Annual Report 1997

Cummins

CUSTOMERS FOR LIFE CLIENTI PER SEMPRE

평생고객 MENGUTAMAKAN PELANGGAN

YAŞAM BOYU MÜŞTERIMIZ ग्राहक, जीवनसाथी।

CLIENTES DE POR VIDA CLIENTS POUR LA VIE

客戶終生信賴 KUNDEN AUF LEBENSZEIT

عملاء مدى الحياة CLIENTES PARA SEMPRE

ЗАКАЗЧИКИ–НА ВСЮ ЖИЗНЬ 生涯顧客

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生涯顧客 ЗАКАЗЧИКИ–НА ВСЮ ЖИЗНЬ

CLIENTI PER SEMPRE CUSTOMERS FOR LIFE

CUMMINS ENGINE COMPANY, INC.

500 JACKSON STREET, BOX 3005, COLUMBUS, INDIANA 47202-3005

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of
CUMMINS ENGINE COMPANY, INC.

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of Cummins Engine Company, Inc. will be held at the Columbus East High School Auditorium, 230 South Marr Road, Columbus, Indiana, on Tuesday, April 7, 1998, at 10:30 a.m., local time, for the following purposes:

1. to elect thirteen directors of the Company for the ensuing year;
2. to ratify the appointment of Arthur Andersen LLP as auditors for the year 1998;
3. to transact any other business that may properly come before the meeting or any adjournment thereof.

Only shareholders of Common Stock of the Company of record at the close of business on February 20, 1998, are entitled to notice of and to vote at the meeting.

Shareholders of Common Stock who do not expect to be present in person at the meeting are urged to complete, sign and date the enclosed proxy and return it promptly to the undersigned in the envelope provided.

The proxy may be revoked by the shareholder giving it at any time before the voting. Any shareholders entitled to vote at the meeting who attend the meeting will be entitled to cast their votes in person.

MARK R. GERSTLE,
Secretary

March 4, 1998

CUMMINS ENGINE COMPANY, INC.

500 JACKSON STREET, BOX 3005, COLUMBUS, INDIANA 47202-3005

PROXY STATEMENT

This proxy statement is being furnished in connection with the solicitation by the Board of Directors of Cummins Engine Company, Inc. (the ''Company'' or ''Cummins'') of proxies to be voted at the Annual Meeting of Shareholders to be held on Tuesday, April 7, 1998, and at any adjournment thereof (the ''Annual Meeting''). This proxy statement, together with the enclosed proxy, is first being mailed to the shareholders of the Company on or about March 4, 1998.

Holders of the Company's Common Stock of record at the close of business on February 20, 1998 are entitled to vote at the Annual Meeting. On that date there were issued and outstanding 42,035,552 shares of Common Stock, each of which is entitled to one vote.

Each share of Common Stock represented by a properly executed proxy will be voted at the Annual Meeting in accordance with the instructions indicated on that proxy, unless such proxy has been previously revoked. If no instructions are indicated on a signed proxy, the shares represented by such proxy will be voted as recommended by the Board of Directors.

A shareholder may revoke the proxy at any time before it is voted by delivering to the Secretary of the Company written notice of such revocation. This notice must include the number of shares for which the proxy had been given and the name of the shareholder of such shares as it appears on the stock certificate(s) evidencing ownership of such shares. In addition, any shareholder who has executed a proxy but is present at the Annual Meeting will be entitled to cast its vote in person instead of by proxy, thereby cancelling the previously executed proxy.

PRINCIPAL SECURITY OWNERSHIP

The following table identifies those shareholders known to the Company to be the beneficial owners of more than five percent of the Common Stock of the Company and shows as to each such shareholder as of February 20, 1998 (i) the number of shares beneficially owned by such shareholder(s) and the nature of such beneficial ownership and (ii) the percentage of the entire class of Common Stock so beneficially owned:

	Amount and Nature of Beneficial Ownership	Percent of Class
Miller Anderson & Sherrerd, LLP One Tower Bridge West Conshohocken, PA 19428	5,119,000(1)	12.18%
Cummins Engine Company, Inc. Employee Benefits Trust c/o The Vanguard Fiduciary Trust Company Post Office Box 2900 Valley Forge, PA 19482	3,748,193	8.92%
FMR Corporation 82 Devonshire Street Boston, MA 02109	3,406,206(2)	8.10%
The Capital Group Companies, Inc. 333 South Hope Street Los Angeles, CA 90071	2,500,000(3)	5.95%
Cummins Engine Company, Inc. and Affiliates Employee Stock Ownership Trust c/o The Vanguard Fiduciary Trust Company Post Office Box 2900 Valley Forge, PA 19482	2,164,107	5.15%

(1) The source of this information is a Schedule 13G/A dated February 11, 1998 disclosing beneficial ownership by MAS. MAS states in its 13G/A that it has shared investment power for all of the shares, shared voting power for 4,563,000 shares and no sole voting or investment power.

(2) The source of this information is a Schedule 13G/A dated February 14, 1998 disclosing beneficial ownership by FMR. FMR states in its 13G/A that it has sole investment power for all of the shares, sole voting power for 254,806 shares and no shared investment or voting power.

(3) The source of this information is a Schedule 13G dated February 10, 1998 disclosing beneficial ownership by certain operating subsidiaries of the Capital Group Companies, Inc. These entities were reported to possess, in the aggregate, sole voting power for none of the shares, sole investment power for all of the shares and no shared voting or investment power.

ELECTION OF DIRECTORS

(Item 1)

It is intended that votes will be cast pursuant to the accompanying proxy for the election of the thirteen nominees listed below, all of whom are presently directors of the Company. All directors will serve for the ensuing year and until their respective successors are elected and qualified. A shareholder may withhold authority from such shareholder's proxy to vote for the election of any or all of the nominees listed below.

The Board of Directors has no reason to believe that any of the nominees will be unable to serve if elected. If, for any reason, one or more of such persons should be unable to serve, it is intended that votes will be cast for a substitute nominee or nominees designated by the Board of Directors unless the Board of Directors decides to reduce the number of directors.

The names of the nominees for directors, together with certain information regarding them, are set forth below. Biographical sketches of these nominees, which include their business experience during the past five years and directorships of other corporations, are provided on pages 22 through 28 of this proxy statement.

Name and Occupation	Age	First Year Elected a Director(1)	Amount and Nature of Beneficial Ownership as of February 28, 1998(2)	Stock Units Held as of February 28, 1998(3)	Percent of Class
Harold Brown Counselor, Center for Strategic & International Studies; Partner, Warburg, Pincus & Co., venture banking firm	70	1985	1,284(4)	5,442	*
Robert J. Darnall Chairman, President and Chief Executive Officer, Inland Steel Industries, Inc., steel manufacturing and materials distribution	59	1989	1,911	2,715	*
John M. Deutch Institute Professor, Massachusetts Institute of Technology	59	1997	1,340	0	*
Walter Y. Elisha Chairman of Springs Industries, Inc., manufacturer of home furnishings, industrial and specialty fabrics	65	1991	1,911	3,294	*
Hanna H. Gray President Emeritus and Professor of History, University of Chicago	67	1977	1,084	0	*
James A. Henderson Chairman of the Board and Chief Executive Officer of Cummins	63	1974	196,136(5)	0	*
William I. Miller Chairman, Irwin Financial Corporation, financial services company	41	1989	38,019(6)	675	*
Donald S. Perkins Retired Chairman, Jewel Companies, Inc., diversified retailing	70	1974	4,911	6,723	*
William D. Ruckelshaus Principal, Madrona Investment Group, L.L.C.	65	1974	1,911	6,828	*
Henry B. Schacht Former Chairman, Lucent Technologies, Inc., communication industry products	63	1969	113,377(7)	0	*

Name and Occupation	Age	First Year Elected a Director(1)	Amount and Nature of Beneficial Ownership as of February 28, 1998(2)	Stock Units Held as of February 28, 1998(3)	Percent of Class
Theodore M. Solso President and Chief Operating Officer of Cummins	50	1994	153,473(8)	0	*
Franklin A. Thomas Consultant, TFF Study Group	63	1973	1,616	5,929	*
J. Lawrence Wilson Chairman and Chief Executive Officer, Rohm and Haas Company, chemicals and plastics manufacturing	62	1990	2,901	2,879	*

*Less than 1%.

(1) Except for Mr. Ruckelshaus, each Director has served continuously since the year indicated. Mr. Ruckelshaus served on the Board of Directors from 1974 until 1983 when he returned to Federal Government service and was reelected to the Board of Directors in 1985.

(2) Except as indicated, the voting and investment powers of the shares listed are held solely by the reported owner.

(3) Compensatory stock units payable only in cash. The value of each unit is equal to the value of one share of the Company's Common Stock. See director retirement plan discussion on page 6.

(4) These shares are held by a trust, of which Dr. Brown is a co-trustee, settlor and beneficiary.

(5) Includes 84,300 shares which Mr. Henderson has the right to acquire within the next 60 days through the exercise of stock options. Also included are 772 shares held by Mr. Henderson's wife who has sole voting and investment powers thereof.

(6) Includes 15,351 shares held by Mr. Miller for the benefit of his children.

(7) Includes 61,900 shares which Mr. Schacht has the right to acquire within the next 60 days through the exercise of stock options granted to him prior to his retirement as an employee of the Company.

(8) Includes 47,900 shares which Mr. Solso has the right to acquire within the next 60 days through the exercise of stock options. Also included are 15,919 shares held by a family trust and 14,604 shares held by a family limited partnership of which Mr. Solso is a general partner.

Directors will be elected by a plurality of the votes cast. Votes cast for a nominee and, if no contrary instructions are indicated on a signed proxy, the shares represented by such proxy will be voted for a nominee. Abstentions, broker non-votes and instructions on a signed proxy withholding a vote will result in a nominee receiving fewer votes. However, the number of votes otherwise cast for the nominee will not be affected by such actions.

The Board of Directors and Its Committees

The Board of Directors held five meetings during 1997. All of the directors attended 75% or more meetings of the Board and Committees on which they served.

The Board of Directors has established eight standing committees. The functions performed by certain of these committees and the members of the Board of Directors currently serving on these committees are as follows:

Audit Committee. The members of the Audit Committee are D. S. Perkins (Chairman), R. J. Darnall, J. M. Deutch, W. I. Miller, H. B. Schacht, and J. L. Wilson. The Committee reviews the accounting and auditing principles and procedures of the Company. The Audit Committee reviews the scope, timing, and fees for the annual audit and the results of audit examinations performed by the internal auditors and independent public accountants, including their recommendations to improve the system of accounting and internal controls. The Audit Committee met four times during 1997.

Compensation Committee. The members of the Compensation Committee are H. H. Gray (Chairman), H. Brown, W. Y. Elisha, W. D. Ruckelshaus and F. A. Thomas. The Compensation Committee administers and determines eligibility for and makes awards under the Company's stock option and other stock incentive plans. The Committee also reviews and evaluates the Company's executive compensation standards and practices, including salaries, bonus distributions, deferred compensation practices and participation in stock purchase plans. The Compensation Committee met four times during 1997.

