Electronics and fuel systems sales increased $81 million primarily due to higher demand in North America.
- Filtration sales increased $76 million primarily due to higher demand in North America and Western Europe.
- Foreign currency fluctuations favorably impacted sales primarily in the Chinese renminbi, Euro and British pound.

Segment EBITDA

Components segment EBITDA for the three months ended July 1, 2018, increased $9 million versus the comparable period in 2017, as higher gross margin and favorable foreign currency fluctuations (primarily in the Chinese renminbi) were 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 was primarily due to higher volumes, lower material costs and favorable mix, partially offset by increased Engine System Campaign costs of $90 million and increased compensation expenses driven by the acquisition of the automated transmission business in the third quarter of 2017. The increases in selling, general and administrative expenses and research, development and engineering expenses were primarily due to higher compensation expense due to the addition of the automated transmission business.

Components segment EBITDA for the six months ended July 1, 2018, increased $20 million versus the comparable period in 2017, as higher gross margin and equity, royalty and interest income from investees was partially offset by increased selling, general and administrative expenses and higher research, development and engineering expenses. The increase in gross margin was primarily due to higher volumes, lower material costs, improved mix and favorable foreign currency fluctuations (primarily the Chinese renminbi), partially offset by increased Engine System Campaign costs of $184 million. The increase in selling, general and administrative expenses was primarily due to higher consulting expense and increased compensation expense due to the addition of the automated transmission business. The increase in research, development and engineering expenses was primarily due to higher compensation expense due to the addition of the automated transmission business and increased consulting expenses, partially offset by higher expense recovery. The increase in equity, royalty and interest income from investees was primarily due to higher earnings at Dongfeng Cummins Emission Solutions Co., Ltd.

Power Systems Segment Results

Financial data for the Power Systems segment was as follows:

In millions	Three months ended July 1, 2018	Three months ended July 2, 2017	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent	Six months ended July 1, 2018	Six months ended July 2, 2017	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent
External sales	**$ 691**	$ 587	$ 104	18 %	**$ 1,286**	$ 1,102	$ 184	17 %
Intersegment sales	**555**	430	125	29 %	**1,034**	797	237	30 %
Total sales	**1,246**	1,017	229	23 %	**2,320**	1,899	421	22 %
Research, development and engineering expenses	**60**	50	(10)	(20)%	**117**	100	(17)	(17)%
Equity, royalty and interest income from investees	**18**	14	4	29 %	**37**	26	11	42 %
Interest income	**2**	1	1	100 %	**4**	1	3	NM
Segment EBITDA	**186**	90	96	NM	**328**	175	153	87 %
			Percentage Points				Percentage Points	
Segment EBITDA as a percentage of total sales	**14.9%**	8.8%		6.1	**14.1%**	9.2%		4.9

"NM" - not meaningful information

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

In millions	Three months ended July 1, 2018	Three months ended July 2, 2017	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent	Six months ended July 1, 2018	Six months ended July 2, 2017	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent
Power generation	**$ 666**	$ 570	$ 96	17%	**$ 1,237**	$ 1,096	$ 141	13%
Industrial	**483**	353	130	37%	**897**	628	269	43%
Generator technologies	**97**	94	3	3%	**186**	175	11	6%
Total sales	**$ 1,246**	$ 1,017	$ 229	23%	**$ 2,320**	$ 1,899	$ 421	22%

Sales

Power Systems segment sales for thethree months ended July 1, 2018, increased $229 million versus the comparable period in 2017. The following were the primary drivers by product line:

- Industrial sales increased $130 million primarily due to higher demand in oil and gas markets in North America and global mining markets, especially in China and Eastern Europe.

- Power generation sales increased $96 million primarily due to higher demand in North America, China and the Middle East.

Power Systems segment sales for thesix months ended July 1, 2018, increased $421 million versus the comparable period in 2017. The following were the primary drivers by product line:

- Industrial sales increased $269 million primarily due to higher demand in global mining markets, especially in China, Eastern Europe and North America, and in oil and gas markets in North America.

- Power generation sales increased $141 million primarily due to higher demand in China, North America and Australia.

- Foreign currency fluctuations favorably impacted sales primarily in the British pound, Chinese renminbi and Euro.

Segment EBITDA

Power Systems segment EBITDA for the three months ended July 1, 2018, increased $96 million versus the comparable period in 2017 primarily due to higher gross margin and equity, royalty and interest income from investees, partially offset by increased research, development and engineering expenses and higher selling, general and administrative expenses. The increase in gross margin was primarily due to increased volumes, lower warranty and lower material costs, partially offset by higher compensation expenses driven by volume growth. The increase for both selling, general and administrative expenses and research, development and engineering expenses was primarily due to higher compensation expenses, new product launches and higher consulting expenses. The increase in equity, royalty and interest income from investees was primarily due to higher earnings at Chongqing Cummins Engine Company, Ltd.

Power Systems segment EBITDA for the six months ended July 1, 2018, increased $153 million versus the comparable period in 2017 primarily due to higher gross margin and equity, royalty and interest income from investees, partially offset by increased research, development and engineering expenses and higher selling, general and administrative expenses. The increase in gross margin was primarily due to increased volumes, lower warranty and lower material costs, partially offset by higher compensation expenses driven by volume growth. The increase for both selling, general and administrative expenses and research, development and engineering expenses was primarily due to higher compensation expenses, new product launches and higher consulting expenses. The increase in equity, royalty and interest income from investees was primarily due to higher earnings at Chongqing Cummins Engine Company, Ltd.

Electrified Power Segment Results

We formed the Electrified Power segment during the first quarter of 2018. The primary focus of the segment is on research and development activities around fully electric and hybrid powertrain solutions. Our intellectual property is developed both in house as well as through acquisitions. As of July 1, 2018, we had completed two acquisitions, which provided us with battery systems intellectual property as well as start-up sales of $1 million and $3 million for the three and six months ended July 1, 2018, respectively. In June 2018, we entered into an agreement to purchase Efficient Drivetrains, Inc., which designs and produces hybrid and fully-electric power solutions for commercial markets, and expect the transaction to close in the third quarter of 2018. We invested $16 million and $23 million for the three and six months ended July 1, 2018, respectively, in research and development activities, which along with the gross margins generated by our acquisitions and selling, general and administrative expenses resulted in a segment EBITDA loss of $21 million and $31 million for three and six months ended July 1, 2018, respectively.

Reconciliation of Segment EBITDA to Net Income Attributable to Cummins Inc.

The table below reconciles the segment information to the corresponding amounts in the *Condensed Consolidated Statements of Income:*

	Three months ended		Six months ended	
In millions	**July 1, 2018**	**July 2, 2017**	**July 1, 2018**	**July 2, 2017**
TOTAL SEGMENT EBITDA	**$ 909**	$ 768	**$ 1,677**	$ 1,472
Intersegment elimination [1]	**(12)**	(4)	**(80)**	(3)
TOTAL EBITDA	**897**	764	**1,597**	1,469
Less:				
Interest expense	**28**	21	**52**	39
Depreciation and amortization [2]	**154**	144	**307**	283
INCOME BEFORE INCOME TAXES	**715**	599	**1,238**	1,147
Less: Income tax expense	**161**	158	**359**	301
CONSOLIDATED NET INCOME	**554**	441	**879**	846
Less: Net income attributable to noncontrolling interest	**9**	17	**9**	26
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	**$ 545**	$ 424	**$ 870**	$ 820

[1] Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the three and six months ended July 1, 2018 and July 2, 2017.

[2] Depreciation and amortization, as shown on a segment basis, excludes the amortization of debt discount and deferred costs included in the *Condensed Consolidated Statements of Income* as interest expense. The amortization of debt discount and deferred costs was $1 million and $1 million for the six month periods ended July 1, 2018 and July 2, 2017, respectively.

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 attention. Working capital and balance sheet measures are provided in the following table:

Dollars in millions	July 1, 2018	December 31, 2017
Working capital [(1)]	**$ 3,731**	$ 3,251
Current ratio	**1.61**	1.57
Accounts and notes receivable, net	**$ 4,095**	$ 3,618
Days' sales in receivables	**60**	59
Inventories	**$ 3,559**	$ 3,166
Inventory turnover	**5.0**	5.0
Accounts payable (principally trade)	**$ 2,981**	$ 2,579
Days' payable outstanding	**58**	53
Total debt	**$ 2,462**	$ 2,006
Total debt as a percent of total capital	**23.1%**	19.7%

(1) Working capital includes cash and cash equivalents.

Cash Flows

Cash and cash equivalents were impacted as follows:

	Six months ended		
In millions	July 1, 2018	July 2, 2017	Change
Net cash provided by operating activities	**$ 473**	$ 826	$ (353)
Net cash used in investing activities	**(236)**	(160)	(76)
Net cash used in financing activities	**(253)**	(544)	291
Effect of exchange rate changes on cash and cash equivalents	**(35)**	51	(86)
Net (decrease) increase in cash and cash equivalents	**$ (51)**	$ 173	$ (224)

Net cash provided by operating activities decreased $353 million for the six months ended July 1, 2018, versus the comparable period in 2017, primarily due to higher working capital levels, partially offset by lower net pension contributions of $69 million and higher earnings of $33 million. During the first six months of 2018, the higher working capital requirements resulted in a cash outflow of $536 million compared to a cash outflow of $196 million in the comparable period in 2017, primarily due to the payment of higher accrued variable compensation expense in the first quarter of 2018 and business growth.

Net cash used in investing activities increased $76 million for the six months ended July 1, 2018, versus the comparable period in 2017, primarily due to higher net investments in marketable securities of $120 million, partially offset by lower investments in and advances to equity investees of $49 million.

