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BLACKROCK MUNI ENHANCED FUND, INC.
Form N-Q
September 25, 2012
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-05739

Name of Fund: BlackRock MuniEnhanced Fund, Inc. (MEN)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: John M. Perlowski, Chief Executive Officer, BlackRock MuniEnhanced Fund, Inc., 55 East 52nd Street, New York, NY 10055

Registrant's telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 04/30/2013

Date of reporting period: 07/31/2012

Item 1 – Schedule of Investments

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Schedule of Investments July 31, 2012 (Unaudited)

BlackRock MuniEnhanced Fund, Inc. (MEN)

(Percentages shown are based on Net Assets)

	Par (000)	Value
Municipal Bonds		
Alabama 1.3%		
County of Jefferson Alabama, RB, Series A:		
5.50%, 1/01/22	\$ 2,750	\$ 2,759,322
4.75%, 1/01/25	2,200	2,099,504
		4,858,826
Alaska 1.2%		
Alaska Housing Finance Corp, RB, Series A, 4.13%, 12/01/37		
	1,265	1,283,204
Alaska Housing Finance Corp., RB, General Housing, Series B (NPFGC), 5.25%, 12/01/30		
	400	419,256
Alaska Industrial Development & Export Authority, RB, Providence Health Services, Series A, 5.50%, 10/01/41		
	990	1,143,232
Borough of Matanuska-Susitna Alaska, RB, Goose Creek Correctional Center (AGC), 6.00%, 9/01/28		
	1,200	1,458,036
		4,303,728
Arizona 1.5%		
Greater Arizona Development Authority, RB, Series B (NPFGC), 5.00%, 8/01/35		
	1,300	1,404,247
State of Arizona, COP, Department of Administration, Series A (AGM):		
5.00%, 10/01/27	3,250	3,703,310
5.00%, 10/01/29	400	444,956
		5,552,513
California 22.8%		
Alameda Corridor Transportation Authority, Refunding RB, CAB, Subordinate Lien, Series A (AMBAC) (a):		
5.40%, 10/01/24	10,185	10,976,374
5.45%, 10/01/25	6,000	6,444,420
Anaheim Public Financing Authority California, RB, Senior, Public Improvements Project, Series A (AGM), 6.00%, 9/01/24		
	5,000	6,287,900
Cabrillo Community College District, GO, CAB, Election of 2004, Series B (NPFGC), 5.39%, 8/01/37 (b)		
	2,400	634,344
California Health Facilities Financing Authority, RB, Sutter Health, Series B, 5.88%, 8/15/31		
	1,200	1,449,552
California Health Facilities Financing Authority, Refunding RB, St. Joseph Health System, Series A, 5.75%, 7/01/39		
	550	635,283
California State University, RB, Systemwide, Series A (NPFGC), 5.00%, 11/01/35		
	1,405	1,445,619
Municipal Bonds		Value

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	Par (000)	
California (continued)		
California State University, Refunding RB, Systemwide, Series A (AGM), 5.00%, 11/01/37	\$ 2,000	\$ 2,270,820
California Statewide Communities Development Authority, RB, Series A, 5.00%, 4/01/42	1,480	1,619,978
City of Redding California, COP, Refunding, Series A (AGM), 5.00%, 6/01/30	1,420	1,565,294
City of San Jose California, Refunding ARB, Series A-1, AMT, 5.75%, 3/01/34	850	977,118
Los Angeles Community College District California, GO, Election of 2001, Series A (AGM), 5.00%, 8/01/32	1,300	1,465,542
Los Angeles Department of Water & Power, RB, Series C (NPFGC), 5.00%, 7/01/29	5,160	5,541,118
Metropolitan Water District of Southern California, RB, Series B-1 (NPFGC) (c): 5.00%, 10/01/13	2,570	2,713,355
5.00%, 10/01/13	1,480	1,562,554
Orange County Sanitation District, COP: (NPFGC), 5.00%, 8/01/13 (c)	7,455	7,808,218
Series B, (AGM), 5.00%, 2/01/30	1,500	1,680,375
Series B, (AGM), 5.00%, 2/01/31	900	1,008,639
Poway Unified School District, GO, Refunding, CAB, School Facilities Improvement Election of 2007, 4.96%, 8/01/36 (b)	3,750	1,157,063
Rio Hondo Community College District California, GO, CAB, Election of 2004, Series C, 4.99%, 8/01/38 (b)	5,000	1,387,800
San Diego Unified School District California, GO, CAB, Election of 2008, Series C, 5.02%, 7/01/38 (b)	1,600	442,544
San Diego Unified School District California, GO, Refunding, CAB, Series R-1 (b): 4.62%, 7/01/30	5,000	2,207,750
4.64%, 7/01/31	1,280	537,792
San Joaquin County Transportation Authority, Refunding RB, Limited Tax, Measure K, Series A, 6.00%, 3/01/36	2,175	2,663,635
San Marcos Unified School District, GO, Election of 2010, Series A: 5.00%, 8/01/34	700	792,008
5.00%, 8/01/38	600	670,938
San Mateo County Community College District, GO, CAB, Election of 2001, Series C (NPFGC), 4.40%, 9/01/30 (b)	12,740	5,800,140
State of California, GO: 5.13%, 6/01/31	60	60,188
Various Purpose Improvement, 5.00%, 4/01/42	1,000	1,094,580