Nominating and Organization Committee. The members of the Nominating and Organization Committee are F. A. Thomas (Chairman), H. Brown, R. J. Darnall, J. M. Deutch, W. Y. Elisha, H. H. Gray, W. I. Miller, D. S. Perkins, W. D. Ruckelshaus, H. B. Schacht and J. L. Wilson. The Nominating and Organization Committee reviews and makes recommendations to the Board with respect to membership, size, composition, procedures and organization of the Board of Directors. The Committee also evaluates the Chief Executive Officer's performance and monitors meeting attendance of Board members. This Committee will consider shareholders' recommendations of nominees for election to the Board of Directors. Shareholder recommendations, including biographical information as to the proposed candidate and a statement from the shareholder as to the qualifications and willingness of such person to serve on the Company's Board of Directors, must be submitted in writing to the Secretary of the Company in accordance with the procedures established in the Company's By-Laws. The Nominating and Organization Committee replaced the former Nominating Committee and met five times during 1997.

Executive Committee. The members of the Executive Committee are J. A. Henderson (Chairman), W. I. Miller and T. M. Solso. The Executive Committee is authorized to exercise the powers of the Board of Directors in the management and direction of the business and affairs of the Company during the intervals between meetings of the Board of Directors. The Executive Committee met one time during 1997.

Other Committees. In addition to the Committees described above, the Board of Directors has established the following committees: Business Development and Finance Committee (J. L. Wilson, Chairman, W. Y. Elisha and H. B. Schacht); Employee Development and Corporate Responsibility Committee (R. J. Darnall, Chairman, H. H. Gray and W. I. Miller); Proxy Committee (H. B. Schacht, Chairman, and F. A. Thomas); and Technology Committee (H. Brown, Chairman, J. M. Deutch, D. S. Perkins, W. D. Ruckelshaus and F. A. Thomas).

Each director who is not an officer of the Company receives an annual fee of $45,000, $27,000 of which is paid in cash and $18,000 of which is paid in the form of restricted stock. Each non-officer director also receives $1,000 for each special meeting of the Board of Directors attended. Committee chairmen (other than the Executive or Proxy Committee) receive an additional annual fee of $9,000. Non-chair members of the Audit, Business Development and Finance, Executive, Compensation, Employee Development and Corporate Responsibility, Nominating and Organization, and

Technology Committees receive an additional $6,000 fee for each such Committee membership. Committee members also receive $1,000 for attending a Committee meeting (other than a meeting of the Executive Committee) that is not held in connection with a regular or special meeting of the Board of Directors.

As part of the Company's overall support of charitable and educational institutions and as an aid in attracting and retaining qualified directors, the Company has established the Cummins Engine Company Charitable Bequest Program in which all directors participate. Upon the death of a director, the Company will donate ten equal annual installments of $100,000 to one or more qualifying institutions designated by such director, subject to certain vesting requirements based upon years of service as a director. The Company has purchased life insurance policies on each director, the proceeds of which fund donations under the program. Directors will not receive any financial benefit from the program since all charitable deductions accrue solely to the Company.

Nominee Harold Brown has a consulting arrangement with the Company pursuant to which he provides consulting services in connection with the Company's research and development activities and related technology issues. During 1997, the Company paid Dr. Brown $50,000 for these services. In addition, the Company has established a Science and Technology Advisory Council on which Dr. Brown serves as Chairman. The Council advises senior management and the Board of Directors on the direction and implication of developments in science, technology and environmental issues that may have applicability to the Company's current and future business goals and objectives. For his services on the Council, Dr. Brown is paid an annual retainer of $17,000, including $7,000 for serving as Chairman, and an additional fee of $3,000 for each day of meetings attended during the year.

The Company has a deferred compensation plan for non-employee directors, pursuant to which such directors may elect to defer receipt of all or any portion of their compensation while they serve as a director of the Company. Upon ceasing to be a director, the deferred compensation, plus accrued interest, is paid to the director or the director's beneficiary in a lump sum or in annual installments, not to exceed ten, as specified by the director. Upon a change of control of the Company (as defined in the plan), such deferred compensation and interest is paid in cash to the director in one lump sum.

In early 1997, the Board of Directors determined to eliminate any future service accruals under a non-employee director retirement plan and to provide to each non-employee director, in lieu thereof, an increase in the amount of the annual retainer fee payable in restricted Common Stock from $6,000 to $18,000 based on the trailing 30 trading-day average of closing prices of the Common Stock on the date of the Company's Annual Meeting each year. Directors with vested retirement plan benefits on the date future accruals were eliminated were given an option to have their accrued benefits frozen and retained in the plan for future payment, or to convert the present value (using the same actuarial assumptions as are applicable to the payment of pension benefits to the Company's employees) of their accrued benefits into phantom units of Common Stock based on a trailing trading day average of closing prices of Common Stock on the date of conversion. The stock units, including additional stock units credited thereon as dividend equivalents, will be evidenced by bookkeeping entries. Recipients will have no voting or investment power with respect to the stock units. The value of each director's stock units will be payable only in cash on or after the director's ceasing to be a member of the Board or upon a change of control of the Company. The total number of units credited to each director as a result of retirement plan benefit conversion elections is listed in the director nominee table beginning on page 3.

EXECUTIVE COMPENSATION

Compensation Committee Report

The Compensation Committee Report is organized as follows:

- Role of the Compensation Committee
- Objectives and Principles
- Compensation Program Elements
- Compensation of the Chief Executive Officer

Role of Compensation Committee

The Compensation Committee is made up of five members of the Board of Directors of the Company, who are not current or former employees of the corporation. The Committee has oversight responsibility for the Company's executive compensation programs. The Committee sets the general compensation philosophy of the Company. It reviews the elements of the compensation program, the specifics of each element, the goals and measurements used in the program, and the results of the compensation program compared to the philosophy to determine if the compensation program is performing as expected.

In addition, the Committee reviews the individual levels and awards for each of the five most highly paid officers and takes appropriate action. In its review, the Committee has direct access to advice from professional executive compensation consultants. The Committee also reviews its actions with the full Board of Directors.

Objectives and Principles of Executive Compensation

Cummins' executive compensation is designed to attract, motivate, and retain the personnel required to achieve the Company's performance goals in the competitive global business environment. The program is designed to reflect the individual's contribution and the performance of the Company. The program attempts to strike an appropriate balance between short-term and long-term performance.

The Company is committed to the concept of pay for sustained financial performance. We evaluate performance over several periods of time. While the specific elements of executive compensation vary from time to time, the Compensation Committee focuses on this central principle of pay for performance in reviewing the compensation program, any proposed changes, and the specific awards.

The Committee follows several principles, in addition to pay for performance, in designing and implementing compensation programs for its officers.

- Programs should provide competitive compensation opportunity; the concept of opportunity is important in our program. We believe the executive should have the opportunity to do well if the Company does well, but that total compensation should vary in relation to the Company's performance.
- An individual's compensation should be at the median of the range when compared to the compensation of individuals in US industrial companies with sales volumes similar to Cummins, when Cummins' financial performance is at the median of those companies.

- There should be a balance between short-term and long-term elements of compensation.
- The more senior a person's position, the more the compensation should be "at risk", i.e., dependent on the performance of the Company.
- Stock should be an important part of the program in order to link the management's compensation with shareholders' expectations; the greater the level of responsibility of the person, the more the compensation should be stock-based.
- The system should be as simple and as easily understood as possible.
- Payouts should not accumulate, causing large one-time payments.

In addition to these principles, we have the following observations:

- No single program accomplishes these aims consistently; a mix of programs is best.
- There is no single best comparator of performance with other companies; a mix of comparators should be used.
- In this complex area, relative simplicity seems the best that can be achieved.
- There is no perfect program; change should be expected from time to time as the outcome of the Committee's periodic reviews.

Section 162(m) of the Internal Revenue Code ("Section 162(m)") limits the corporate tax deduction to one million dollars for compensation paid annually to any one of the named executive officers in the proxy, unless the compensation meets certain requirements. The Committee adopted changes to the compensation program, approved by shareholders in 1995, that qualify payments under the Senior Executive Bonus Plan and Senior Executive Three Year Performance Plan for tax deductibility under Section 162(m). These changes were designed to maximize tax deductibility, while retaining the ability to attract, retain and motivate executives to achieve our business objectives. Payments under these plans were certified by the Compensation Committee for each payment period in 1997.

As indicated below, the Base Salary of the named executive officers is set at the median of the range of the salaries of individuals with similar positions in companies of similar size to Cummins. The Committee intends to continue this policy notwithstanding the enactment of Section 162(m).

Compensation Program Elements

The Company's executive compensation program consists of four elements: Base Salary, Short-Term Bonus, Medium-Term compensation, and Long-Term compensation. Each is designed to accomplish a somewhat different objective. In total, they are designed to fulfill the Company's basic goals of linking pay to financial performance and paying competitively. All officers participate in each element of the program.

We use survey data provided by our compensation consultants to determine competitive levels of pay. These surveys include over 300 US industrial corporations (including the eleven companies that comprise the "Peer Group" companies used in the Shareholder Return Performance Presentation on page 13 of this Proxy Statement). Each element of pay described below is intended to provide compensation for each position at the median of the amounts companies of similar size in the survey would pay the same position.

1. Base Salary

Base Salary is reviewed annually. It is the only fixed portion of the executive's compensation. Base Salary is normally set at the median of the range of the salaries of individuals with similar positions in companies of similar size to Cummins.

2. Short-Term Bonus

This element is designed to link executive pay to the short-term performance of the Company. The payout is made quarterly, with the Payout Factor calculated on a formula established by the Committee and reviewed annually. Each person is assigned a participation rate that is a percent of salary. The quarterly bonus is then determined as follows.

(Short-Term Bonus) equals (Annual Base Salary) times (participation percentage assigned to each job) times (Payout Factor) times (¼).

Participation rates are based on the same survey data as base salaries and are set at the median of the range for like positions in similarly sized companies.

The Payout Factor for the quarterly bonus is set to yield a 1.0 Payout Factor for Company financial performance that is at the median of US industrial companies measured over recent history. In 1997, return on equity was the measure used to compare performance. Return on equity levels are converted to equivalent return on sales levels for use in the Payout Factor formula.

When the Company's performance is less than the median, the quarterly bonus pays less than 1.0—and does not pay at all if the Company is not profitable. When the Company's performance exceeds the median, the quarterly Payout Factor is greater than 1.0 and compensation is greater than the median of those companies included in our surveys.

The Company organized into Business Units in the second half of 1996. Beginning in 1997, one-half of the bonus for senior managers of the Company's Business Units was determined by the Return on Average Net Assets of the Business Units, and one-half continued to be based on the Company's performance, as described above. The Committee believes this formula provides appropriate balance, compensating for performance measured at the Business Unit level as well for the total Company. Basing a significant portion of the bonus on total Company results rewards Business Units for working in an integrated way, maximizing our total financial performance; adding the Business Unit measure emphasizes business results each key manager affects most directly.

Beginning in 1998, 20% of the bonus for selected senior managers, including the CEO and COO, will be determined by performance against individual measures, as determined by the Compensation Committee. Also, Return on Average Net Assets will be the measure used to measure Corporate performance for Short-Term bonus.

In order to comply with the requirements of Section 162 (m), designated officers (the Chief Executive Officer and the Chief Operating Officer in 1997) were compensated under a modified version of the Short-Term Bonus Plan, called the Senior Executive Bonus Plan. The Senior Executive Bonus Plan differs from the Short-Term Bonus Plan in which many employees at all levels of the Company, including all officers, participate, only in that the Compensation Committee has no discretion to increase the payouts once it establishes the performance measures each year.