Net cash used in financing activities decreased $291 million for the six months ended July 1, 2018, versus the comparable period in 2017, primarily due to higher borrowings of commercial paper of $582 million, partially offset by higher repurchases of common stock of $259 million.

The effect of exchange rate changes on cash and cash equivalents for the six months ended July 1, 2018, versus the comparable period in 2017, decreased $86 million primarily due to unfavorable fluctuations in the British pound of $68 million.

Sources of Liquidity

We generate significant ongoing cash flow and cash provided by operations is our principal source of liquidity with $473 million provided in the six months ended July 1, 2018.

At July 1, 2018, our sources of liquidity included:

	July 1, 2018			
In millions	**Total**	**U.S.**	**International**	**Primary location of international balances**
Cash and cash equivalents	$ 1,318	$ 306	$ 1,012	U.K., China, Singapore, Mexico, Belgium, Australia, Canada
Marketable securities [1]	214	54	160	India
Total	$ 1,532	$ 360	$ 1,172	
Available credit capacity				
Revolving credit facilities [2]	$ 1,948			
International and other uncommitted domestic credit facilities	$ 194			

[1] The majority of marketable securities could be liquidated into cash within a few days.
[2] The five-year credit facility for $1.75 billion and the 364-day credit facility for $1.0 billion, maturing November 2020 and September 2018, respectively, are maintained primarily to provide backup liquidity for our commercial paper borrowings and general corporate purposes. At July 1, 2018, we had $802 million of commercial paper outstanding, which effectively reduced the available capacity under our revolving credit facilities to $1.95 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.

Debt Facilities and Other Sources of Liquidity

We have access to committed credit facilities that total $2.75 billion, including a $1.0 billion, 364-day facility that expires September 14, 2018 and a $1.75 billion, 5-year facility that expires on November 13, 2020. We intend to maintain credit facilities of a similar aggregate amount by renewing or replacing these facilities before expiration. Revolving credit facilities are maintained primarily to provide backup liquidity for our commercial paper borrowings, letters of credit and general corporate purposes.

We can issue up to $2.75 billion of unsecured, short-term promissory notes ("commercial paper") pursuant to our 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.

As a well-known seasoned issuer, we filed an automatic shelf registration for an undetermined amount of debt and equity securities with the Securities and Exchange Commission on February 16, 2016. Under this shelf registration we may offer, from time to time, debt securities, common stock, preferred and preference stock, depositary shares, warrants, stock purchase contracts and stock purchase units.

Uses of Cash

Stock Repurchases

In December 2016, our Board of Directors authorized the acquisition of up to $1 billion of additional common stock upon completion of the 2015 repurchase planIn the first six months of 2018, we made the following purchases under the 2015 and 2016 stock repurchase programs:

In millions, except per share amounts	Shares Purchased	Average Cost Per Share	Total Cost of Repurchases	Remaining Authorized Capacity [1]
November 2015, $1 billion repurchase program				
April 1	0.3	$ 166.79	$ 46	$ —
December 2016, $1 billion repurchase program				
April 1	0.7	164.48	$ 117	$ 883
July 1	1.5	143.69	216	667
Subtotal	2.2	150.38	333	
Total	2.5	$ 152.20	$ 379	

[1] The remaining authorized capacity under the 2016 plan 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 to enhance shareholder value and to offset the dilutive impact of employee stock based compensation plans. These repurchases may be done in the open market or through accelerated share repurchase programs as appropriate based on market conditions.

Dividends

In July 2018, our Board of Directors authorized an increase to our quarterly dividend of 5.6 percent from $1.08 per share to $1.14 per share. We paid dividends of $355 million during the six months ended July 1, 2018.

Capital Expenditures

Capital expenditures, including spending on internal use software, for the six months ended July 1, 2018, were $221 million compared to $222 million in the comparable period in 2017. We continue to invest in new product lines and targeted capacity expansions. We plan to spend between $730 million and $760 million in 2018 on capital expenditures as we continue with product launches and facility improvements. Approximately 50 percent of our capital expenditures are expected to be invested outside of the U.S. in 2018.

Pensions

Our global pension plans, including our unfunded and non-qualified plans, were 116 percent funded at December 31, 2017. Our U.S. qualified plans, which represent approximately 55 percent of the worldwide pension obligation, were 131 percent funded and our U.K. plans were 118 percent funded. 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 2018, the investment loss on our U.S. pension trust was 1.2 percent while our U.K. pension trust loss was 0.7 percent. Approximately 76 percent of our pension plan assets are held in highly liquid investments such as fixed income and equity securities. The remaining 24 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. We anticipate making additional defined benefit pension contributions during the remainder of 2018 of $20 million for our U.S. and U.K. pension plans. Approximately $14 million of the estimated $38 million of U.S. and U.K. pension contributions for the full year are voluntary. 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 2018 net periodic pension cost to approximate $86 million.

Current Maturities of Short and Long-Term Debt

We had $802 million of commercial paper outstanding at July 1, 2018, that matures in less than one year. The maturity schedule of our existing long-term debt does not require significant cash outflows in the intermediate term. Required annual principal payments range from $8 million to $50 million over the next five years (including the remainder of 2018). See Note 9, "DEBT," to the *Condensed Consolidated Financial Statements* for additional information.

Credit Ratings

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

	Long-Term	Short-Term	
Credit Rating Agency [1]	Senior Debt Rating	Debt Rating	Outlook
Standard & 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 operating cash flow and liquidity provide us with the financial flexibility needed to fund working capital, common stock repurchases, acquisitions, capital expenditures, dividend payments, projected pension obligations and debt service obligations. While we expect more efficient access to overseas earnings as a result of Tax Legislation, we will continue to generate cash from operations in the U.S. and maintain access to our revolving credit facility 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 2017 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 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 our Board of Directors. Our critical accounting estimates disclosed in the Form 10-K address the estimation of liabilities for warranty programs, 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 2017 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 2018.

RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Note 15, "RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS," in the *Notes to Condensed Consolidated Financial Statements* for additional information.

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 2017 Form 10-K. There have been no material changes in this information since the filing of our 2017 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 1, 2018, 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

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 pursuant to U.S. generally accepted accounting principles 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.

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, 2017, which could materially affect our business, financial condition or future results. The risks described in our 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	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs[2]
April 2 - May 6	—	$ —	—	59,353
May 7 - June 3	1,021,676	146.01	1,021,100	64,828
June 4 - July 1	483,114	138.85	482,530	70,427
Total	1,504,790	143.71	1,503,630	

[1] Shares purchased represent shares under our Key Employee Stock Investment Plan established in 1969 (there is no maximum repurchase limitation in this plan) and our Board of Directors authorized share repurchase program.

[2] These values reflect the sum of shares held in loan status under our Key Employee Stock Investment Plan. The repurchase program authorized by the Board of Directors does not limit the number of shares that may be purchased and were excluded from this column. The dollar value remaining available for future purchases under this program as of July 1, 2018, was $667 million.

In December 2016, our Board of Directors authorized the acquisition of up to $1 billion of additional common stock upon completion of the 2015 repurchase planDuring the three months ended July 1, 2018, we repurchased $216 million of common stock under this authorization.

During the three months ended July 1, 2018, we repurchased 1,160 shares from employees in connection with the Key Employee Stock Investment Plan which allows certain employees, other than officers, to purchase shares of common stock on an installment basis up to an established credit limit. Loans are issued for five-year terms at a fixed interest rate established at the date of purchase and may be refinanced after their initial five-year period for an additional five-year period. Participants must hold shares for a minimum of six months from date of purchase. If the shares are sold before the loan is paid off, the employee must wait six months before another share purchase may be made. We hold participants' shares as security for the loans and would, in effect repurchase shares if the participant defaulted in repayment of the loan. There is no maximum amount of shares that we may purchase under this plan.

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
3(a)	Restated Articles of Incorporation, as amended and restated, effective as of May 8, 2018 (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed by Cummins Inc. with the Securities and Exchange Commission on May 9, 2018 (File No. 001-04949)).
3(b)	By-Laws, as amended and restated, effective as of July 10, 2018 (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed by Cummins Inc. with the Securities and Exchange Commission on July 11, 2018 (File No. 001-04949)).
10	2012 Omnibus Incentive Plan, as amended and restated.
12	Calculation of Ratio of Earnings to Fixed Charges.
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	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	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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: July 31, 2018

By:	/s/ PATRICK J. WARD	By:	/s/ CHRISTOPHER C. CLULOW
	Patrick J. Ward		Christopher C. Clulow
	Vice President and Chief Financial Officer		*Vice President-Corporate Controller*
	(Principal Financial Officer)		*(Principal Accounting Officer)*

As Approved by the Compensation Committee

July 9, 2018

CUMMINS INC.
2012 OMNIBUS INCENTIVE PLAN
As Amended and Restated

1. **Purpose and Effective Date.**

(a) *Purpose*. The Cummins Inc. 2012 Omnibus Incentive Plan, as amended and restated, is designed to attract, retain, focus and motivate executives, other selected employees, directors and consultants and to link the interests of these individuals with the interests of the Company's shareholders over the longer term. The Plan will accomplish these objectives by offering the opportunity to acquire shares of the Company's common stock, receive monetary payments based on the value of such common stock or receive other incentive compensation on the terms that this Plan provides.