Schedule of Investments (continued)

BlackRock MuniEnhanced Fund, Inc. (MEN)
 (Percentages shown are based on Net Assets)

	Par (000)	Value
Municipal Bonds		
California (concluded)		
State of California, GO, Refunding:		
5.13%, 6/01/27	\$ 20	\$ 20,066
5.00%, 2/01/38	2,500	2,741,550
5.00%, 10/01/41	1,000	1,091,290
Walnut Valley Unified School District, GO, CAB, Election of 2007, Series B, 4.94%, 8/01/36 (b)	5,500	1,705,385
West Basin Municipal Water District California, COP, Refunding, Series B (AGC), 5.00%, 8/01/30	5,035	5,520,424
		83,979,656
Colorado 0.6%		
Regional Transportation District, COP, Refunding, Series A, 5.38%, 6/01/31	2,000	2,279,880
District of Columbia 1.5%		
District of Columbia, RB, Series B-1 (NPFGC), 5.00%, 2/01/31	5,480	5,686,322
Florida 12.1%		
Broward County Water & Sewer Utility, RB, Series A, 5.25%, 10/01/34	850	1,014,960
City of Jacksonville, Refunding RB, Series A, 5.00%, 10/01/30	280	320,555
Collier County School Board, COP (AGM), 5.00%, 2/15/23	3,000	3,372,600
County of Duval Florida, COP, Master Lease Program (AGM), 5.00%, 7/01/33	2,625	2,850,750
County of Lee Florida, Refunding ARB, Series A, AMT: 5.63%, 10/01/26	960	1,092,950
5.38%, 10/01/32	3,160	3,479,255
County of Miami-Dade Florida, GO, Building Better Communities Program, Series B-1, 5.75%, 7/01/33	1,400	1,617,938
County of Miami-Dade Florida, RB, Water & Sewer System (AGM), 5.00%, 10/01/39	4,625	5,159,095
County of Miami-Dade Florida, Refunding RB, Miami International Airport, AMT (AGC), 5.00%, 10/01/40	9,900	10,390,446
Florida Ports Financing Commission, Refunding RB, State Transportation Trust Fund, Series B, AMT: 5.13%, 6/01/27	2,000	2,300,760
5.38%, 10/01/29	1,050	1,212,992
Highlands County Health Facilities Authority, RB, Adventist Health System/Sunbelt, Series B, 6.00%, 11/15/37	1,450	1,701,720
	4,050	4,379,022

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Hillsborough County Aviation Authority
 Florida, RB, Series A, AMT (AGC),
 5.38%, 10/01/33