3. Medium-Term: Three Year Performance Plan

The Three Year Performance Plan measures Cummins' performance versus the Peer Group companies over a rolling three-year cycle. For each three-year Award Cycle, a Target Award is granted to each participant, expressed as a dollar amount.

The Committee establishes performance guidelines to determine the portion of the granted amount to be paid for each three-year Award Cycle. A new Award Cycle begins each year, hence payout opportunity is annual. The first payout under this program was in 1995. The performance measure for Award Cycles ending before 2000 is return on equity. The Committee establishes a scale of multiples of the Target Award to be paid for various levels of Company performance over each Award Cycle. The plan pays the full granted amount if Cummins' performance (based on the applicable performance measure) is equal to the median of the Peer Group companies over the three-year cycle. A portion or multiple of the granted amount is paid if three-year performance is less or greater than the median of these companies, based on a scale established by the Committee. The maximum that can be paid is two times the Target Award for performance that is twice the median of the Peer Companies.

For the Target Awards granted in 1997, the payout will be linked to the Corporation's Common Stock price. The Target Award was made in stock units, calculated as the Target Award dollars divided by the six-month average Cummins stock price as of the grant date. The payout will be calculated as (number of stock units granted) x (payout factor) x (six-month average Cummins Stock Price as of the payout date). This design further links the interests of senior managers and our shareholders.

As with the Short-Term Bonus Plan, to comply with the requirements of Section 162(m), designated officers (the Chief Executive Officer and Chief Operating Officer in 1997) were compensated under a modified version of the Three Year Performance Plan, called the Senior Executive Three Year Performance Plan. The plans are identical except that the Committee's discretion to adjust payments upward is eliminated in the Senior Executive Three Year Performance Plan.

4. Long-Term: The 1992 Cummins Stock Incentive Plan

In December, 1992 through 1995, in July, 1996, and in February, 1997, restricted stock and stock options were granted to officers under the 1992 Cummins Stock Incentive Plan. Restrictions on the restricted stock will lapse on one-third of each grant annually, beginning two years and one month from the date of each grant. The stock options expire ten years from grant, but cannot be exercised for the first two years.

Grant amounts under the Medium-Term and Long-Term plan elements are set to provide total compensation opportunity at the median of that provided by similarly-sized US industrial companies in our survey base, when combined with Base Salary and Short-Term Bonus. The Committee reviews the proportion of total compensation that is dependent on Company performance in determining the allocation of the compensation opportunity among each of the Medium-Term and Long-Term plan elements for each position. More senior positions have a larger proportion of total compensation opportunity dependent on Company performance than do less senior positions.

Special Long Term Grants

In December, 1997, a Special Retention Award of restricted stock was granted to a highly selective group of key senior leaders. The restricted stock vests in one-third annual increments, beginning two years and one month from grant. The Special Award will accomplish two objectives: 1) retain our key leaders; and 2) provide additional linkage of interests between key decisionmakers and the Company's stockholders.

The Committee honored the request of the CEO that he not receive a Special Retention Grant in December, 1997.

Also, in February, 1997, additional stock options were awarded to a group of key executives, including the CEO and COO. None of these grants exceeded 9,000 options.

Compensation of the Chief Executive Officer

Approximately one-third of the CEO's annualized total compensation opportunity is fixed Base Salary. Two-thirds of the total is based on Company performance, assuming median Company financial performance. When the Company's performance is better than the median, the variable compensation elements pay more and comprise a larger portion of the total. When the Company's performance is less than median, the variable elements pay less and comprise a smaller proportion of the total.

The Base Salary and Short-Term Bonus participation rate of the CEO are set at the median of our survey companies specifically as described under the Base Salary and Short-Term Bonus sections appearing earlier in this report.

In 1997, Company performance improved significantly, and the bonus reflected the performance.

In February, 1997 the CEO received grants of restricted stock and stock options under the Long-Term 1992 Stock Incentive Plan, as well as a Target Award (payable in 2001) under the Medium-Term Three Year Performance Plan. This was the sixth set of grants under these Plans. The Committee intends to continue making grants annually.

In determining grant amounts for the CEO, as explained earlier, the Committee set the total of the four elements of the executive compensation program—Base Salary, Short-Term Bonus, Medium-Term Plan, and the Long-Term Plan—to provide annualized compensation opportunity to the CEO equal to the median of the range of total compensation opportunity provided for CEOs by the survey companies described earlier in this report.

The CEO, on a yearly basis, discusses in detail his priorities and objectives with the Nominating and Organization Committee (The members and responsibilities of the Nominating and Organization Committee are described on page 5 of this Proxy Statement). The Nominating and Organization Committee formally reviews the CEO's performance annually, based on how well the CEO performed against his workplan, including the progress made by the Company in implementing its business strategy and achieving its business objectives, both short-term and long-term. This review, which is reported in detail to the Committee, considers both quantitative and qualitative performance matters, and is a key factor in setting the CEO's compensation.

The Committee again commends the CEO on the quality of the objectives he has set and on their substantial realization. 1997 was a year of considerable accomplishments, among which we point to the Company's strong financial performance, including improved profitability and return on equity, together with record sales, the acquisition (largest in the Company's history) of Nelson Industries, the effective implementation of the Business Unit structure launched in 1996, and the broadening of diversity in management.

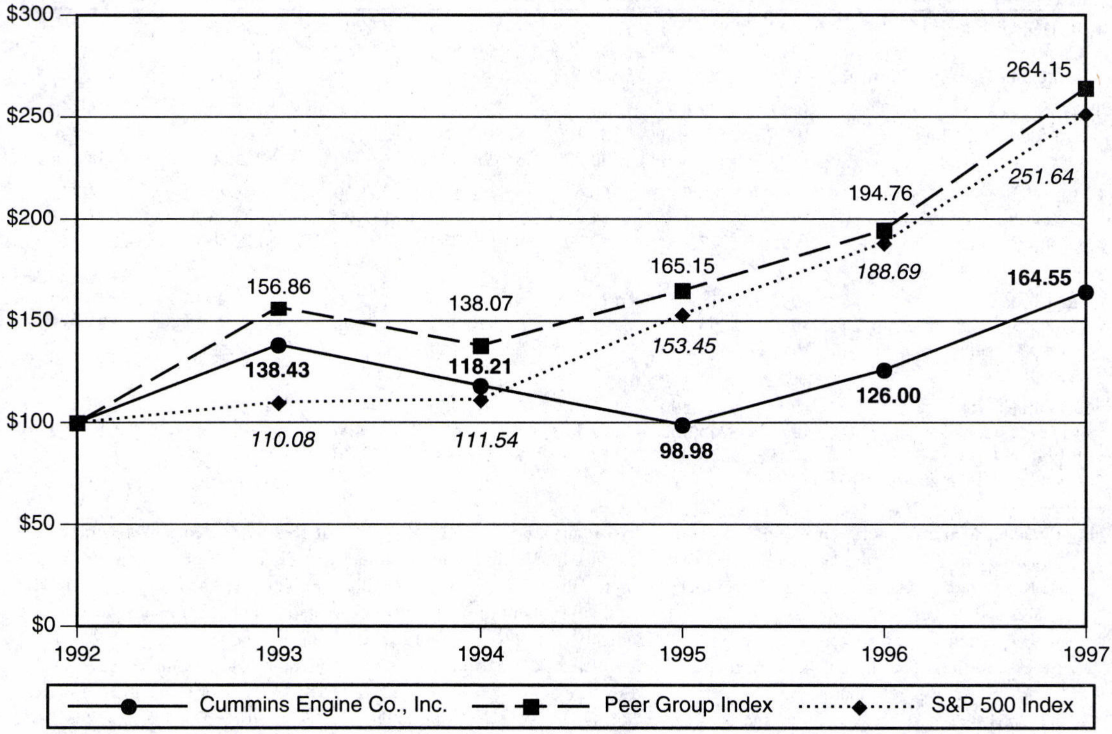
In February, 1998, the Board awarded the CEO 120,000 stock options in addition to his normal annual grant.

We hope this general discussion and the following tables and graphs help you understand the Company's executive compensation philosophy and program.

HANNA H. GRAY, CHAIRMAN
HAROLD BROWN
WALTER Y. ELISHA
WILLIAM D. RUCKELSHAUS
FRANKLIN A. THOMAS

Shareholder Return Performance Presentation

The following graph compares the cumulative total shareholder return on the Common Stock of the Company for the last five fiscal years with the cumulative total return on the S&P 500 Index and an index of peer companies* selected by the Company. The comparisons in this table are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of the Company's stock.



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*Arvin Industries, Inc., Caterpillar, Inc., Dana Corporation, Deere & Company, Dresser Industries, Inc., Eaton Corporation, Ford Motor Company, General Motors Corporation, Ingersoll-Rand Company, Navistar International Corporation and Paccar, Inc.

Compensation Tables and Other Information

The summary compensation table and accompanying notes and other information on the following pages include individual compensation information for the last three fiscal years on the Company's Chairman and Chief Executive Officer and the four other most highly compensated executive officers during 1997. The dollar value of perquisites and other personal benefits for each of the named executive officers was less than the established reporting threshold and is not included in the table.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Bonus	(1) Restricted Stock Awards	(2) Stock Options/ SARs (#)	(3) Medium-Term Performance Plans	(4) All Other Compensation
		ANNUAL COMPENSATION		LONG TERM COMPENSATION — Awards		LONG TERM COMPENSATION — Payouts	
J. A. Henderson	1997	$810,000	$544,229	$ 676,266	43,700	$255,000	$19,863
Chairman of the Board	1996	$772,500	$333,675	$ 575,000	32,500	$375,000	$13,524
and Chief Executive Officer	1995	$727,500	$646,500	$ 418,500	28,100	$382,500	$52,700
T. M. Solso	1997	$557,500	$346,013	$2,539,688	33,300	$131,250	$78,330
President and Chief	1996	$517,500	$204,187	$ 391,000	22,100	$200,000	$47,896
Operating Officer	1995	$480,000	$390,500	$ 267,375	17,900	$225,000	$38,024
F. J. Loughrey	1997	$400,000	$266,694	$1,748,250	20,900	$ 93,750	$32,743
Executive Vice President	1996	$376,250	$134,750	$ 211,600	11,900	$ 93,750	$15,951
Group President—	1995	$347,292	$259,792	$ 162,750	10,800	$112,500	$20,720
Industrial							
C. R. Cordaro	1997	$315,000	$171,975	$1,748,250	20,900	$ 45,000	$32,368
Executive Vice President	1996	$293,750	$101,531	$ 170,200	9,600	$ 68,750	$23,887
Group President—	1995	$270,000	$181,125	$ 131,750	8,800	$ 82,500	$23,552
Automotive							
M. D. Jones	1997	$262,500	$184,767	$1,009,969	14,400	$ 45,000	$30,477
Vice President—	1996	$245,000	$117,113	$ 96,600	5,400	$ 68,750	$13,919
Filtration Group and	1995	$235,000	$157,500	$ 62,000	4,200	$ 45,000	$ 8,534
President—Fleetguard							

(1) Pursuant to the Corporation's 1992 Stock Incentive Plan, a total of 91,650 shares of Restricted Stock were granted in 1997, having a total value at date of grant of $4,857,450. In addition to grants under that Plan, a Special Retention Award of Restricted Stock was made in December, 1997, totalling 264,000 shares, with a value of $17,457,000 at grant. The shares will be restricted for two years and one month subsequent to grant, then are vested in one-third annual increments if the participant remains an employee of the Company. As of year-end 1997, the total number of shares of Restricted Stock and the value thereof held by each executive officer was as follows: J. A. Henderson, 41,951 shares, $2,477,731; T. M. Solso, 62,218 shares, $3,674,751; F. J. Loughrey, 40,984 shares, $2,420,618; C. R. Cordaro, 38,234 shares, $2,258,196; M. D. Jones, 22,117 shares, $1,306,285. Dividends are paid on all shares of Restricted Stock.