(b) *Effective Date*. This Plan became effective on May 8, 2012, the date on which the Plan was approved by the Company's shareholders (the "Effective Date"). As a result of shareholder approval of this Plan, the Company's prior equity incentive compensation plan, the Cummins Inc. 2003 Stock Incentive Plan (the "Prior Plan"), terminated on the Effective Date; each of the Cummins Inc. Senior Executive Target Bonus Plan, the Cummins Inc. Target Bonus Plan, the Cummins Inc. Senior Executive Longer Term Performance Plan and the Cummins Inc. Longer Term Performance Plan terminated on December 31, 2012; and no new awards could be granted under such plans after their respective termination dates; *provided* that each such plan continued to govern awards outstanding as of the date of such plan's termination and such awards continued in force and effect until terminated pursuant to their respective terms. The Board amended and restated this Plan on February 13, 2017, contingent on subsequent shareholder approval of this Plan as amended and restated, and shareholders approved the amendment and restatement on May 9, 2017.

2. **Definitions.** Capitalized terms used in this Plan have the following meanings:

(a) "Administrator" means the Committee; provided that, to the extent the Board has retained authority and responsibility as an Administrator of the Plan or delegated it to another committee of the Board as permitted by Section 3(b), the term "Administrator" shall also mean the Board or such other committee or, to the extent the Committee has delegated authority and responsibility as an Administrator of the Plan to one or more officers of the Company as permitted by Section 3(b), the term "Administrator" shall also mean such officer or officers.

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 under the Exchange Act. Notwithstanding the foregoing, for purposes of determining those individuals to whom an Option or Stock Appreciation Right may be granted, the term "Affiliate" means any entity that, directly or through one or more intermediaries, is controlled by, controls, or is under common control with, the Company within the meaning of Code Sections 414(b) or (c); *provided* that, in applying such provisions, the phrase "at least 20 percent" shall be used in place of "at least 80 percent" each place it appears therein.

(c) "Amendment Approval Date" means the date on which the Company's shareholders approve this Plan as amended and restated by the Board on February 13, 2017.

(d) "Award" means a grant of Options, Stock Appreciation Rights, Performance Shares, Performance Units, Restricted Stock, Restricted Stock Units, Shares, an Annual Incentive Award, a Long-Term Incentive Award, Dividend Equivalent Units or any other type of award permitted under the Plan.

(e) "Board" means the Board of Directors of the Company.

(f) "Cause" means, except as otherwise determined by the Administrator and set forth in an Award agreement: (i) if a Participant is subject to an employment, retention or similar agreement with the Company or an Affiliate that includes a definition of "Cause", such definition, and (ii) for all other Participants, (A) the willful and continued failure of the Participant to perform substantially the Participant's duties with the Company or one of its Affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Participant by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Participant has not substantially performed the Participant's duties, or (B) the Participant's conviction of (or plea of *nolo contendere* to) a felony.

(g) "Change of Control" means the occurrence of any of the following:

(i) there shall be consummated (A) any merger, consolidation, statutory share exchange or similar form of corporate transaction involving (x) the Company or (y) any of its Subsidiaries, but in the case of this clause (y) only if Company Voting Securities (as defined below) are issued or issuable (each of the events referred to in this clause (A) being hereinafter referred to as a "Reorganization") or (B) the sale or other disposition of all or substantially all the assets of the Company to an entity that is not an Affiliate (a "Sale") if such Reorganization or Sale requires the approval of the Company's shareholders under the law of the Company's jurisdiction of organization (whether such approval is required for such Reorganization or Sale or for the issuance of securities of the Company in such Reorganization or Sale), unless, immediately following such Reorganization or Sale, all or substantially all the individuals and entities who were the "beneficial owners" (as such term is defined in Rule 13d-3 under the Exchange Act (or a successor rule thereto)) of the Company's shares or other securities eligible to vote for the election of the Board ("Company Voting Securities") outstanding immediately prior to the consummation of such Reorganization or Sale beneficially own, directly or indirectly, more than 50% of the combined voting power of the then outstanding voting securities of the corporation resulting from such Reorganization or Sale (including, without limitation, a corporation that as a result of such transaction owns the Company or all or substantially all the Company's assets either directly or through one or more subsidiaries) (the "Continuing Corporation") in substantially the same proportions as their ownership, immediately prior to the consummation of such Reorganization or Sale, of the outstanding Company Voting Securities (excluding any outstanding voting securities of the Continuing Corporation that such beneficial owners hold immediately following the consummation of the Reorganization or Sale as a result of their ownership prior to such consummation of voting securities of any company or other entity involved in or forming part of such Reorganization or Sale other than the Company);

(ii) the shareholders of the Company shall approve any plan or proposal for the complete liquidation or dissolution of the Company;

(iii) any "person" (as such term is used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) (each a "Person"), other than (A) the Company, (B) a Subsidiary, (C) any employee benefit plan sponsored by the Company or an Affiliate or (D) a company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, shall become the beneficial owners (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing in special circumstances) having the right to vote in the election of directors, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise;

(iv) at any time during a period of two (2) consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company (the "Incumbent Directors") shall cease for any reason to constitute at least a majority thereof; provided, however, that any individual becoming a director subsequent to the first day of such period whose election, or nomination for election, by the Company's shareholders was approved by a vote of at least a majority of the Incumbent Directors shall be considered as though such individual were an Incumbent Director, but excluding, for purposes of this proviso, any such individual whose initial assumption of office occurs as a result of an actual or threatened proxy contest with respect to election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person, in each case other than the management of the Company or the Board; or

(v) any other event shall occur that would be required to be reported in response to Item 6(e) (or any successor provision) of Schedule 14A of Regulation 14A promulgated under the Exchange Act.

Notwithstanding the foregoing, no "Change of Control" shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the holders of the Stock immediately prior to such transaction or series of transactions continue to own, directly or indirectly, in the same proportions as their ownership in the Company, an entity that owns all or substantially all of the assets or voting securities of the Company immediately following such transaction or series of transactions.

If an Award is considered deferred compensation subject to the provisions of Code Section 409A, then the Administrator may include an amended definition of "Change of Control" in the Award agreement issued with respect to such Award as necessary to comply with Code Section 409A.

(h) "Code" means the Internal Revenue Code of 1986, as amended. Any reference to a specific provision of the Code includes any successor provision and the regulations promulgated under such provision.

(i) "Committee" means the Compensation Committee of the Board, or such other committee of the Board that is designated by the Board with the same or similar authority. The Committee shall consist only of Non-Employee Directors who also qualify as Outside Directors to the extent necessary for the Plan to comply with Rule 16b-3 promulgated under the Exchange Act or any successor rule and to permit Awards that are otherwise eligible to qualify as "performance-based compensation" under Section 162(m) of the Code to so qualify.

(j) "Company" means Cummins Inc., an Indiana corporation, or any successor thereto.

(k) "Director" means a member of the Board; "Non-Employee Director" means a Director who is not also an employee of the Company or its Subsidiaries; and "Outside Director" means a Director who qualifies as an outside director within the meaning of Code Section 162(m).

(l) "Disability" has the meaning given in Code Section 22(e)(3), except as otherwise determined by the Administrator and set forth in an Award agreement. The Administrator shall make the determination of Disability and may request such evidence of disability as it reasonably determines.

(m) "Dividend Equivalent Unit" means the right to receive a payment, in cash or Shares, equal to the cash dividends or other distributions paid with respect to a Share as described in Section 12.

(n) "Exchange Act" means the Securities Exchange Act of 1934, as amended. Any reference to a specific provision of the Exchange Act includes any successor provision and the regulations and rules promulgated under such provision.

(o) "Fair Market Value" means, per Share on a particular date: (i) the last sales price on such date on the New York Stock Exchange, or if no sales of Stock occur on the date in question, on the last preceding date on which there was a sale on that exchange; (ii) if the Shares are not listed on the New York Stock Exchange, but are traded on another national securities exchange or in an over-the-counter market, the last sales price (or, if there is no last sales price reported, the average of the closing bid and asked prices) for the Shares on the particular date, or on the last preceding date on which there was a sale of Shares on that exchange or market; or (iii) if the Shares are neither listed on a national securities exchange nor traded in an over-the-counter market, the price determined by the Administrator.

(p) "Incentive Award" means the right to receive a cash payment to the extent Performance Goals are achieved (or other requirements are met), and shall include "Annual Incentive Awards" as described in Section 10 and "Long-Term Incentive Awards" as described in Section 11.

(q) "Option" means the right to purchase Shares at a stated price for a specified period of time.

(r) "Participant" means an individual selected by the Administrator to receive an Award.