	Par (000)	Value
Municipal Bonds		
Florida (concluded)		
Orange County School Board, COP, Series A (AGC), 5.50%, 8/01/34	\$ 3,550	\$ 4,106,604
Sarasota County Public Hospital District, RB, Sarasota Memorial Hospital Project, Series A, 5.63%, 7/01/39	275	302,632
South Florida Water Management District, COP (AGC), 5.00%, 10/01/22	1,000	1,143,230
		44,445,509
Georgia 3.3%		
Burke County Development Authority, Refunding RB, Oglethorpe Power- Vogtle Project, Series C, 5.70%, 1/01/43	1,150	1,252,615
Municipal Electric Authority of Georgia, Refunding RB, Series EE (AMBAC), 7.00%, 1/01/25	7,475	10,748,377
		12,000,992
Illinois 20.1%		
Chicago Illinois Park District, GO, Unlimited Tax, Harbor Facilities Revenues, Series C, 5.25%, 1/01/40	550	621,770
City of Chicago Illinois, GARB: O Hare International Airport, Third Lien, Series B-2, AMT (AGM), 5.75%, 1/01/23	5,670	5,948,284
Third Lien, Series A, 5.75%, 1/01/39	5,110	6,023,361
Third Lien, Series B-2, AMT (Syncora), 6.00%, 1/01/29	2,500	2,647,250
City of Chicago Illinois, Refunding GARB, O Hare International Airport, Third Lien, Series A, AMT (NPFGC), 5.75%, 1/01/21	4,500	4,517,055
City of Chicago Illinois Transit Authority, RB, Sales Tax Receipts Revenue, 5.25%, 12/01/36	595	679,817
City of Chicago Illinois, Board of Education, GO, Unlimited Tax, 5.50%, 12/01/39	2,375	2,768,822
City of Chicago Illinois, Board of Education, GO, Refunding: Chicago School Reform Board (NPFGC), 5.50%, 12/01/26	725	901,523
Series A (AGM), 5.50%, 12/01/31	2,875	3,734,855
Cook County Forest Preserve District, GO, Series C, 5.00%, 12/15/37	330	369,544
Cook County Forest Preserve District, GO, Refunding, Limited Tax Project, Series B, 5.00%, 12/15/37	285	319,152
County of Cook Illinois, GO, CAB, Series C (AMBAC), 5.50%, 11/15/12 (c)	2,460	2,497,810

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Schedule of Investments (continued)

BlackRock MuniEnhanced Fund, Inc. (MEN)
(Percentages shown are based on Net Assets)

	Par (000)	Value
Municipal Bonds		
Illinois (concluded)		
Illinois Finance Authority, RB, Carle Foundation, Series A:		
5.75%, 8/15/34	\$ 650	\$ 722,014
6.00%, 8/15/41	1,000	1,132,600
Illinois HDA, RB, Liberty Arms Senior Apartments, Series D, AMT (AMBAC), 4.88%, 7/01/47	2,190	2,216,302
Illinois Municipal Electric Agency, RB, Series A (NPFGC), 5.25%, 2/01/35	1,000	1,080,930
Illinois Sports Facilities Authority, RB, State Tax Supported (AMBAC), 5.50%, 6/15/30	17,620	19,247,559
Metropolitan Pier & Exposition Authority, RB, CAB, McCormick Place Expansion Project, Series A (NPFGC) (b):		
4.21%, 12/15/26	5,000	2,747,400
4.72%, 12/15/33	9,950	3,671,251
Metropolitan Pier & Exposition Authority, Refunding RB, CAB, McCormick Place Expansion Project, Series B (AGM), 5.12%, 6/15/44 (b)	3,450	688,689
Railsplitter Tobacco Settlement Authority, RB, 6.00%, 6/01/28	675	785,504
Regional Transportation Authority, RB, Series A (AMBAC), 7.20%, 11/01/20	8,800	10,644,744
		73,966,236
Indiana 1.2%		
Indiana Finance Authority, RB, First Lien, CWA Authority Project, Series A, 5.25%, 10/01/38	1,100	1,273,140
Indiana Municipal Power Agency, RB, Series B, 5.75%, 1/01/34	400	423,040
Indianapolis Local Public Improvement Bond Bank, Refunding RB, Waterworks Project, Series A (AGC):		
5.25%, 1/01/29	600	680,496
5.50%, 1/01/38	1,825	2,071,229
		4,447,905
Iowa 4.1%		
Iowa Finance Authority, RB, Series A (AGC), 5.63%, 8/15/37	5,725	6,501,024
Iowa Student Loan Liquidity Corp., RB, Series A-2, AMT:		
5.60%, 12/01/26	3,670	4,117,189
5.70%, 12/01/27	1,670	1,874,909
5.80%, 12/01/29	1,125	1,260,945
5.85%, 12/01/30	1,170	1,308,727
		15,062,794
Louisiana 1.8%		
	1,250	1,480,363

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Louisiana Public Facilities Authority,
Refunding RB, Christus Health, Series
B (AGC), 6.50%, 7/01/30