(2) Stock Options awarded pursuant to the Corporations 1992 Stock Incentive Plan. Stock Options may not be exercised for two years subsequent to grant and expire ten years from grant. In addition to grants under that Plan, a Special Grant of Stock Options was made. The Special Grant Stock Options may not be exercised for three years subsequent to grant, then becomes exercisable in one-third increments annually.

(3) The payout for 1997 represents payout for the 1994-1996 Award Cycle under the Three Year Performance Plan. The payout is calculated as the individual's Target Award times Payout Factor for the Award Cycle. The Payout Factor was based on the Corporation's Return on Equity compared to the median ROE of a panel of eleven comparator companies over the Three Year Award Cycle.

(4) Amounts reported as ''All Other Compensation'' for 1997 include, respectively, matching contributions by the Company under the Retirement and Savings Plan and ''above market'' earnings on previously deferred compensation as follows: J. A. Henderson $880 and $18,983; T. M. Solso $8,745 and $69,585; F. J. Loughrey $8,745 and $23,998; C. R. Cordaro $8,250, and $24,118; M. D. Jones $8,305 and $22,172.

Security Ownership of Management

Set forth below is information as of February 28, 1998, regarding the beneficial ownership of Common Stock of the Company by the Chief Executive Officer, each of the other named executive officers during 1997 and the directors and executive officers of the Company as a group.

	Amount and Nature of Beneficial Ownership	Percent of Class
James A. Henderson Chairman of the Board and Chief Executive Officer	196,136(1)	*
Theodore M. Solso President and Chief Operating Officer	153,473(2)	*
F. Joseph Loughrey Executive Vice President, Group President—Industrial	80,024(3)	*
C. Roberto Cordaro Executive Vice President, Group President—Automotive	81,579(4)	*
M. D. Jones Vice President—Filtration Group and President—Fleetguard	55,091(5)	*
All directors and executive officers as a group, a total of 23 persons	933,979(6)	2.2%

*Less than 1%

(1) See footnote 5 to the director nominee listing on page 4.

(2) See footnote 8 to the director nominee listing on page 4.

(3) Includes 22,550 shares which Mr. Loughrey has the right to acquire within the next 60 days through the exercise of stock options.

(4) Includes 24,400 shares which Mr. Cordaro has the right to acquire within the next 60 days through the exercise of stock options.

(5) Includes 19,000 shares which Mr. Jones has the right to acquire within the next 60 days through the exercise of stock options.

(6) Includes 115,400 shares which the officers and directors have the right to acquire within the next 60 days through the exercise of stock options.

The following table discloses, for each of the named executive officers, information regarding individual grants of stock options and stock appreciation rights made during 1997, and their potential realizable values.

Option/SAR Grants in Last Fiscal Year

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Terms	
Name	(1) Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise Price ($/share)	Expiration Date	5% ($)	10% ($)
J. A. Henderson	34,700	4.5%	$53.000	2/10/07	$1,158,633	$2,924,169
	9,000	1.2%	$52.875	2/11/07	$ 299,801	$ 756.641
T. M. Solso	24,300	3.2%	$53.000	2/10/07	$ 811,377	$2,047,761
	9,000	1.2%	$52.875	2/11/07	$ 299,801	$ 756,641
F. J. Loughrey	11,900	1.6%	$53.000	2/10/07	$ 397,341	$1,002,813
	9,000	1.2%	$52.875	2/11/07	$ 299,801	$ 756,641
C. R. Cordaro	11,900	1.6%	$53.000	2/10/07	$ 397,341	$1,002,813
	9,000	1.2%	$52.875	2/11/07	$ 299,801	$ 756,641
M. D. Jones	5,400	0.7%	$53.000	2/10/07	$ 180,306	$ 455,058
	9,000	1.2%	$52.875	2/11/07	$ 299,801	$ 756,641

Stock option and stock appreciation right exercise activity during 1997, on an aggregated basis for each of the named executives, is contained in the following table. Also disclosed are the number and value of options and appreciation rights, on an aggregated basis, held by each named executive as of December 31, 1997.

Aggregated Option/SAR Exercises in Last Fiscal Year, and FY-End Option/SAR Value

	Number of Securities Underlying Options/SARs Exercised	Value Realized ($)	Number of Unexercised Options/SARs at FY-end (#)		Value of Unexercised In-the-Money Options/SARs at FY-End ($)	
Name			Exercisable	Unexercisable	Exercisable	Unexercisable
J. A. Henderson	0	$ 0	84,300	76,200	$1,425,081	$865,276
T. M. Solso	0	$ 0	47,900	55,400	$ 809,557	$610,476
F. J. Loughrey	4,000	$86,360	22,500	32,800	$ 365,050	$347,238
C. R. Cordaro	0	$ 0	24,400	30,500	$ 372,844	$304,832
M. D. Jones	0	$ 0	19,000	19,800	$ 297,673	$187,989

Estimated benefits payable to each named executive pursuant to long-term incentive plan rights awarded during 1997 are disclosed in the following table.

Long-Term Incentive Plan Awards in Last Fiscal Year/SAR Value

Name	Number of Shares, Units or other Rights(1)	Period Until Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans		
			Threshold	Target	Maximum
J. A. Henderson	10,419	1998-2000	2,605	10,419	20,838
T. M. Solso	7,328	1998-2000	1,832	7,328	14,656
F. J. Loughrey	3,549	1997-1999	887	3,549	7,098
C. R. Cordaro	3,549	1997-1999	887	3,549	7,098
M. D. Jones	1,603	1997-1999	401	1,603	3,206

(1) Stock units were awarded under the Company's Three Year Performance Plan and Senior Executive Three Year Performance Plan, with payouts tied to Company performance over a rolling three-year cycle, as determined by the Compensation Committee of the Board of Directors. The Committee establishes performance measures as guidelines. For the 1997-1999 Award Cycle under the Three Year Performance Plan (payable in 2000) and the 1998-2000 Award Cycle under the Senior Executive Three Year Performance Plan (payable in 2001), the performance guidelines are tied to achieving certain levels of return on equity (ROE) compared to the Peer Group companies. The Target Award will be earned if the Company's ROE is equal to the median ROE of the Peer Group companies. The Threshold Payment (25% of the Target Award) will be earned if the Company's ROE is 50% of the Peer Group companies' median ROE. The Maximum Payment (200% of the Target Award) is earned if the Company's ROE is 200% of the Peer Group companies' median ROE. The payouts will be equal to the number of stock units earned times Payout Factor for the Award Cycle times six-month average price of Common Stock at the end of the Award Cycle.

Pension Plan Table

The Company maintains retirement pension programs for its employees, including the executive officers named in the Summary Compensation Table on page 14. Elements of the program for the executive officers include the Company's Cash Balance Pension Plan, the Excess Benefit Plan which provides pension benefits in excess of limitations imposed by the Internal Revenue Code, and the Supplemental Life Insurance and Deferred Income Program. Benefits are not offset or otherwise reduced by amounts payable or received under Social Security. The following table sets forth the estimated maximum annual pension benefits payable on a straight life annuity basis under the program to the officers in various compensation and years of service classifications upon retirement at age 65. An officer who is among the Company's two highest paid executive officers at the time of retirement will receive an annual benefit greater than amounts reflected in the table by an amount equal to 10% of the officer's covered compensation.

Average Total Cash Compensation (Base Salary plus Short-Term Bonus)	Estimated Annual Benefit Upon Retirement				
	10 Years	15 Years	20 Years	25 Years	30+ Years
$ 200,000	$ 40,000	$ 60,000	$ 80,000	$ 90,000	$100,000
$ 275,000	$ 55,000	$ 82,500	$110,000	$123,750	$137,500
$ 350,000	$ 70,000	$105,000	$140,000	$157,500	$175,000
$ 425,000	$ 85,000	$127,500	$170,000	$191,250	$212,500
$ 500,000	$100,000	$150,000	$200,000	$225,000	$250,000
$ 575,000	$115,000	$172,500	$230,000	$258,750	$287,500
$ 650,000	$130,000	$195,000	$260,000	$292,500	$325,000
$ 725,000	$145,000	$217,500	$290,000	$326,250	$362,500
$ 800,000	$160,000	$240,000	$320,000	$360,000	$400,000
$ 875,000	$175,000	$262,500	$350,000	$393,750	$437,500
$ 950,000	$190,000	$285,000	$380,000	$427,500	$475,000
$1,025,000	$205,000	$307,500	$410,000	$461,250	$512,500
$1,100,000	$220,000	$330,000	$440,000	$495,000	$550,000
$1,175,000	$235,000	$352,500	$470,000	$528,750	$587,500
$1,250,000	$250,000	$375,000	$500,000	$562,500	$625,000
$1,325,000	$265,000	$397,500	$530,000	$596,250	$662,500
$1,400,000	$280,000	$420,000	$560,000	$630,000	$700,000
$1,475,000	$295,000	$442,500	$590,000	$663,750	$737,500

Compensation for purposes of the pension program is the highest average total cash compensation, including base salary and short-term bonus payments, for any consecutive five-year period prior to retirement. Covered compensation is disclosed under the ''Salary'' and ''Bonus'' columns of the Summary Compensation Table. Covered compensation and full years of service as of December 31, 1997 for the Company's Chief Executive Officer and the other named executive officers are as follows: J. A. Henderson, $1,244,719, 33 years; T. M. Solso, $787,068, 26 years; F. J. Loughrey, $535,501, 24 years; C. R. Cordaro, $433,716, 19 years; M. D. Jones, $388,701, 27 years.

Change of Control Arrangements

In the event of a change of control of the Company, the Company will provide benefits to certain executives including the Chief Executive Officer and other executive officers named in the Summary Compensation Table on page 14. Each of the named executive officers would be entitled to three year's salary plus twelve quarterly bonus payments. The Company will also provide for the full vesting of certain insurance and retirement benefits and the continuation in effect for a three-year severance period of certain other employee benefits. In addition, the Company's retirement plans will allocate any actuarial surplus assets to fund increased pension benefits, stock options previously granted will become fully exercisable, and certain long-term incentive plan awards will be paid in cash. The value of supplemental and excess retirement annuity benefits will also be paid in cash. A change of control for these purposes is defined in each of the various plans and programs providing these benefits.

Compensation Committee Interlocks and Insider Participation

The members of the Company's Compensation Committee are Hanna H. Gray, Harold Brown, Walter Y. Elisha, William D. Ruckelshaus and Franklin A. Thomas.