(s) "Performance Goals" means any goals the Administrator establishes that relate to one or more of the following with respect to the Company or any one or more of its Subsidiaries, Affiliates or other business units: net sales; cost of sales; revenue; gross margin; gross income; net income; operating income; income from continuing operations; earnings (including before taxes, and/or interest and/or depreciation and amortization); earnings per share (including diluted earnings per share); price per share; cash flow; free cash flow; net cash provided by operating activities; net cash provided by operating activities less net cash used in investing activities; net operating profit; ratio of debt to debt plus equity; return on shareholder equity; return on equity; return on sales; return on capital; return on assets; return on average net assets; operating working capital; average accounts receivable; economic value added; customer satisfaction; operating margin; profit margin; sales performance; sales growth; sales quota attainment; new sales; cross/integrated sales; client engagement; client acquisition; internal revenue growth; client retention; total shareholder return metrics; or a combination of the foregoing. As to each Performance Goal, the relevant measurement of performance shall be computed in accordance with generally accepted accounting principles to the extent applicable, but, unless otherwise determined by the Administrator, will exclude the effects of the following: (i) charges for reorganizing and restructuring; (ii) discontinued operations; (iii) asset write-downs; (iv) gains or losses on the disposition of a business; (v) changes in tax or accounting principles, regulations or laws; (vi) mergers, acquisitions or dispositions; (vii) impacts on interest expense, preferred dividends and share dilution as a result of debt and capital transactions; and (viii) extraordinary, unusual and/or non-recurring items of income, expense, gain or loss, that, in case of each of the foregoing, the Company identifies in its publicly filed periodic or current reports, its audited financial statements, including notes to the financial statements, or the Management's Discussion and Analysis section of the Company's annual report. With respect to any Award intended to qualify as performance-based compensation under Section 162(m) of the Code, such exclusions shall be made only to the extent consistent with Section 162(m) of the Code. To the extent consistent with Section 162(m), the Administrator may also provide for other adjustments to Performance Goals in the Award agreement or plan document evidencing any Award at the time the Award is granted. In addition, the Administrator may appropriately adjust any evaluation of performance under a Performance Goal to exclude any of the following events that occurs during a performance period: (i) litigation, claims, judgments or settlements; (ii) the effects of changes in other laws or regulations affecting reported results; and (iii) accruals of any amounts for payment under this Plan or any other compensation arrangements maintained by the Company; provided that, with respect to any Award intended to qualify as performance-based compensation under Section 162(m) of the Code, such adjustment may be made only to the extent consistent with Section 162(m) of the Code. Where applicable, the Performance Goals may be expressed, without limitation, in terms of attaining a specified level of the particular criterion or the attainment of an increase or decrease (expressed as absolute numbers, averages and/or percentages) in the particular criterion or achievement in relation to a peer group or other index. The Performance Goals may include a threshold level of performance below which no payment will be made (or no vesting will occur), levels of performance at which specified payments will be paid (or specified vesting will occur), and a maximum level of performance above which no additional payment will be made (or at which full vesting will occur). In addition, in the case of Awards that the Administrator determines at the date of grant will not be considered "performance-based compensation" under Section 162(m) of the Code, the Administrator may establish other Performance Goals and provide for other exclusions or adjustments not listed in this Plan.

(t) "Performance Shares" means the right to receive Shares to the extent Performance Goals are achieved (or other requirements are met) as described in Section 9.

(u) "Performance Unit" means the right to receive a payment and/or Shares valued in relation to a unit that has a designated dollar value or the value of which is equal to the Fair Market Value of one or more Shares, to the extent Performance Goals are achieved (or other requirements are met) as described in Section 9.

(v) "Person" has the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, or any group of Persons acting in concert that would be considered "persons acting as a group" within the meaning of Treas. Reg. § 1.409A-3(i)(5).

(w) "Plan" means this Cummins Inc. 2012 Omnibus Incentive Plan, as amended and restated and as it may be further amended from time to time.

(x) "Restricted Stock" means a Share that is subject to a risk of forfeiture or restrictions on transfer, or both a risk of forfeiture and restrictions on transfer, as described in Section 9.

(y) "Restricted Stock Unit" means the right to receive a payment and/or Shares equal to the Fair Market Value of one Share that is subject to a risk of forfeiture or restrictions on transfer, or both a risk of forfeiture and restrictions on transfer, as described in Section 9.

(z) "Retirement" means, except as otherwise determined by the Administrator and set forth in an Award agreement, termination of employment or service with the Company and its Affiliates as a result of early or normal retirement in accordance with the terms of a retirement plan maintained by the Company or its Affiliates.

(aa) "Section 16 Participants" means Participants who are subject to the provisions of Section 16 of the Exchange Act.

(bb) "Share" means a share of Stock.

(cc) "Stock" means the Common Stock of the Company, par value of $2.50 per share.

(dd) "Stock Appreciation Right" or "SAR" means the right to receive cash, and/or Shares with a Fair Market Value, equal to the appreciation of the Fair Market Value of a Share during a specified period of time.

(ee) "Subsidiary" means any corporation, limited liability company or other limited liability entity in an unbroken chain of entities beginning with the Company if each of the entities (other than the last entities in the chain) owns the stock or equity interest possessing more than fifty percent (50%) of the total combined voting power of all classes of stock or other equity interests in one of the other entities in the chain.

3. **Administration.**

(a) *Administration*. In addition to the authority specifically granted to the Administrator in this Plan, the Administrator has full discretionary authority to administer this Plan, including but not limited to the authority to: (i) interpret the provisions of this Plan; (ii) prescribe, amend and rescind rules and regulations relating to this Plan; (iii) correct any defect, supply any omission, or reconcile any inconsistency in any Award or agreement covering an Award in the manner and to the extent it deems desirable to carry this Plan into effect; and (iv) make all other determinations necessary or advisable for the administration of this Plan. All Administrator determinations shall be made in the sole discretion of the Administrator and are final and binding on all interested parties.

(b) *Delegation to Other Committees or Officers*. To the extent applicable law permits, the Board may delegate to another committee of the Board, or the Committee may delegate to one or more officers of the Company, any or all of their respective authority and responsibility as an Administrator of the Plan; *provided* that no such delegation is permitted with respect to Stock-based Awards made to Section 16 Participants at the time any such delegated authority or responsibility is exercised unless the delegation is to another committee of the Board consisting entirely of Non-Employee Directors. If the Board or the Committee has made such a delegation, then all references to the Administrator in this Plan include such other committee or one or more officers to the extent of such delegation.

(c) *Indemnification*. The Company will indemnify and hold harmless each member of the Board and the Committee, and each officer or member of any other committee to whom a delegation under Section 3(b) has been made, as to any acts or omissions, or determinations made, with respect to this Plan or any Award to the maximum extent that the law and the Company's by-laws permit.

4. **Eligibility.** The Administrator may designate any of the following as a Participant from time to time, to the extent of the Administrator's authority: any officer or other employee of the Company or its Affiliates; an individual that the Company or an Affiliate has engaged to become an officer or employee; a consultant who provides services to the Company or its Affiliates; or a Director, including a Non-Employee Director. The Administrator's granting of an Award to a Participant will not require the Administrator to grant an Award to such individual at any future time. The Administrator's granting of a particular type of Award to a Participant will not require the Administrator to grant any other type of Award to such individual.

5. **Types of Awards; Assistance to Participants.** Subject to the terms of this Plan, the Administrator may grant any type of Award to any Participant it selects, but only employees of the Company or a Subsidiary (that qualifies under Code Section 422) may receive grants of incentive stock options within the meaning of Code Section 422. Awards may be granted alone or in addition to, in tandem with, or (subject to the prohibition on repricing set forth in Section 16(e)) in substitution for any other Award (or any other award granted under another plan of the Company or any Affiliate, including the plan of an acquired entity). On such terms and conditions as shall be approved by the Administrator, the Company or any Subsidiary may directly or indirectly lend money to any Participant or other person to accomplish the purposes of the Plan, including to assist such Participant or other person to acquire Shares upon the exercise of Options, provided that such lending is not permitted to the extent it would violate terms of the Sarbanes-Oxley Act of 2002 or any other law, regulation or other requirement applicable to the Company or any Subsidiary.

6. **Shares Reserved under this Plan.**

(a) *Plan Reserve*. Subject to adjustment as provided in Section 18, an aggregate of 8,500,000 Shares, plus the number of Shares available for issuance under the Prior Plan that had not been made subject to outstanding awards as of the Effective Date, plus the number of Shares described in Section 6(c), are reserved for issuance under this Plan. The Shares reserved for issuance may be either authorized and unissued Shares or shares reacquired at any time and now or hereafter held as treasury stock. The aggregate number of Shares reserved under this Section 6(a) shall be depleted by the number of Shares, if any, that are subject to an Award as determined at the time of grant; provided that the aggregate number of Shares reserved under this Section 6(a) shall be depleted by two Shares for each Share delivered in payment or settlement of a full-value Award. For this purpose, a full-value Award includes Restricted Stock, Restricted Stock Units payable in Shares, Performance Shares, Performance Units payable in Shares, and any other similar Award payable in Shares under which the value of the Award is measured as the full value of a Share, rather than the increase in the value of a Share. Notwithstanding the foregoing, the Company may issue only such number of Shares as is described in the first sentence of this Section 6(a) upon the exercise of incentive stock options. For purposes of determining the aggregate number of Shares reserved for issuance under this Plan, any fractional Share shall be rounded to the next highest full Share.

(b) *Replenishment of Shares Under this Plan*. If (i) an Award lapses, expires, terminates or is cancelled without the issuance of Shares under, or the payment of other compensation with respect to Shares covered by, the Award (whether due currently or on a deferred basis), (ii) it is determined during or at the conclusion of the term of an Award that all or some portion of the Shares with respect to which the Award was granted will not be issuable, or that other compensation with respect to the Shares covered by the Award will not be payable, on the basis that the conditions for such issuance will not be satisfied, (iii) Shares are forfeited under an Award or (iv) Shares are issued under any Award and the Company subsequently reacquires them pursuant to rights reserved upon the issuance of the Shares, then such Shares shall be recredited to the Plan's reserve and may again be used for new Awards under this Plan, but Shares recredited to the Plan's reserve pursuant to clause (iv) may not be issued pursuant to incentive stock options.

(c) *Addition of Shares from Prior Plan*. After the Effective Date, if any Shares subject to awards granted under the Prior Plan would again become available for new grants under the terms of such plan if such plan were still in effect, then those Shares will be available for the purpose of granting Awards under this Plan, thereby increasing the number of Shares available for issuance under this Plan as determined under Section 6(a), including incentive stock options. Any such Shares will not be available for future awards under the terms of the Prior Plan.