	Par (000)	Value
Municipal Bonds		
Louisiana (concluded)		
Parish of Saint Charles Louisiana, RB, Valero Energy Corp. Project, 4.00%, 12/01/40	\$ 1,560	\$ 1,650,340
Parish of Saint John the Baptist Louisiana, RB, Marathon Oil Corp., Series A, 5.13%, 6/01/37	3,150	3,345,394
		6,476,097
Maine 0.1%		
Maine State Housing Authority, Refunding RB, Series B-1, AMT, 4.00%, 11/15/27	335	345,157
Massachusetts 1.4%		
Massachusetts HFA, RB, S/F Housing, Series 128, AMT (AGM), 4.88%, 12/01/38	490	503,539
Massachusetts HFA, Refunding RB, AMT: Rental Housing, Series A, (AGM), 5.15%, 7/01/26	485	492,387
Series C, 5.35%, 12/01/42	1,150	1,233,225
Massachusetts Water Resources Authority, Refunding RB, General, Series A (NPFGC), 5.00%, 8/01/34	2,700	3,083,589
		5,312,740
Michigan 4.5%		
City of Detroit Michigan, RB (AGM): Sewage Disposal System, Senior Lien, 7.50%, 7/01/33	500	628,550
Water Supply System, Second Lien, 6.25%, 7/01/36	400	467,044
Water Supply System, Second Lien, 7.00%, 7/01/36	1,380	
Accounts and notes receivable, net	3,618	3,025
Inventories	3,166	2,675
Prepaid expenses and other current assets	577	627
Total current assets	8,928	7,707
Long-term assets		
Property, plant and equipment, net	3,927	3,800
Investments and advances related to equity method investees	1,156	946
Goodwill	1,082	480
Other intangible assets, net	973	332
Pension assets	1,043	731
Other assets	966	1,015
Total assets	\$ 18,075	\$ 15,011

LIABILITIES

Current liabilities

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Accounts payable (principally trade)	\$	2,579	\$	1,854
Loans payable	57		41	
Commercial paper	298		212	
Accrued compensation, benefits and retirement costs	811		412	
Current portion of accrued product warranty	454		333	
Current portion of deferred revenue	500		468	
Other accrued expenses	915		970	
Current maturities of long-term debt	63		35	
Total current liabilities	5,677		4,325	
Long-term liabilities				
Long-term debt	1,588		1,568	
Postretirement benefits other than pensions	289		329	
Pensions	330		326	
Other liabilities and deferred revenue	2,027		1,289	
Total liabilities	\$	9,911	\$	7,837
EQUITY				
Cummins Inc. shareholders' equity				
Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.4 shares issued	\$	2,210	\$	2,153
Retained earnings	11,464		11,040	
Treasury stock, at cost, 56.7 and 54.2 shares	(4,905)	(4,489)
Common stock held by employee benefits trust, at cost, 0.5 and 0.7 shares	(7)	(8)
Accumulated other comprehensive loss	(1,503)	(1,821)
Total Cummins Inc. shareholders' equity	7,259		6,875	
Noncontrolling interests	905		299	
Total equity	\$	8,164	\$	7,174
Total liabilities and equity	\$	18,075	\$	15,011

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

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

In millions	Years ended December 31,	
	2017	2016
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$2,277	\$1,939
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(506)	(531)
Investments in internal use software	(81)	(63)
Proceeds from disposals of property, plant and equipment	110	14
Investments in and advances to equity investees	(66)	(41)
Acquisitions of businesses, net of cash acquired	(662)	(94)
Investments in marketable securities—acquisitions	(194)	(478)
Investments in marketable securities—liquidations	266	306
Proceeds from sale of equity investees	—	60
Cash flows from derivatives not designated as hedges	76	(102)
Other, net	5	12
Net cash used in investing activities	(1,052)	(917)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	6	111
Net borrowings of commercial paper	86	212
Payments on borrowings and capital lease obligations	(60)	(163)
Net borrowings under short-term credit agreements	12	19
Distributions to noncontrolling interests	(29)	(65)
Dividend payments on common stock	(701)	(676)
Repurchases of common stock	(451)	(778)
Acquisitions of noncontrolling interests	—	(98)
Other, net	63	25
Net cash used in financing activities	(1,074)	(1,413)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	98	(200)
Net increase (decrease) in cash and cash equivalents	249	(591)
Cash and cash equivalents at beginning of year	1,120	1,711
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$1,369	\$1,120

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

CUMMINS INC. AND SUBSIDIARIES
 SEGMENT INFORMATION
 (Unaudited)