Member Harold Brown has a consulting arrangement with the Company pursuant to which he provides consulting services in connection with the Company's research and development activities and related technology issues. During 1997, the Company paid Dr. Brown $50,000 for these services. In addition, the Company has established a Science and Technology Advisory Council on which Dr. Brown serves as Chairman. The Council advises senior management and the Board of Directors on the direction and implication of developments in science, technology and environmental issues that may have applicability to the Company's current and future business goals and objectives. For his services on the Council, Dr. Brown is paid an annual retainer of $17,000, including $7,000 for serving as Chairman, and an additional fee of $3,000 for each day of meetings attended during the year.

Other Transactions and Agreements With Directors and Officers

Pursuant to the Company's Key Employee Stock Investment Plan, certain officers have purchased shares of Common Stock of the Company on an installment basis. The interest rate on these loans is the minimum annual rate permitted under the Internal Revenue Code without imputation of income. The following table shows, as to those executive officers and directors of the Company who were indebted to the Company in excess of $60,000 since January 1, 1997, the largest aggregate amount owed for such purchases and loans at any time since January 1, 1997, and the amount owed as of January 31, 1998:

	Largest Amount of Indebtedness	Amount of Indebtedness as of January 31, 1998
J. S. Blackwell	$131,250.00	$131,250.00
C. R. Cordaro	329,957.81	329,957.81
M. R. Gerstle	215,987.50	215,987.50
J. A. Henderson	667,933.72	473,877.72
M. D. Jones	196,875.00	196,875.00
R. J. Mills	174,999.63	174,999.63
K. M. Patel	286,750.00	286,750.00
T. M. Solso	316,875.00	316,875.00

The Company has a policy of purchasing from employees of the Company shares of Common Stock of the Company that have been acquired under the Key Employee Stock Investment Plan, 1986 Stock Option Plan and 1992 Stock Incentive Plan. The purchase price for such shares is the closing price quoted on the New York Stock Exchange Composite Tape on the date of purchase. During 1997, executive officers F.J. Loughrey, J.K. Edwards and K.M. Patel sold shares to the Company pursuant to this policy.

SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS

(Item 2)

The Board of Directors has voted to appoint Arthur Andersen LLP as the firm of independent public accountants to audit the accounts of the Company for the year 1998. Arthur Andersen LLP has acted as independent public accountants for the Company since 1952. Although the selection and appointment of independent public accountants is not required to be submitted to a vote of the shareholders, the Board of Directors has decided, as in the past, to ask the Company's shareholders to ratify the appointment. A representative of Arthur Andersen LLP will be present, will have the opportunity to make a statement and will be available to answer appropriate questions at the Annual Meeting of Shareholders.

The proposal to ratify the appointment of Arthur Andersen LLP as the firm of independent public accountants to audit the accounts of the Company for the year 1998 will be adopted if the number of votes cast in favor of ratification exceeds the number of votes cast against ratification. Votes cast against and abstentions on the Item will be counted as votes against the Item. Broker non-votes will not change the number of votes cast for or against the Item. If the shareholders do not ratify the selection of Arthur Andersen LLP, the selection of independent public accountants will be determined by the Audit Committee and the Board of Directors after careful consideration of all information submitted by shareholders.

The Board of Directors recommends that shareholders vote FOR this Proposal.

OTHER BUSINESS

The Board of Directors does not know of any business to be presented for action at the meeting other than that set forth in Items 1 and 2 of the Notice of Annual Meeting of Shareholders. However, if other business properly comes before the Meeting, the persons named in the enclosed proxy will vote the returned proxies as the Board of Directors recommends.

OTHER INFORMATION

1999 Shareholder Proposals

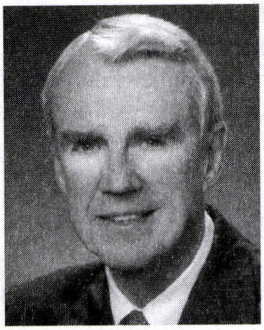
Proposals intended to be presented by shareholders of the Company at the 1999 Annual Meeting of Shareholders must be submitted to and received by the Secretary of the Company for inclusion in the Company's proxy statement and form of proxy for that Meeting not later than November 4, 1998.

Expenses of Solicitation

The cost of this proxy solicitation will be borne by the Company. Morrow & Co., 345 Hudson Street, New York, New York 10013, has been retained to assist in the solicitation of proxies and will receive a fee not to exceed $6,500 plus expenses. Proxies may also be solicited by directors, officers and employees of the Company at no additional cost. Banks, brokerage houses and other institutions, nominees or fiduciaries will be requested to forward the proxy materials to the beneficial owners of the Common Stock and will be reimbursed for their reasonable expenses incurred in forwarding such matters.

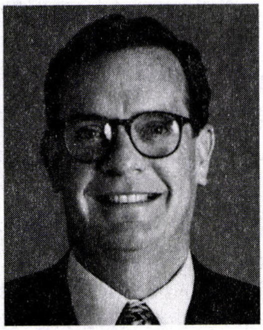
March 4, 1998

NOMINEES FOR BOARD OF DIRECTORS



JAMES A. HENDERSON

Mr. Henderson was elected Chairman of the Board of the Company in 1995 after serving as Chief Executive Officer since 1994 and its President since 1977. He received a Bachelor of Arts degree from Princeton University in 1956, served in the U.S. Navy and received an M.B.A. from Harvard in 1963. He joined the Company in 1964 as Assistant to the Chairman and in 1965 was elected Vice President —Management Development. After serving as Vice President—Personnel and Vice President-Operations, Mr. Henderson was elected Executive Vice President in 1971. He was also Chief Operating Officer from 1975 to 1994. He serves as a Director of Inland Steel Industries, Inc., Ameritech Corporation, Landmark Communications, Inc., Ryerson Tull, Inc., and Rohm and Haas Company. He is also President of the Board of Trustees, The Culver Educational Foundation, a member of the Policy Committee of the Business Roundtable, and a member of The Business Council.

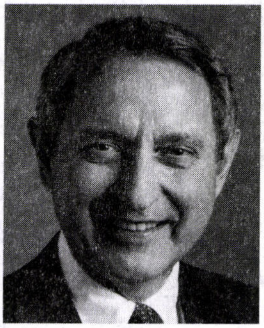


THEODORE M. SOLSO

Mr. Solso was elected President and Chief Operating Officer of the Company in 1995 after serving as Executive Vice President—Operations since 1992 and Chief Operating Officer since 1994. From 1988 to 1992 he was Vice President and General Manager—Engine Business after serving in various other executive positions with the Company. Mr. Solso received a B.A. from DePauw University in 1969 and an M.B.A. degree from Harvard University in 1971. He is a Director of Amoco Corporation, Cyprus Amax Minerals Company and Irwin Financial Corporation, and is a member of the boards of Cummins Engine Foundation, Heritage Fund of Bartholomew County and Otter Creek Golf Course in Columbus, Indiana. He is also a member of the Board of Trustees, DePauw University.

HAROLD BROWN

Dr. Brown is Counselor at the Center for Strategic and International Studies and a partner in the venture banking firm of Warburg, Pincus & Co. Dr. Brown received an A.B. in 1945, an A.M. in 1946 and a Ph.D. in Physics in 1949, all from Columbia University. From 1947 to 1952, he taught and held research positions at Columbia, the Stevens Institute of Technology and the University of California at Berkeley. He then was associated with Livermore Laboratory at the University of California, becoming Director in 1960. Dr. Brown was Director of Defense Research and Engineering from 1961 until 1965, when he was named Secretary of the Air Force, a position he held until 1969 when he became President of the California Institute of Technology. From January, 1977 until January, 1981, he served as Secretary of Defense. From 1981 until 1984, he was Distinguished Visiting Professor and from 1984 until June, 1992, Chairman of the Foreign Policy Institute at The Johns Hopkins University. Dr. Brown is a member of the National Academy of Sciences, the National Academy of Engineering and a Fellow of the American Physical Society. He is a Director of Alumax, Inc., Evergreen Holdings, Inc., International Business Machines Corporation, Mattel, Inc. and Philip Morris Companies, Inc. He is a Trustee of the California Institute of Technology and the Rand Corporation.

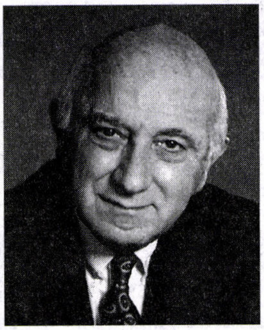


ROBERT J. DARNALL

Mr. Darnall is Chairman, President and Chief Executive Officer of Inland Steel Industries, Inc. Mr. Darnall is a graduate of DePauw University, B.A. in Mathematics in 1960; Columbia University, B.S. in Civil Engineering in 1962; and the University of Chicago, M.B.A. in 1973. He joined the Inland Steel Company, predecessor of Inland Steel Industries, in 1962. Mr. Darnall advanced through a number of positions at the company's Indiana Harbor Works steel plant, becoming General Manager in 1979. He was elected Vice President, Engineering and Corporate Planning, in 1981, and Executive Vice President in 1982, and he was also elected to Inland's Board of Directors in 1983. In 1984, he was elected President of Inland Steel Company and Chief Operating Officer of its Integrated Steel business segment. He became President and Chief Operating Officer of Inland Steel Industries, Inc. in 1986, and was named to his current position in 1992. He serves as a Director of Household International, Inc., Ryerson Tull, Inc. and the Federal Reserve Bank of Chicago, and as a Trustee or Director of The University of Chicago, the Glenwood School for Boys, Junior Achievement of Chicago, and The Museum of Science and Industry.

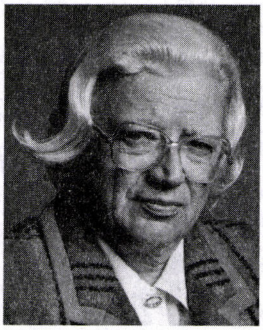
JOHN M.
DEUTCH

Mr. Deutch has been an Institute Professor at the Massachusetts Institute of Technology since 1990. He joined the MIT faculty in 1970 and served as Dean of Science from 1982 to 1985 and Provost from 1985 to 1990. Mr. Deutch received a B.A. in History and Economics from Amherst College in 1961; and a B.S. in Chemical Engineering in 1961 and Ph.D. in Physical Chemistry in 1965, both from MIT. While on leave from his current post at MIT, Mr. Deutch served as Director of Central Intelligence and Director of the Central Intelligence Agency during 1995 and 1996. From 1994 through 1995 he was U.S. Deputy Secretary of Defense and also served as Undersecretary of Defense for Acquisition and Technology between 1993 and 1994. He was Director of Energy Research and Undersecretary of the U.S. Department of Energy during the Carter Administration. He is a Director of Ariad, Citicorp, CMS Energy, Sandia Laboratories and Schlumberger and is also a Trustee of The French Library, The Jerusalem Foundation, Resources for the Future, and the Urban Institute.