(d) *Participant Limitations*. Subject to adjustment as provided in Section 18, no Participant may be granted Awards that could result in such Participant:

(i) receiving Options for, and/or Stock Appreciation Rights with respect to, more than 500,000 Shares during any fiscal year of the Company;

(ii) receiving Awards of Restricted Stock and/or Restricted Stock Units, and/or other Stock-based Awards pursuant to Section 13, relating to more than 300,000 Shares during any fiscal year of the Company;

(iii) receiving Awards of Performance Shares, and/or Awards of Performance Units the value of which is based on the Fair Market Value of Shares, for more than 300,000 Shares during any fiscal year of the Company; or

(iv) receiving Awards of Performance Units the value of which is not based on the Fair Market Value of Shares, Annual Incentive Award(s), Long-Term Incentive Award(s) or Dividend Equivalent Unit(s) that would pay more than $10,000,000 to the Participant during any single fiscal year of the Company.

In all cases, determinations under this Section 6(d) should be made in a manner that is consistent with the exemption for performance-based compensation that Code Section 162(m) provides. In addition, no Non-Employee Director may receive grants of equity-based Awards in any fiscal year of the Company with an aggregate grant date fair value in excess of five hundred thousand dollars ($500,000).

7. **Options.** Subject to the terms of this Plan, the Administrator will determine all terms and conditions of each Option, including but not limited to: (a) whether the Option is an “incentive stock option” which meets the requirements of Code Section 422, or a “nonqualified stock option” which does not meet the requirements of Code Section 422; (b) the grant date, which may not be any day prior to the date that the Administrator approves the grant; (c) the number of Shares subject to the Option; (d) the exercise price, which may not be less than the Fair Market Value of the Shares subject to the Option as determined on the date of grant; (e) the terms and conditions of vesting and exercise; and (f) the term, except that an Option must terminate no later than ten (10) years after the date of grant. In all other respects, the terms of any incentive stock option should comply with the provisions of Code Section 422 except to the extent the Administrator determines otherwise. Except to the extent Administrator determines otherwise, a Participant may exercise an Option in whole or part after the right to exercise the Option has accrued, provided that any partial exercise must be for one hundred (100) Shares or multiples thereof. If an Option that is intended to be an incentive stock option fails to meet the requirements thereof, the Option shall automatically be treated as a nonqualified stock option to the extent of such failure.

8. **Stock Appreciation Rights.** Subject to the terms of this Plan, the Administrator will determine all terms and conditions of each SAR, including but not limited to: (a) whether the SAR is granted independently of an Option or relates to an Option; (b) the grant date, which may not be any day prior to the date that the Administrator approves the grant; (c) the number of Shares to which the SAR relates; (d) the grant price, provided that the grant price shall not be less than the Fair Market Value of the Shares subject to the SAR as determined on the date of grant; (e) the terms and conditions of exercise or maturity, including vesting; (f) the term, provided that an SAR must terminate no later than ten (10) years after the date of grant; and (g) whether the SAR will be settled in cash, Shares or a combination thereof. If an SAR is granted in relation to an Option, then unless otherwise determined by the Administrator, the SAR shall be exercisable or shall mature at the same time or times, on the same conditions and to the extent and in the proportion, that the related Option is exercisable and may be exercised or mature for all or part of the Shares subject to the related Option. Upon exercise of any number of SARs, the number of Shares subject to the related Option shall be reduced accordingly and such Option may not be exercised with respect to that number of Shares. The exercise of any number of Options that relate to an SAR shall likewise result in an equivalent reduction in the number of Shares covered by the related SAR.

9. **Performance and Stock Awards.** Subject to the terms of this Plan, the Administrator will determine all terms and conditions of each award of Shares, Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units, including but not limited to: (a) the number of Shares and/or units to which such Award relates; (b) whether, as a condition for the Participant to realize all or a portion of the benefit provided under the Award, one or more Performance Goals must be achieved during such period as the Administrator specifies; (c) whether the restrictions imposed on Restricted Stock or Restricted Stock Units shall lapse, and all or a portion of the Performance Goals subject to an Award shall be deemed achieved, upon a Participant’s death, Disability or Retirement; (d) the length of the

vesting and/or performance period and, if different, the date on which payment of the benefit provided under the Award will be made; (e) with respect to Performance Units, whether to measure the value of each unit in relation to a designated dollar value or the Fair Market Value of one or more Shares;(f) with respect to Restricted Stock Units and Performance Units, whether to settle such Awards in cash, in Shares (including Restricted Stock), or a combination thereof; and (g) whether an Award shall include the right to receive dividends or Dividend Equivalent Units *provided, however*, that no dividends or Dividend Equivalent Units shall be paid with respect to Performance Shares, Performance Share Units, or any other Award that is subject to Performance Goals until the relevant Performance Goals have been achieved.

10. **Annual Incentive Awards.** Subject to the terms of this Plan, the Administrator will determine all terms and conditions of an Annual Incentive Award, including but not limited to the Performance Goals, performance period, the potential amount payable, and the timing of payment, subject to the following: (a) the Administrator must require that payment of all or any portion of the amount subject to the Annual Incentive Award is contingent on the achievement of one or more Performance Goals during the period the Administrator specifies, although the Administrator may specify that all or a portion of the Performance Goals subject to an Award are deemed achieved upon a Participant's death, Disability or Retirement, or such other circumstances as the Administrator may specify; and (b) the performance period must relate to a period of one fiscal year of the Company except that, if the Award is made in the year this Plan becomes effective, at the time of commencement of employment with the Company or on the occasion of a promotion, then the Award may relate to a period shorter than one fiscal year.

11. **Long-Term Incentive Awards.** Subject to the terms of this Plan, the Administrator will determine all terms and conditions of a Long-Term Incentive Award, including but not limited to the Performance Goals, performance period, the potential amount payable, and the timing of payment, subject to the following: (a) the Administrator must require that payment of all or any portion of the amount subject to the Long-Term Incentive Award is contingent on the achievement of one or more Performance Goals during the period the Administrator specifies, although the Administrator may specify that all or a portion of the Performance Goals subject to an Award are deemed achieved upon a Participant's death, Disability or Retirement, or such other circumstances as the Administrator may specify; and (b) the performance period must relate to a period of more than one fiscal year of the Company.

12. **Dividend Equivalent Units.** Subject to the terms of this Plan, the Administrator will determine all terms and conditions of each award of Dividend Equivalent Units, including but not limited to whether: (a) such Award will be granted in tandem with another Award; (b) payment of the Award be made currently or credited to an account for the Participant which provides for the deferral of such amounts until a stated time; (c) the Award will be settled in cash or Shares; and (d) as a condition for the Participant to realize all or a portion of the benefit provided under the Award, one or more Performance Goals must be achieved during such period as the Administrator specifies; *provided* that any Dividend Equivalent Units granted in connection with an Option, Stock Appreciation Right or other "stock right" within the meaning of Code Section 409A shall be set forth in a written arrangement that is separate from such Award, and to the extent the payment of such dividend equivalents is considered deferred compensation, such written arrangement shall comply with the provisions of Code Section 409A; and *provided further* that no Dividend Equivalent Unit granted in tandem with another Award shall include vesting provisions more favorable to the Participant than the vesting provisions, if any, to which the tandem Award is subject; and *provided further* that any performance period applicable to an Award of Dividend Equivalent Units must relate to a period of one fiscal year of the Company except that, if the Award is made in the year this Plan becomes effective, at the time of commencement of employment with the Company or on the occasion of a promotion, then the Award may relate to a period shorter than one fiscal year.

13. **Other Stock-Based Awards.** Subject to the terms of this Plan, the Administrator may grant to Participants other types of Awards, which may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, Shares, either alone or in addition to or in conjunction with other Awards, and payable in Stock or cash. Without limitation except as provided herein, such Award may include the issuance of shares of unrestricted Stock, which may be awarded in payment of director fees, in lieu of cash compensation, in exchange for cancellation of a compensation right, as a bonus, or upon the attainment of Performance Goals or otherwise, or rights to acquire Stock from the Company. The Administrator shall determine all terms and conditions of the Award, including but not limited to, the time or times at which such Awards shall be made, and the number of Shares to be granted pursuant to such Awards or to which such Award shall relate; *provided* that any Award that provides for purchase rights shall be priced at 100% of Fair Market Value on the date of the Award.

14. **Termination of Employment or Service**.

(a) *Unvested Awards Canceled Upon Termination*. Except as otherwise provided in an Award agreement, if the employment or service of a Participant terminates other than pursuant to subparagraphs (i) or (ii) below, all unvested Awards shall be canceled immediately.

(i) When a Participant's employment or service terminates as a result of the Participant's Retirement at a time when the Participant's employment or service could not have been terminated for Cause, the Administrator may permit Awards to continue in effect beyond the date of Retirement in accordance with the applicable Award agreement, and the exercisability and vesting of any Award may be accelerated.

(ii) When a Participant resigns and, in the judgment of the Administrator, the acceleration and/or continuation of outstanding Awards would be in the best interests of the Company, the Administrator may (A) authorize, where appropriate, the acceleration and/or continuation of all or any part of Awards granted prior to such resignation and (B) permit the exercise, vesting and payment of such Awards for such period as may be set forth in the applicable Award agreement, subject to earlier cancellation pursuant to Section 16 or at such time as the Administrator shall deem the continuation of all or any part of the Participant's Awards to be not in the Company's best interests.

(b) *Termination for Cause*. If, after a Participant's employment or service terminates for a reason other than Cause, the Company determines that the Participant's employment or service could have been terminated for Cause had all facts been known at such time, then on the date of such determination any outstanding Awards shall terminate immediately and the Participant shall be required to disgorge to the Company any gains attributable to Awards that were outstanding at the time of the Participant's termination of employment or service.

(c) *Death or Disability of a Participant*.

(i) In the event of a Participant's death at a time when the Participant's employment or service could not have been terminated for Cause, the Participant's estate shall have the period specified in the Award agreement within which to receive or exercise any outstanding Award held by the Participant under such terms as may be specified in the applicable Award agreement.