In millions	Engine	Distribution	Components (1)	Power Systems	Total Segment	Intersegment Elimination (2)	Total	
Three months ended December 31, 2017								
External sales	\$1,710	\$1,928	\$1,180	\$658	\$5,476	\$ —	\$5,476	
Intersegment sales	577	10	378	445	1,410	(1,410)	—	
Total sales	2,287	1,938	1,558	1,103	6,886	(1,410)	5,476	
Depreciation and amortization (3)	47	26	46	30	149	—	149	
Research, development and engineering expenses	79	5	70	53	207	—	207	
Equity, royalty and interest income from investees (4)	33	9	—	14	56	—	56	
Interest income	2	2	2	1	7	—	7	
EBIT	224	97	168	95	584	36	620	
EBIT as a percentage of total sales	9.8	% 5.0	% 10.8	% 8.6	% 8.5	%	11.3	%
Three months ended December 31, 2016								
External sales	\$1,424	\$1,664	\$860	\$555	\$4,503	\$ —	\$4,503	
Intersegment sales	543	6	317	377	1,243	(1,243)	—	
Total sales	1,967	1,670	1,177	932	5,746	(1,243)	4,503	
Depreciation and amortization (3)	41	31	38	28	138	—	138	
Research, development and engineering expenses	60	3	47	48	158	—	158	
Equity, royalty and interest income from investees	28	14	12	13	67	—	67	
Interest income	2	1	1	1	5	—	5	
EBIT	194	122	(5) 140	68	(6) 524	2	526	
EBIT as a percentage of total sales	9.9	% 7.3	% 11.9	% 7.3	% 9.1	%	11.7	%

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

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

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

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

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

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

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

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CUMMINS INC. AND SUBSIDIARIES
 SEGMENT INFORMATION
 (Unaudited)

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

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

(2) Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the years ended December 31, 2017 and 2016.

(3) Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount and deferred costs included in the Condensed Consolidated Statements of Income as "Interest expense." The amortization of debt discount and deferred costs was \$3 million for both years ended December 31, 2017 and December 31, 2016.

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

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

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

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

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

CUMMINS INC. AND SUBSIDIARIES
 SELECT FOOTNOTE DATA
 (Unaudited)

BASIS OF PRESENTATION

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

EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEEES

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

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

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

INCOME TAXES

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

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

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

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

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

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

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

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

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

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

Condensed Consolidated Statements of Income excluding impacts of Tax Legislation

Cummins Inc. and Subsidiaries
 Condensed Consolidated Statements of Income

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

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

Cummins Inc. and Subsidiaries
 Condensed Consolidated Statements of Income

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

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

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

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

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

Reconciliation of Non GAAP measures - Earnings before interest, income taxes, noncontrolling interests, depreciation and amortization

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

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

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

Engine Segment Sales by Market and Unit Shipments by Engine Classification

Sales for our Engine segment by market were as follows:

2017

In millions	Q1	Q2	Q3	Q4	YTD
Heavy-duty truck	\$620	\$714	\$776	\$730	\$2,840
Medium-duty truck and bus	544	701	625	643	2,513
Light-duty automotive	423	429	452	423	1,727
Off-highway	436	463	483	491	1,873
Total sales	\$2,023	\$2,307	\$2,336	\$2,287	\$8,953

2016

In millions	Q1	Q2	Q3	Q4	YTD
Heavy-duty truck	\$631	\$622	\$625	\$565	\$2,443
Medium-duty truck and bus	549	600	517	606	2,272
Light-duty automotive	433	394	345	409	1,581
Off-highway	363	386	372	387	1,508
Total sales	\$1,976	\$2,002	\$1,859	\$1,967	\$7,804

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

2017

Units	Q1	Q2	Q3	Q4	YTD
Heavy-duty	19,200	24,100	28,100	24,500	95,900
Medium-duty	60,300	71,600	68,500	67,700	268,100
Light-duty	63,100	65,600	66,300	62,500	257,500
Total units	142,600	161,300	162,900	154,700	621,500

2016

Units	Q1	Q2	Q3	Q4	YTD
Heavy-duty	19,700	20,700	20,100	18,500	79,000
Medium-duty	55,400	62,300	53,400	58,000	229,100
Light-duty	61,700	57,100	49,800	60,000	228,600
Total units	136,800	140,100	123,300	136,500	536,700

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

Distribution Segment Sales by Product Line

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

2017

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

2016

In millions	Q1	Q2	Q3	Q4	YTD
Parts	\$648	\$642	\$643	\$694	\$2,627
Service	299	297	299	320	1,215
Power generation	275	326	291	347	1,239
Engines	241	279	271	309	1,100
Total sales	\$1,463	\$1,544	\$1,504	\$1,670	\$6,181

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

Component Segment Sales by Business

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

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

2017

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

2016

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

2015

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

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

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

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

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

2017

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

2016

In millions	Q1	Q2	Q3	Q4	YTD
Power generation	\$518	\$602	\$543	\$593	\$2,256
Industrial	215	236	235	255	941
Generator technologies	75	83	78	84	320
Total sales	\$808	\$921	\$856	\$932	\$3,517

2015

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

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

2017

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

2016

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