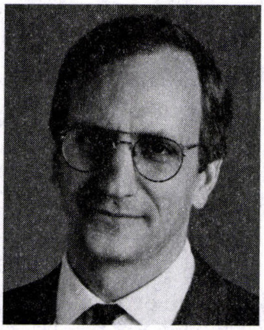
WALTER Y.
ELISHA

Mr. Elisha is Chairman of Springs Industries, Inc. He is a graduate of Wabash College and the Harvard Business School. He has been a Director of Springs Industries, Inc. since 1980 and served as President and Chief Operating Officer from 1980 to 1981. Mr. Elisha served as Springs Industries, Inc.'s Chief Executive Officer from 1981 through 1997 and has been Chairman of its Board since 1983. He also serves on the Board of Directors for AT&T and Carolina Power & Light. Mr. Elisha is an honorary trustee of the Brookings Institution and a trustee of the Committee for Economic Development. He is a member of the Business Council and the Council on Competitiveness; a member of the President's Advisory Committee for Trade Policy and Negotiations and is past President of the American Textile Manufacturers Institute. Mr. Elisha is also a Trustee of Wabash College and has served as a member of the Board of Directors of the Associates of the Harvard Business School.



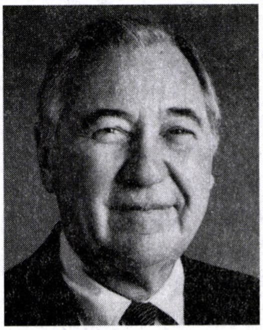
HANNA H. GRAY

Mrs. Gray is President Emeritus and Professor of History, University of Chicago. Mrs. Gray was graduated with a B.A. from Bryn Mawr College in 1950 and a Ph. D. from Harvard in 1957. During 1950-51 she was a Fulbright scholar at Oxford. She was an Instructor at Bryn Mawr in 1953-54 and was on the Harvard faculty from 1955-60. She became an Assistant Professor at the University of Chicago in 1961, was promoted to Associate Professor in 1964 and in 1972 was appointed Dean and Professor of History at Northwestern University. Mrs. Gray was Provost and Professor of History at Yale from 1974 to 1978 and was acting President from 1977-78. She served as President of the University of Chicago from 1978-1993. She became President Emeritus of the University of Chicago in 1993 and is now the Harry Pratt Judson Distinguished Service Professor of History. Mrs. Gray is a Fellow of the American Academy of Arts and Sciences and a Trustee of numerous educational institutions. She is also a Director of J.P. Morgan and Company and Morgan Guaranty Trust Company, Atlantic Richfield Company, and Ameritech Corporation.



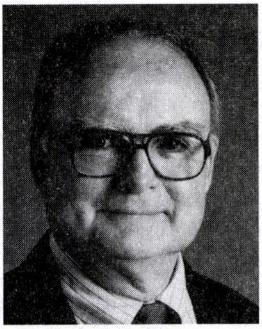
WILLIAM I. MILLER

Mr. Miller is Chairman of Irwin Financial Corporation. Mr. Miller received a B.A. from Yale University in 1978 and an M.B.A. degree from Stanford University in 1981. He was President of Irwin Management Company, a family investment management company, from 1984 to 1990. Since September, 1990, he has been Chairman of Irwin Financial Corporation, a publicly traded diversified financial services company, of which he has been a Director since 1985. Mr. Miller continues to serve as Chairman of the Board and a Director of Irwin Management Company and as Chairman of the Board of Tipton Lakes Company (a real estate development firm). Mr. Miller is a Director of Tennant Company (a manufacturer of floor cleaning equipment), a Director of the New Perspective Fund, Inc. and a Trustee of the EuroPacific Growth Fund (both are mutual funds). Mr. Miller also is a Trustee of The Taft School, Watertown, CT, and Public Radio International, Minneapolis, MN.



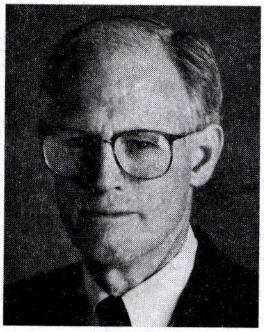
DONALD S.
PERKINS

Mr. Perkins is the former Chairman of Jewel Companies, Inc. Mr. Perkins graduated from Yale University and the Harvard Business School. He served in the U.S. Merchant Marines in the mid-1940s and the Air Force in the early 1950s. Starting as a trainee with the then Jewel Tea Company in 1953, he was elected Vice President in 1960, Executive Vice President three years later, President in 1965 and Chairman and Chief Executive Officer in 1970. He retired from Jewel Companies, Inc. in 1983. Mr. Perkins also serves as a Director of the AON Corporation, Current Assets, LaSalle Street Fund, LaSalle U.S. Realty Income and Growth Fund Inc., Lucent Technologies Inc., Nanophase Technologies Corporation, The Putnam Funds, Ryerson Tull, Inc., Springs Industries, Inc. and Time Warner Incorporated. He is an Honorary trustee of The Brookings Institution, trustee and Vice Chairman of Northwestern University, Honorary Chairman of The Illinois Coalition and Protector of the Thyssen-Bornemisza Continuity Trust. He is also a member of The Business Council, the Civic Committee of The Commercial Club of Chicago, a Director of the Golden Apple Foundation, Leadership for Quality Education and a member of the Spencer Stuart Advisory Board.



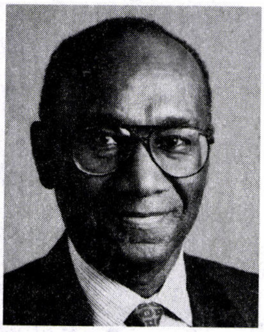
WILLIAM D.
RUCKELSHAUS

Mr. Ruckelshaus is currently a Principal in the Madrona Investment Group, L.L.C. and is Chairman of Browning-Ferris Industries. He was Chairman and Chief Executive Officer of Browning-Ferris Industries until 1996. Mr. Ruckelshaus received a B.A. from Princeton in 1957 and an LL. B. from Harvard in 1960 after serving in the U.S. Army. He was Deputy Attorney General and Chief Counsel in the Indiana Attorney General's Office from 1960-65. He was elected to the Indiana House of Representatives, where he served as Majority Leader in the 1967 session. Mr. Ruckelshaus first served in the Federal Government from January, 1969 to October, 1973, as Assistant Attorney General, as Administrator of the Environmental Protection Agency, Acting Director of the F.B.I. and Deputy Attorney General. He returned as Administrator of the Environmental Protection Agency from 1983 through January, 1985. He practiced law in Washington, D.C., from 1973 until joining Weyerhaeuser in 1976 as Senior Vice President. He was of counsel in the law firm of Perkins Coie, with offices in Seattle, Portland, Anchorage and Washington, D.C. from 1985 to 1988. Mr. Ruckelshaus is a Director of Monsanto, Inc., Nordstrom, Inc., Weyerhaeuser Company, Coinstar Inc., Solutia Inc. and Gargoyles, Inc.



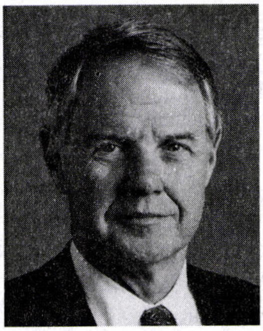
HENRY B.
SCHACHT

Mr. Schacht is the former Chairman of the Board of Lucent Technologies, Inc. He was also Chief Executive Officer of Lucent from 1995 to 1997. Mr. Schacht served as Chairman of the Board of the Company from 1977 to 1995 and Chief Executive Officer from 1973 to 1994. He was President of the Company from 1969 to 1977. Mr. Schacht joined Cummins as Vice President--Finance in 1964, and served in various executive positions. He earned a B.S. in Industrial Administration from Yale in 1956 and, after serving in the U.S. Navy, an M.B.A. from Harvard in 1962. Mr. Schacht was with Irwin Management Company before joining Cummins. He is a Director of Lucent Technologies, Inc., Aluminum Company of America, Johnson & Johnson and The Chase Manhattan Corporation; a Trustee of The Yale Corporation, Committee for Economic Development and The Ford Foundation; and a member of the Council for Foreign Relations, Inc. and The Business Council.



FRANKLIN A.
THOMAS

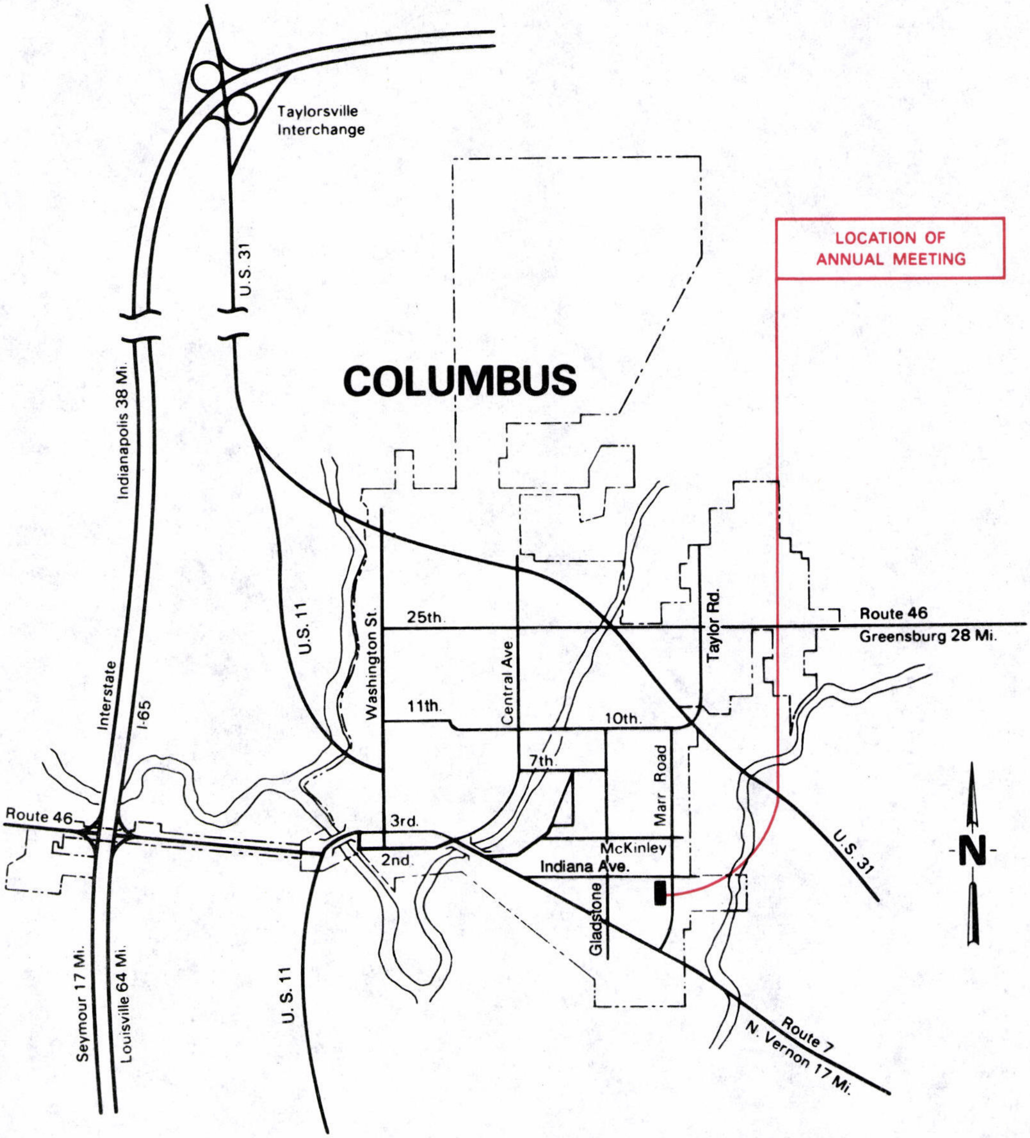
Mr. Thomas is an attorney and a Consultant with the TFF Study Group and served as President of The Ford Foundation until 1996. Mr. Thomas received a B.A. from Columbia University in 1956 and an LL. B. in 1963. From 1956 to 1960, he was a navigator with the U.S. Air Force. Mr. Thomas served as attorney for the Federal Housing Finance Agency (1963-64), Assistant U.S. Attorney for the Southern District of New York (1964) and a Deputy Police Commissioner for New York City (1965-67). Mr. Thomas was President and Chief Executive Officer of the Bedford Stuyvesant Restoration Corporation from 1967 to 1977. He was an attorney and consultant engaged in private practice from 1977 to 1979. He is also a Director of Citicorp/Citibank, N.A., Alcoa, Lucent Technologies, Inc., and PepsiCo.