(ii) In the event a Participant is deemed by the Company to be Disabled at a time when the Participant's employment or service could not have been terminated for Cause, Awards and rights to any Awards may be paid to or exercised by the Participant, if legally competent, or a committee or other legally designated guardian or representative if the Participant is legally incompetent by virtue of such disability.

15. **Transferability**. Awards are not transferable other than by will or the laws of descent and distribution, unless and to the extent the Administrator allows a Participant to: (a) designate in writing a beneficiary to exercise an Award or receive payment under an Award after the Participant's death; (b) transfer an Award to the former spouse of the Participant as required by a domestic relations order incident to a divorce; or (c) transfer an Award; provided that, with respect to this clause (c), the Participant may not receive consideration for such a transfer of an Award.

16. **Termination and Amendment of Plan; Amendment, Modification or Cancellation of Awards.**

(a) *Term of Plan*. Unless the Board earlier terminates this Plan pursuant to Section 16(b), this Plan will terminate when all Shares reserved for issuance have been issued. If the term of this Plan extends beyond ten (10) years from the Amendment Approval Date, no incentive stock options may be granted after such time unless the shareholders of the Company have approved an extension of this Plan.

(b) *Termination and Amendment*. The Board or the Administrator may amend, alter, suspend, discontinue or terminate this Plan at any time, subject to the following limitations:

(i) the Board must approve any amendment of this Plan to the extent the Company determines such approval is required by: (A) action of the Board, (B) applicable corporate law, or (C) any other applicable law;

(ii) shareholders must approve any amendment of this Plan to the extent the Company determines such approval is required by: (A) Section 16 of the Exchange Act, (B) the Code, (C) the listing requirements of any principal securities exchange or market on which the Shares are then traded, or (D) any other applicable law; and

(iii) shareholders must approve any of the following Plan amendments: (A) an amendment to materially increase any number of Shares specified in Section 6(a) or the limits set forth in Section 6(d) (except as permitted by Section 18), or (B) an amendment that would diminish the protections afforded by Section 16(e).

(c) *Amendment, Modification, Cancellation and Disgorgement of Awards*.

(i) Except as provided in Section 16(e) and subject to the requirements of this Plan, the Administrator may modify, amend or cancel any Award, or waive any restrictions or conditions applicable to any Award or the exercise of the Award; *provided* that, except as otherwise provided in the Plan or the Award agreement, any modification or amendment that materially diminishes the rights of the Participant, or the cancellation of the Award, shall be effective only if agreed to by the Participant or any other person(s) as may then have an interest in the Award, but the Administrator need not obtain Participant (or other interested party) consent for the modification, amendment or cancellation of an Award pursuant to the provisions of subsection (ii) or Section 18 or as follows: (A) to the extent the Administrator deems such action necessary to comply with any applicable law, the listing requirements of any principal securities exchange or market on which the Shares are then traded; (B) to the extent the Administrator deems necessary to preserve favorable accounting or tax treatment of any Award for the Company, or (C) to the extent the Administrator determines that such action does not materially and adversely affect the value of an Award or that such action is in the best interest of the affected Participant or any other person(s) as may then have an interest in the Award. In addition, except as provided in Section 16(e) and subject to the requirements of this Plan, the Administrator may modify or amend any Award granted to a Participant under the Prior Plan, or waive any restrictions or conditions applicable to any such Award, in order to reflect Award terms consistent with the permitted terms of Awards granted under this Plan regardless of the terms of the Prior Plan. Notwithstanding the foregoing, unless determined otherwise by the Administrator, any such amendment shall be made in a manner that will enable an Award intended to be exempt from Code Section 409A to continue to be so exempt, or to enable an Award intended to comply with Code Section 409A to continue to so comply.

(ii) Notwithstanding anything to the contrary in an Award agreement, the Administrator shall have full power and authority to terminate or cause the Participant to forfeit the Award, and require the Participant to disgorge to the Company any gains attributable to the Award, if the Participant engages in any action constituting, as determined by the Administrator in its discretion, a breach of any agreement between the Participant and the Company or an Affiliate concerning noncompetition, nonsoliciation, confidentiality, trade secrets, intellectual property, nondisparagement or similar obligations.

(iii) Any Awards granted pursuant to this Plan, and any Stock issued or cash paid pursuant to an Award, shall be subject to any recoupment or clawback policy that is adopted by, or any recoupment or similar requirement otherwise made applicable by law, regulation or listing standards to, the Company from time to time.

(iv) Unless the Award agreement specifies otherwise, the Administrator may cancel any Award at any time if the Participant is not in compliance with all applicable provisions of the Award agreement and the Plan.

(d) *Survival of Authority and Awards*. Notwithstanding the foregoing, the authority of the Board and the Administrator under this Section 16 and to otherwise administer the Plan will extend beyond the date of this Plan's termination. In addition, termination of this Plan will not affect the rights of Participants with respect to Awards previously granted to them, and all unexpired Awards will continue in force and effect after termination of this Plan except as they may lapse or be terminated by their own terms and conditions.

(e) *Repricing and Backdating Prohibited*. Notwithstanding anything in this Plan to the contrary, and except for the adjustments provided for in Section 18, neither the Administrator nor any other person may (i) amend the terms of outstanding Options or SARs to reduce the exercise price of such outstanding Options or SARs; (ii) cancel outstanding Options or SARs in exchange for Options or SARs with an exercise price that is less than the exercise price of the original Options or SARs; or (iii) cancel outstanding Options or SARs with an exercise price above the current Share price in exchange for cash or other securities. In addition, the Administrator may not make a grant of an Option or SAR with a grant date that is effective prior to the date the Administrator takes action to approve such Award.

(f) *Foreign Participation*. To assure the viability of Awards granted to Participants employed or residing in foreign countries, the Administrator may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Administrator may approve such supplements to, or amendments, restatements or alternative versions of, this Plan as it determines is necessary or appropriate for such purposes. Any such amendment, restatement or alternative versions that the Administrator approves for purposes of using this Plan in a foreign country will not affect the terms of this Plan for any other country. In addition, all such supplements, amendments, restatements or alternative versions must comply with the provisions of Section 16(b)(ii).

(g) *Code Section 409A*. The provisions of Code Section 409A are incorporated herein by reference to the extent necessary for any Award that is subject to Code Section 409A to comply therewith.

17. **Taxes.**

(a) *Withholding*. In the event the Company or an Affiliate of the Company is required to withhold any Federal, state or local taxes or other amounts in respect of any income recognized by a Participant as a result of the grant, vesting, payment or settlement of an Award or disposition of any Shares acquired under an Award, the Company may deduct (or require an Affiliate to deduct) from any payments of any kind otherwise due the Participant cash, or with the consent of the Administrator, Shares otherwise deliverable or vesting under an Award, to satisfy such tax obligations. Alternatively, the Company may require such Participant to pay to the Company, in cash, promptly on demand, or make other arrangements satisfactory to the Company regarding the payment to the Company of the aggregate amount of any such taxes and other amounts. If Shares are deliverable upon exercise or payment of an Award, the Administrator may permit a Participant to satisfy all or a portion of the Federal, state and local withholding tax obligations arising in connection with such Award by electing to (a) have the Company withhold Shares otherwise issuable under the Award, (b) tender back Shares received in connection with such Award or (c) deliver other previously owned Shares; *provided* that the amount to be withheld in Shares may not exceed the total maximum statutory tax rates associated with the transaction to the extent needed for the Company to avoid an accounting charge. If an election is provided, the election must be made on or before the date as of which the amount of tax to be withheld is determined and otherwise as the Administrator requires. In any case, the Company may defer making payment or delivery under any Award if any such tax may be pending unless and until indemnified to its satisfaction.

(b) *No Guarantee of Tax Treatment*. Notwithstanding any provisions of the Plan, the Company does not guarantee to any Participant or any other Person with an interest in an Award that (i) any Award intended to be exempt from Code Section 409A shall be so exempt, (ii) any Award intended to comply with Code Section 409A or Code Section 422 shall so comply, or (iii) any Award shall otherwise receive a specific tax treatment under any other applicable tax law, nor in any such case will the Company or any Affiliate be required to indemnify, defend or hold harmless any individual with respect to the tax consequences of any Award.

18. **Adjustment Provisions; Change of Control.**

(a) *Adjustment of Shares*. If: (i) the Company shall at any time be involved in a merger or other transaction in which the Shares are changed or exchanged; (ii) the Company shall subdivide or combine the Shares or the Company shall declare a dividend payable in Shares, other securities (other than stock purchase rights issued pursuant to a shareholder rights agreement) or other property; (iii) the Company shall effect a cash dividend the amount of which, on a per Share basis, exceeds ten percent (10%) of the Fair Market Value of a Share at the time the dividend is declared, or the Company shall effect any other dividend or other distribution on the Shares in the form of cash, or a repurchase of Shares, that the Board determines by resolution is special or extraordinary in nature or that is in connection with a transaction that the Company characterizes publicly as a recapitalization or reorganization involving the Shares; or (iv) any other event shall occur, which, in the case of this clause (iv), in the judgment of the Administrator necessitates an adjustment to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under this Plan, then the Administrator shall, in such manner as it may deem equitable to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under this Plan, adjust as applicable: (A) the number and type of Shares subject to this Plan (including the number and type of Shares described in Sections 6(a), (b) and (d)) and which may after the event be made the subject of Awards; (B) the number and type of Shares subject to outstanding Awards; (C) the grant, purchase, or exercise price with respect to any Award; and (D) to the extent such discretion does not cause an Award that is intended to qualify as performance-based compensation under Code Section 162(m) to lose its status as such, the Performance Goals of an Award. In any such case, the Administrator may also (or in lieu of the foregoing) make provision for a cash payment to the holder of an outstanding Award in exchange for the cancellation of all or a portion of the Award (without the consent of the holder of an Award) in an amount determined by the Administrator effective at such time as the Administrator specifies (which may be the time such transaction or event is effective). However, in each case, with respect to Awards of incentive stock options, no such adjustment may be authorized to the extent that such authority would cause this Plan to violate Code Section 422(b). Further, the number of Shares subject to any Award payable or denominated in Shares must always be a whole number. In any event, previously granted Options or SARs are subject to only such adjustments as are necessary to maintain the relative proportionate interest the Options and SARs represented immediately prior to any such event and to preserve, without exceeding, the value of such Options or SARs.