J. LAWRENCE WILSON

Mr. Wilson has been Chairman and Chief Executive Officer of Rohm and Haas Company since 1988. Mr. Wilson received a bachelor's degree in mechanical engineering from Vanderbilt University in 1958 and an M.B.A. from Harvard University in 1963. He served as an officer in the U.S. Navy from 1958 to 1961. Mr. Wilson joined Rohm and Haas Company in 1965 as an operations research analyst. He has since held positions as President of a medical products subsidiary, Director of the European region, Treasurer and Chief Financial Officer, Business Director for the Industrial Chemicals Group, Group Vice President in charge of the company's Administrative and Finance and Vice Chairman. Mr. Wilson has been a Director of Rohm and Haas Company since 1977. Mr. Wilson is a member of the board of Vanderbilt University, the Vanguard Group of Investment Companies and Mead Corporation. He serves as Chairman of the Board of the Philadelphia High School Academies, Inc. and is past Chairman of The Chemical Manufacturers Association.

CUMMINS ANNUAL SHAREHOLDER MEETING
April 7, 1998—10:30 A.M. (E.S.T.)
COLUMBUS EAST HIGH SCHOOL AUDITORIUM



Cummins

Partners with our environment.
Printed on recycled paper with soy-based ink.

PRINTED WITH SOY INK

Contents

Description of the Company's Business

Cummins Engine Company is the leading worldwide designer and manufacturer of diesel engines ranging from 76 to 6,000 horsepower and the largest producer of diesel engines over 200 horsepower. The company's key markets for these engines are automotive, power generation and industrial. The company also provides filtration systems and natural gas engines as well as engine components and electronic systems.

Cummins' 1997 sales were $5.6 billion and it employed 26,300 people.

Corporate Headquarters

Cummins Engine Company, Inc.
Columbus, Indiana 47202-3005

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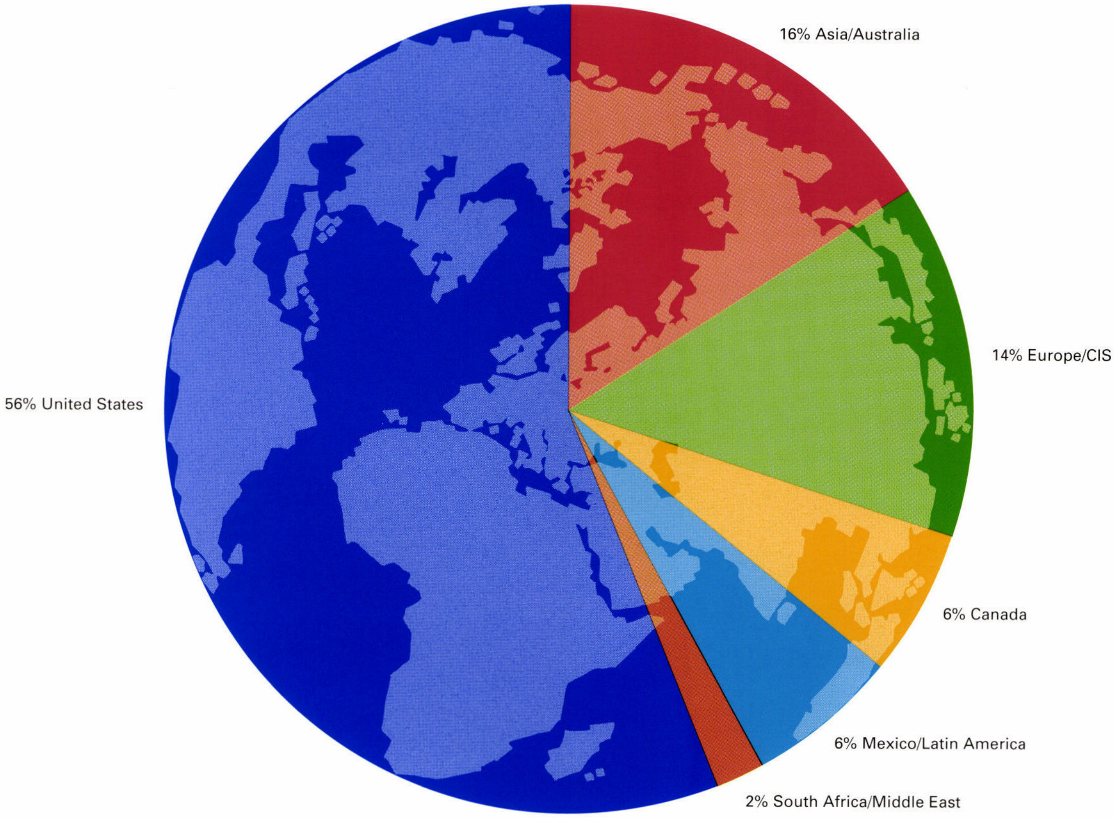
Net Sales by Geographic Region



Highlights

Cummins Engine Company, Inc.

$ Millions, except per share amounts	1997	1996
Net sales	$5,625	$5,257
Engine revenues	56%	55%
Non-engine revenues	44%	45%
Sales by business unit:		
Automotive	$2,622	$2,447
Power Generation	1,205	1,213
Industrial	1,044	863
Filtration and Other	754	734
Gross margin	22.8%	22.5%
Earnings before interest and taxes	$ 312	$ 232
	5.5%	4.4%
Net earnings	$ 212	$ 160
Basic earnings per share	$ 5.55	$ 4.02
Diluted earnings per share	5.48	4.01
Dividends per share	1.075	1.00

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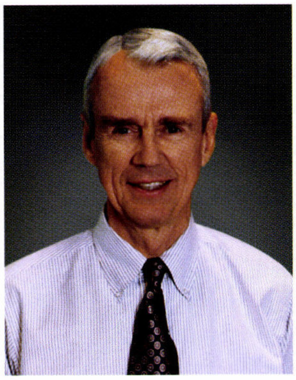
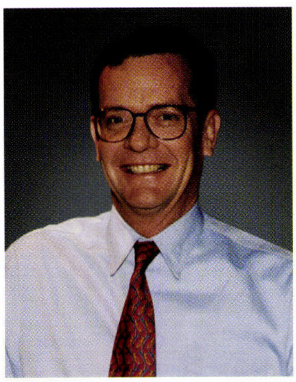
Letter to the Shareholders:



Jim Henderson, Chairman



Tim Solso, President

1997 was a very good year for Cummins and a year of solid progress for our customers, our shareholders and our people. Our revenues were $5.6 billion, the sixth consecutive year of record sales. Profit before interest and taxes (PBIT) of $312 million was also a record, surpassing the previous record set in 1994 and 34 percent above last year's level of $232 million on a 7-percent increase in sales. For the second half of 1997, revenue exceeded the same time period in 1996 by 11 percent and PBIT exceeded it by 87 percent.

Engine shipments for the year also were a record at 369,800 units. The fourth quarter was especially strong at 104,400 units, including a record of 73,600 B and C Series midrange engine shipments. This enabled the company to report a record PBIT of $96 million in the final quarter of the year, surpassing the previous record of $93 million set in the second quarter of 1995.

Business Units

1997 was the first full year of operation for our four Business Units: Automotive, Power Generation, Industrial and Filtration. We believe our move to Business Units is a major reason for our success in the marketplace and improved financial performance. Following this letter, our Business Unit presidents report on their operations and strategies for continued growth and profitability.

Three of our four Business Units—Automotive, Power Generation and Industrial—are in the engine business, primarily diesel engines. Because of their efficiency and durability, diesel engines have the virtue of being useful in both developed and developing countries. In addition to power for transportation, they can generate electricity and provide power for construction equipment to build roads and other elements of the infrastructure, making them important contributors to economic development and overall quality of life.

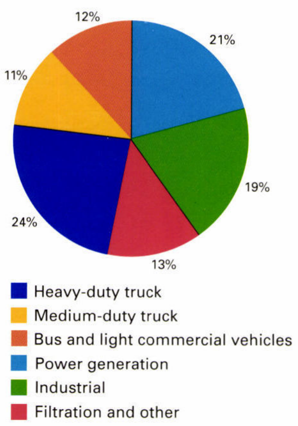
Because they are more energy-efficient power plants, diesels produce less carbon dioxide than gasoline engines—an important advantage, given international concern about global warming. Advanced electronics and improved emissions control are making Cummins diesels increasingly attractive power solutions, and we believe the outlook for diesel power is bright.

Even though the Automotive, Power Generation and Industrial Business Units all supply engines, the specific needs of the customer groups they serve differ, sometimes significantly. Because of its focus on customers, rather than on product groupings, the Business Unit organization enables us to improve our responsiveness to a wide range of customers.

Because these three Business Units are highly integrated, we operate in close coordination to maximize efficiency, avoid duplication, leverage our scale and integrate our approach to new product development. We call this "optimizing for the customer."

Sales by Market

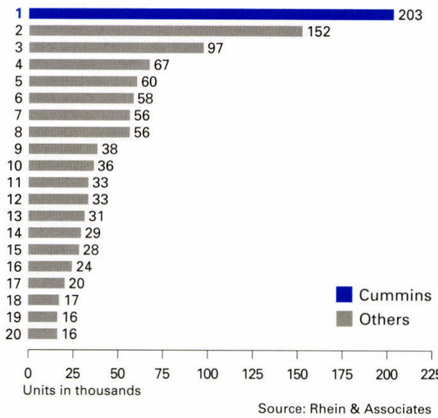
1997 Sales $5.6 Billion



In 1997, Automotive Group sales grew to over $2.6 billion, Power Generation remained near 1996 levels at $1.2 billion and the Industrial Group recorded sales of over $1 billion for the first time.

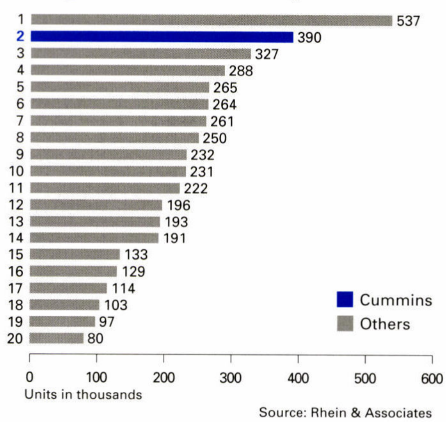
Cummins continues as the world's leading producer of diesel engines 200 horsepower and above.