Without limitation, in the event of any reorganization, merger, consolidation, combination or other similar corporate transaction or event, whether or not constituting a Change of Control (other than any such transaction in which the Company is the continuing corporation and in which the outstanding Stock is not being converted into or exchanged for different securities, cash or other property, or any combination thereof), the Administrator may substitute, on an equitable basis as the Administrator determines, for each Share then subject to an Award and the Shares subject to this Plan (if the Plan will continue in effect), the number and kind of shares of stock, other securities, cash or other property to which holders of Stock are or will be entitled in respect of each Share pursuant to the transaction.

Notwithstanding the foregoing, in the case of a stock dividend (other than a stock dividend declared in lieu of an ordinary cash dividend) or subdivision or combination of the Shares (including a reverse stock split), if no action is taken by the Administrator, adjustments contemplated by this subsection that are proportionate shall nevertheless automatically be made as of the date of such stock dividend or subdivision or combination of the Shares.

(b) *Issuance or Assumption*. Notwithstanding any other provision of this Plan, and without affecting the number of Shares otherwise reserved or available under this Plan, in connection with any merger, consolidation, acquisition of property or stock, or reorganization, the Administrator may authorize the issuance or assumption of awards under this Plan upon such terms and conditions as it may deem appropriate.

(c) *Change of Control*. If the Participant has in effect an employment, retention, change of control, severance or similar agreement with the Company or any Affiliate or is subject to a policy that discusses the effect of a Change of Control on the Participant's Awards, then such agreement or policy shall control. In all other cases, unless provided otherwise in an Award agreement or by the Committee prior to the date of the Change of Control, in the event of a Change of Control:

(i) If the purchaser, successor or surviving corporation (or parent thereof) (each, a "Successor") so agrees, some or all outstanding Awards shall be assumed, or replaced with the same type of award with similar terms and conditions, by the Successor in the Change of Control transaction. If applicable, each Award which is assumed by the Successor shall be appropriately adjusted, immediately after such Change of Control, to apply to the number and class of securities which would have been issuable to the Participant upon the consummation of such Change of Control had the Award been exercised, vested or earned immediately prior to such Change of Control, and other appropriate adjustments in the terms and conditions of the Award shall be made. Upon the termination of the Participant's employment with the Successor in connection with or within twenty-four (24) months following the Change of Control for any reason other than an involuntary termination by the Successor for cause or a voluntary termination by the Participant without good reason (as defined by the policies generally applicable to employees of the Successor), all of the Participant's Awards that are in effect as of the date of such termination shall be vested in full or deemed earned in full (assuming the maximum performance goals provided under such Award were met, if applicable) effective on the date of such termination.

(ii) To the extent the Successor in the Change of Control transaction does not assume the Awards or issue replacement awards as provided in clause (i), then, unless provided otherwise in an Award agreement or by the Committee, immediately prior to the date of the Change of Control all Awards that are then held by Participants shall be cancelled in exchange for the right to receive the following:

(A) For each Option or SAR, a cash payment equal to the excess of the Change of Control price of the Shares covered by the Option or SAR that is so cancelled over the purchase or grant price of such Shares under the Award;

(B) For each Share of Restricted Stock and each Restricted Stock Unit, the Change of Control price per Share in cash or such other consideration as the Company or the shareholders of the Company receive in such Change of Control;

(C) For all Performance Shares and/or Performance Units that are earned but not yet paid, a cash payment equal to the value of the Performance Share and/or Performance Unit;

(D) For all Performance Shares and Performance Units for which the performance period has not expired, a cash payment equal to the value of the Performance Share and/or Performance Unit calculated at the target performance level;

(E) For all Annual and Long-Term Incentive Awards that are earned but not yet paid, a cash payment equal to the value of the Annual or Long-Term Incentive Award;

(F) For all Annual and Long-Term Incentive Awards that are not yet earned, a cash payment equal to the amount that would have been due under such Award(s) if the Performance Goals (as measured at the time of the Change of Control) were to be achieved at the target level through the end of the performance period;

(G) For all Dividend Equivalent Units, a cash payment equal to the value of the Dividend Equivalent Units as of the date of the Change of Control; and

(H) For all other Awards, a cash payment based on the value of the Award as of the date of the Change of Control.

If the value of an Award is based on the Fair Market Value of a Share, Fair Market Value shall be deemed to mean the per share Change of Control price. The Administrator shall determine the per share Change of Control price paid or deemed paid in the Change of Control transaction.

(iii) The payments in respect of cancelled Awards described in Section 18(c)(ii) shall be made as follows:

(A) To the extent the payments are attributable (1) to Awards that were fully vested and earned as of the date of the Change of Control, or (2) to Options or SARs (regardless of whether they were vested or earned), the payments shall be made on the date of the Change of Control; and

(B) To the extent the payments are attributable to Awards (other than Options or SARs) that were unvested or unearned as of the date of the Change of Control, the payments shall be made on the earlier of (1) thirty (30) days following the termination of the Participant’s employment with the Successor in connection with or within twenty-four

(24) months following the Change of Control for any reason other than an involuntary termination by the Successor for cause or a voluntary termination by the Participant without good reason (as defined by the policies generally applicable to employees of the Successor) or (2) the date the Awards would have become vested had they continued in effect or the last day of the performance period, as applicable.

(iv) Notwithstanding anything to the contrary in this Section 18(c), (A) any payment in respect of cancelled Awards (other than Options or SARs) that were unvested or unearned as of the date of the Change of Control shall be forfeited if the Participant's employment with the Successor is terminated involuntarily by the Successor for cause or voluntarily by the Participant without good reason (as defined by the policies generally applicable to employees of the Successor) prior to the payment date; and (B) the terms of any Awards that are subject to Code Section 409A shall govern the treatment of such Awards upon a Change of Control, and the terms of this Section 18(c) shall not apply, to the extent required for such Awards to remain compliant with Code Section 409A, as applicable.

(d) *Application of Limits on Payments*.

(i) Determination of Cap or Payment. Notwithstanding any other provision of this Plan to the contrary, if any payments or benefits paid by the Company pursuant to this Plan, including any accelerated vesting or similar provisions ("Plan Payments"), would cause some or all of the Plan Payments or any other payments made to or benefits received by a Participant in connection with a Change of Control (such payments or benefits, together with the Plan Payments, the "Total Payments") to be subject to the tax ("Excise Tax") imposed by Code Section 4999 but for this Section 18(d), then the Total Payments shall be delivered either (A) in full or (B) in an amount such that the value of the aggregate Total Payments that the Participant is entitled to receive shall be One Dollar ($1.00) less than the maximum amount that the Participant may receive without being subject to the Excise Tax, whichever of (A) or (B) results in the receipt by the Participant of the greatest benefit on an after-tax basis (taking into account applicable federal, state and local income taxes and the Excise Tax).

(ii) Procedures.

(A) If a Participant or the Company believes that a payment or benefit due the Participant will result in some or all of the Total Payments being subject to the Excise Tax, then the Company, at its expense, shall obtain the opinion (which need not be unqualified) of nationally recognized tax counsel ("National Tax Counsel") selected by the Company (which may be regular outside counsel to the Company), which opinion sets forth (1) the amount of the Base Period Income (as defined below), (2) the amount and present value of the Total Payments, (3) the amount and present value of any excess parachute payments determined without regard to any reduction of Total Payments pursuant to Section 6(a)(ii), and (4) the net after-tax proceeds to the Participant, taking into account applicable federal, state and local income taxes and the Excise Tax if (x) the Total Payments were delivered in accordance with Section 18(d)(i)(A) or (y) the Total Payments were delivered in accordance with Section 18(d)(i)(B). The opinion of National Tax Counsel shall be addressed to the Company and the Participant and shall be binding upon the Company and the Participant. If such National Tax Counsel opinion determines that Section 18(d)(i)(B) applies, then the Plan Payments or any other payment or benefit determined by such counsel to be includable in the Total Payments shall be reduced or eliminated so that under the bases of calculations set forth in such opinion there will be no excess parachute payment. In such event, payments or benefits included in the Total Payments shall be reduced or eliminated by applying the following principles, in order: (1) the payment or benefit with the higher ratio of the parachute payment value to present economic value (determined using reasonable actuarial assumptions) shall be reduced or eliminated before a payment or benefit with a lower ratio; (2) the payment or benefit with the later possible payment date shall be reduced or eliminated before a payment or benefit with an earlier payment date; and (3) cash payments shall be reduced prior to non-cash benefits; provided that if the foregoing order of reduction or elimination would violate Code Section 409A, then the reduction shall be made pro rata among the payments or benefits included in the Total Payments (on the basis of the relative present value of the parachute payments).

(B) For purposes of this Section 18: (1) the terms "excess parachute payment" and "parachute payments" shall have the meanings given in Code Section 280G and such "parachute payments" shall be valued as provided therein; (2) present value shall be calculated in accordance with Code Section 280G(d)(4); (3) the term "Base Period Income" means an amount equal to the Participant's "annualized includible compensation for the base period" as defined in Code Section 280G(d)(1); (4) for purposes of the opinion of National Tax Counsel, the value of any noncash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with the principles of Code Sections 280G(d)(3) and (4); and (5) the Participant shall be deemed to pay federal income tax and employment taxes at the highest marginal rate of federal income and employment taxation, and state and local income taxes at the highest marginal rate of taxation in the state or locality of the Participant's domicile, net of the maximum reduction in federal income taxes that may be obtained from the deduction of such state and local taxes.

(C) If National Tax Counsel so requests in connection with the opinion required by this Section 18(d)(ii), the Company shall obtain, at the Company's expense, and the National Tax Counsel may rely on, the advice of a firm of recognized executive compensation consultants as to the reasonableness of any item of compensation to be received by the Participant solely with respect to its status under Code Section 280G.

(D) The Company agrees to bear all costs associated with, and to indemnify and hold harmless the National Tax Counsel from, any and all claims, damages and expenses resulting from or relating to its determinations pursuant to this Section 18, except for claims, damages or expenses resulting from the gross negligence or willful misconduct of such firm.

(E) This Section 18 shall be amended to comply with any amendment or successor provision to Code Section 280G or Code Section 4999. If such provisions are repealed without successor, then this Section 18 shall be cancelled without further effect.

19. **Miscellaneous.**

(a) *Other Terms and Conditions*.

(i) The grant of any Award may also be subject to other provisions (whether or not applicable to the Award granted to any other Participant) as the Administrator determines appropriate, including, without limitation, provisions for:

(A) one or more means to enable Participants to defer the delivery of Shares or recognition of taxable income relating to Awards or cash payments derived from the Awards on such terms and conditions as the Administrator determines, including, by way of example, the form and manner of the deferral election, the treatment of dividends paid on the Shares during the deferral period or a means for providing a return to a Participant on amounts deferred, and the permitted distribution dates or events (provided that no such deferral means may result in an increase in the number of Shares issuable under this Plan);

(B) the payment of the purchase price of Options by (1) delivery of cash or other Shares or other securities of the Company (including by attestation) having a then Fair Market Value equal to the purchase price of such Shares, (2) by delivery (including by fax) to the Company or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions to a broker-dealer to sell or margin a sufficient portion of the Shares and deliver the sale or margin loan proceeds directly to the Company to pay for the exercise price, (3) by surrendering the right to receive Shares otherwise deliverable to the Participant upon exercise of the Award having a Fair Market Value at the time of exercise equal to the total exercise price, or (4) by any combination of (1), (2) and/or (3);

(C) subject to Section 9, giving the Participant the right to receive dividend payments, dividend equivalents or other distributions with respect to Awards (other than Options or Stock Appreciation Rights) that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on, Shares; provided, however, that any such dividends, dividend equivalents or distributions shall be held in the custody of the Company and shall be subject to the same restrictions on transferability and forfeitability that apply to the corresponding Awards;

(D) restrictions on resale or other disposition of Shares; and

(E) compliance with federal or state securities laws and stock exchange requirements.

(ii) Notwithstanding any provision of this Plan that requires a minimum vesting and/or performance period for an Award, the Administrator may, at the time an Award is granted or any later date, subject an Award to a shorter vesting and/or performance period to take into account a Participant’s hire or promotion.

(b) *Employment and Service*. The issuance of an Award shall not confer upon a Participant any right with respect to continued employment or service with the Company or any Affiliate, or the right to continue as a Director. Unless determined otherwise by the Administrator, for purposes of the Plan and all Awards, the following rules shall apply:

(i) a Participant who transfers employment between the Company and its Affiliates, or between Affiliates, will not be considered to have terminated employment;

(ii) a Participant who ceases to be a Non-Employee Director because he or she becomes an employee of the Company or an Affiliate shall not be considered to have ceased service as a Director with respect to any Award until such Participant’s termination of employment with the Company and its Affiliates;

(iii) a Participant who ceases to be employed by the Company or an Affiliate and immediately thereafter becomes a Non-Employee Director, a non-employee director of an Affiliate, or a consultant to the Company or any Affiliate shall not be considered to have terminated employment until such Participant’s service as a director of, or consultant to, the Company and its Affiliates has ceased; and

(iv) a Participant employed by an Affiliate will be considered to have terminated employment when such entity ceases to be an Affiliate.

Notwithstanding the foregoing, for purposes of an Award that is subject to Code Section 409A, if a Participant's termination of employment or service triggers the payment of compensation under such Award, then the Participant will be deemed to have terminated employment or service upon his or her "separation from service" within the meaning of Code Section 409A. Notwithstanding any other provision in this Plan or an Award to the contrary, if any Participant is a "specified employee" within the meaning of Code Section 409A as of the date of his or her "separation from service" within the meaning of Code Section 409A, then, to the extent required by Code Section 409A, any payment made to the Participant on account of such separation from service shall not be made before a date that is six months after the date of the separation from service.

(c) *No Fractional Shares*. No fractional Shares or other securities may be issued or delivered pursuant to this Plan, and the Administrator may determine whether cash, other securities or other property will be paid or transferred in lieu of any fractional Shares or other securities, or whether such fractional Shares or other securities or any rights to fractional Shares or other securities will be canceled, terminated or otherwise eliminated.

(d) *Unfunded Plan; Awards Not Includable for Benefits Purposes*. This Plan is unfunded and does not create, and should not be construed to create, a trust or separate fund with respect to this Plan's benefits. This Plan does not establish any fiduciary relationship between the Company and any Participant or other person. To the extent any person holds any rights by virtue of an Award granted under this Plan, such rights are no greater than the rights of the Company's general unsecured creditors. Income recognized by a Participant pursuant to an Award shall not be included in the determination of benefits under any employee pension benefit plan (as such term is defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended) or group insurance or other benefit plans applicable to the Participant which are maintained by the Company or any Affiliate, except as may be provided under the terms of such plans or determined by resolution of the Board.

(e) *Requirements of Law and Securities Exchange*. The granting of Awards and the issuance of Shares in connection with an Award are subject to all applicable laws, rules and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required. Notwithstanding any other provision of this Plan or any award agreement, the Company has no liability to deliver any Shares under this Plan or make any payment unless such delivery or payment would comply with all applicable laws and the applicable requirements of any securities exchange or similar entity, and unless and until the Participant has taken all actions required by the Company in connection therewith. The Company may impose such restrictions on any Shares issued under the Plan as the Company determines necessary or desirable to comply with all applicable laws, rules and regulations or the requirements of any national securities exchanges.

(f) *Governing Law*. This Plan, and all agreements under this Plan, will be construed in accordance with and governed by the laws of the State of Indiana, without reference to any conflict of law principles. Any legal action or proceeding with respect to this Plan, any Award or any award agreement, or for recognition and enforcement of any judgment in respect of this Plan, any Award or any award agreement, may only be heard in a "bench" trial, and any party to such action or proceeding shall agree to waive its right to a jury trial.

(g) *Limitations on Actions*. Any legal action or proceeding with respect to this Plan, any Award or any award agreement, must be brought within one year (365 days) after the day the complaining party first knew or should have known of the events giving rise to the complaint.

(h) *Construction*. Whenever any words are used herein in the masculine, they shall be construed as though they were used in the feminine in all cases where they would so apply; and wherever any words are used in the singular or plural, they shall be construed as though they were used in the plural or singular, as the case may be, in all cases where they would so apply. Title of sections are for general information only, and this Plan is not to be construed with reference to such titles.

(i) *Severability*. If any provision of this Plan or any award agreement or any Award (a) is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction, or as to any person or Award, or (b) would disqualify this Plan, any award agreement or any Award under any law the Administrator deems applicable, then such provision should be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Administrator, materially altering the intent of this Plan, award agreement or Award, then such provision should be stricken as to such jurisdiction, person or Award, and the remainder of this Plan, such award agreement and such Award will remain in full force and effect.

EXHIBIT 12

CUMMINS INC. AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Six months ended	
In millions	July 1, 2018	July 2, 2017
Earnings		
Income before income taxes	**$ 1,238**	$ 1,147
Add		
Fixed charges	**91**	78
Amortization of capitalized interest	**1**	1
Distributed income of equity investees	**31**	49
Less		
Equity in earnings of investees	**194**	181
Capitalized interest	**1**	3
Noncontrolling interest in pre-tax income of subsidiaries that have not incurred fixed charges	**4**	—
Earnings before fixed charges	**$ 1,162**	$ 1,091
Fixed charges		
Interest expense[1]	**$ 52**	$ 39
Capitalized interest	**1**	3
Amortization of debt discount and deferred costs	**1**	1
Interest portion of rental expense[2]	**37**	35
Total fixed charges	**$ 91**	$ 78
Ratio of earnings to fixed charges[3]	**12.8**	14.0

[1] The interest amount in the table above does not include interest expense associated with uncertain tax positions.

[2] Amounts represent those portions of rent expense that are reasonable approximations of interest costs.

[3] We have not issued preferred stock. Therefore, the ratios of earnings to combined fixed charges and preferred stock dividends are the same as the ratios presented above.

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 controls over financial reporting.

Date: July 31, 2018

/s/ N. THOMAS LINEBARGER

N. Thomas Linebarger

Chairman and Chief Executive Officer

EXHIBIT 31(b)

Certification

I, Patrick J. Ward, 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 controls over financial reporting.

Date: July 31, 2018

/s/ PATRICK J. WARD

Patrick J. Ward

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 Form10-Q for the period ended July 1, 2018, 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.

July 31, 2018

/s/ N. THOMAS LINEBARGER

N. Thomas Linebarger
Chairman and Chief Executive Officer

July 31, 2018

/s/ PATRICK J. WARD

Patrick J. Ward
Vice President and Chief Financial Officer