1996 Worldwide 200 HP+ Diesel Engine Production by Manufacturer



We are the second largest producer of engines 50 horsepower and above.

1996 Worldwide 50 HP+ Diesel Engine Production by Manufacturer



Filtration and Nelson Industries

Filtration, our fourth Business Unit, is led by our highly successful engine filtration subsidiary, Fleetguard. To accelerate the group's growth by expanding its scope, we have acquired Nelson Industries, Inc., a highly successful privately held supplier of air and liquid filtration products, exhaust and emission control systems, industrial silencers, and electronic sound and vibration control equipment. Nelson has been extremely well managed, achieving an annual growth rate of more than 15 percent over the last five years. In business since 1939, it is the number one North American supplier of exhaust systems and number two supplier of air intake systems for diesel-powered equipment—areas in which Fleetguard has not competed. The acquisition was completed in January 1998. Nelson now takes its place along with Fleetguard to form an expanded Filtration Group which approaches the size and critical mass of our other Business Units.

The Fleetguard and Nelson product lines, customers and global distribution channels complement each other exceptionally well, and we expect the expanded Filtration Group to be a world leader not only in engine filters but also in air intake, exhaust filtration and acoustic systems.

Customers for Life

We continue to pursue Customer Led Quality with the objective of winning and retaining *Customers for Life*—a phrase which you see on our cover in fourteen languages, signifying our increasing presence in international markets.

CLIENTES DE POR VIDA CLIENTS POUR LA VIE

Customers for Life has been formalized as our overriding corporate business goal. It means having a relationship with customers in all of our markets that far transcends the one-time transaction of a simple sale since the vast majority of a customer's experience with Cummins occurs *after* the initial sale. Winning and then retaining customers is the only way, over the long run, to earn the financial return we seek for our shareholders.

As part of our effort to move ahead toward this goal, we applied for the Malcolm Baldrige United States National Quality Award in 1997. While we were not selected as a winner, we were a finalist, which is unusual for a first time applicant. In applying for the award, we learned a great deal which will accelerate our rate of improvement as we pursue *Customers for Life.*

In addition, two of our subsidiary companies received awards for quality achievement based on criteria very similar to the Baldrige Award. Our filtration company, Fleetguard, won the Tennessee Quality Achievement Award, and Cummins Power Generation Australia was cited as South Australia Manufacturer of the Year.

We continue to pursue the same five Customer Led Quality objectives which we have described in previous annual reports.

First, we are committed to providing our customers with a comparative advantage in each of our markets worldwide, measured in product performance, economic value to the customer and all aspects of customer support.

A vital part of achieving comparative advantage is product performance. In order to produce engines that give our customers a comparative advantage, we have for some years been engaged in a comprehensive product development program which includes the improvement or replacement of each of our current engines and the development of two new fuel systems. 1997 and 1998 are the two most intensive years of the program, with a significant number of new engines introduced in 1998. Highlights in 1997 included the following:

- In mid-1997, Cummins reinforced its position as the technological leader in the truck market with the announcement of the revolutionary heavy-duty *Signature 600* engine. This all-new electronic engine, rated at 600 horsepower and scheduled for initial shipment in 1998, has the first dual overhead camshafts in diesel engine history. It utilizes a new high-pressure injection system jointly developed with Scania, a leading producer of trucks and engines.

- 1997 saw the introduction of the first midrange products incorporating advanced electronic technology. The new version of our highest volume engine, the B Series, includes full electronic management and improvements in air handling which will ensure that this engine continues as the leader in performance, fuel economy and power-to-weight ratio.

• The C Series electronic engine announced in 1997 features the new Cummins Constant Pressure Fuel System, which delivers high-injection pressures independent of engine speeds as well as full electronic management and improvements in air handling and combustion.

• In addition, we released new versions of our higher horsepower engines, the T Series produced in the joint venture with Komatsu and the W and Z Series engines produced in the joint venture with Wartsila. They promise to set new performance standards in the higher horsepower range.

Increasingly, the use of advanced electronic controls and information technology, which we refer to as *Smart Power,* permits Business Units to tailor the performance of our engines to the individual needs of their customers. A word about the terminology you will encounter in the Business Unit reports may be helpful. We call engines developed and/or tailored for Automotive customers our *Interact* system, signifying the way our advanced electronic technology permits the engines to *interact* directly with the driver, the owner, the service technician and the dispatcher. Engines developed and/or tailored for Power Generation and Industrial customers constitute our *Quantum* series, with the name signifying the extent to which these engines have made a major or *quantum* step forward in performance and technology for our customers.

Comparative advantage and *Customers for Life* are not, however, achieved through product performance alone. Highly responsive and caring customer support is equally vital. We have formed Customer Councils in several of our major markets, patterned after the Advanced Heavy-Duty Customer Council created in 1994 to help us in the design of the *Signature 600* engine and its customer support system. These councils are helping us design more responsive customer support systems by market and geographic region. Members of our worldwide distribution system—31 in North America and 110 elsewhere in the world—are our partners in this effort.

Our second objective is to achieve an average of 15 percent return on equity and 18 percent business unit return on average net assets over the economic cycle. This return is required to sustain a comparative advantage in each market in the future and to afford investment in new business.

Our return on equity in 1997 was 16 percent, better than our target over the cycle but below what we should earn in good years. Return on average net assets (ROANA) was 18 percent. As we invest heavily in new products, we are placing more emphasis on ROANA. It is the principal financial measure for our Business Units.

The restructuring program initiated late in 1995 is nearing completion, with targeted savings reaching the bottom line on schedule. This program was very important to help offset the costs of our new product development effort, and savings have enabled us to increase earnings despite anticipated new product introduction costs. We continue to emphasize reductions in product coverage, selling and administrative, and research and engineering expenses.

In early 1997, we announced a 10-percent increase in our quarterly common stock dividend, from 25 cents to 27.5 cents per share. In addition, we continued our stock repurchase program, buying 1.5 million shares in 1997. Since 1994, the number of shares outstanding has been reduced by 3.9 million.

Our third objective is to grow profitably at an average of 10 percent per year to provide a superior total return to our shareholders. This will also permit us to meet the objectives of all of our stakeholders.

Over the past 15 years, Cummins' rate of growth has averaged over 9 percent a year. Business alliances with customers are a key element in our strategy for continued profitable growth around the world. We believe we lead our industry in the extent and effectiveness of our strategic alliances and partnerships.

Our approach is to select partners who are strong in their markets; who know their customers, the local culture and business environment; and from whom we can learn.

We have formed two types of business alliances. The first includes alliances with strong regional companies, allowing us to *expand geographically* into new markets. In this category is our license agreement with BMC Sanayi ve Ticaret A.S. in Turkey together with a long list of joint ventures, including the Chongqing Cummins Engine Company Ltd., Dongfeng Cummins Engine Company Ltd., Shanghai Fleetguard Filter Company Limited, Wuxi Newage Alternators Limited, and Wuxi-Holset Engineering Company Limited—all in China; Pakistan Engine Systems Limited; and Tata Holset, Tata Cummins Limited and Fleetguard Filters Limited—all in India.

The second type involves partnerships with other strong technical organizations to *design and develop new products* for world markets. Included in this category are joint ventures with New Holland, IVECO, Case, Scania, Wartsila Diesel International and Komatsu. In 1997, we extended alliances with three of these partners. We offered customers of engines for industrial equipment in North America a wide array of financing options through an agreement with Case Credit, the financing subsidiary of Case. We broadened our joint venture with Wartsila to include marketing and distribution in addition to engineering and manufacturing. Late in 1997, we announced formation of a third joint venture with Komatsu to design and develop the next generation of industrial engines.

ЗАКАЗЧИКИ—НА ВСЮ ЖИЗНЬ 生涯顧客

As noted earlier, we took an important strategic step toward profitable growth with our acquisition of Nelson Industries. The combination of Fleetguard and Nelson will enable the Filtration Group to become one of the world's leaders in this industry and further diversify Cummins' revenue base.

Our fourth objective is to demonstrate a commitment to help improve the communities in which we operate and to be responsible citizens of society.

Our commitment to responsible citizenship reflects a value which has been part of Cummins since its earliest days. We believe that it is in Cummins' self interest to make society better. If society is better, it will be a better place in which to do business. We insist upon integrity in all our operations and provide tools and training such as the *Cummins Code of Business Conduct* to help employees understand what is expected of them and where they can get help if needed.

Responsible citizenship also includes personal contributions by Cummins people to their own communities. Each year in this report we cite some examples:

- Over the last 20 years Juarez, Mexico, has grown into a major manufacturing center, and rapid population growth has brought a tremendous demand for housing, utilities and public services. Diesel ReCon plants in Juarez worked with the Cummins Engine Foundation to establish a revolving loan fund for Diesel ReCon employees and other community residents to help them build or improve their homes.

- With only one swing and a deteriorating shelter, the Lillian Dickson Park in Jamestown, New York, was not able to serve the needs of over 2,000 children who live in the surrounding, culturally diverse neighborhood. Forty-three plant managers from around the world attending a conference in Jamestown devoted an entire morning to hands-on work in the park—making it a place where children of all ages can come to have fun.

- 1997 Malcolm Baldrige award examiners reported, "Community involvement is pervasive and extensive throughout the company....The extent and breadth of Cummins' approach to community involvement and citizenship makes them a worldwide role model."

Our final Customer Led Quality objective is to attract, train, challenge and fully utilize outstanding and diverse people at all levels in order to achieve our objectives.

We like the symbolism of "bookends": our objectives start with the customer and end with our people. If we don't have those two right, we won't achieve the other objectives. We have been involved in team-based working since the mid-1970s, and we understand the power of the commitment and energy of our people if we invest in them properly.

We believe the company that will be best prepared for the future is the one whose people feel responsibility and have the training and authority to act quickly for the customer. We continue to invest in our people at all levels so they have the capability to anticipate customer requirements and to meet them.

Outlook

Despite a definite slowdown due to economic turmoil in parts of Asia, which accounted for 12 percent of our 1997 sales, business so far remains reasonably strong in other countries around the world. We know that our business can change rapidly so that it is difficult to look ahead more than a few quarters. At this time, however, continued economic development is leading to increased investment in infrastructure, industrial expansion and spending on goods and services—all of which present Cummins with opportunities for continued growth in sales and profitability.

We continue to be excited and confident about our products and other customer support activities designed to win *Customers for Life.* If business remains steady, we believe they will enable us to continue to improve earnings and shareholder value in the next few years.

We would like to offer our personal thanks to you—our customers, shareholders, business partners, suppliers, distributors and the people of Cummins—for your continued support, commitment and faith in our future. We invite you to join us at our Annual Shareholders' Meeting on April 7, in Columbus, Indiana, to hear more about today's accomplishments and tomorrow's opportunities.

Jim Henderson

James A. Henderson
Chairman and Chief Executive Officer

Tim Solso

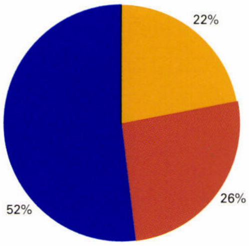
Theodore M. Solso
President and Chief Operating Officer

Cummins Engine Company, Inc.
March 4, 1998

Net Sales

Automotive Group

1997 Sales $2.6 Billion



- Heavy-duty trucks
- Medium-duty trucks
- Bus and light commercial vehicles

Markets and Products

Heavy-duty Truck

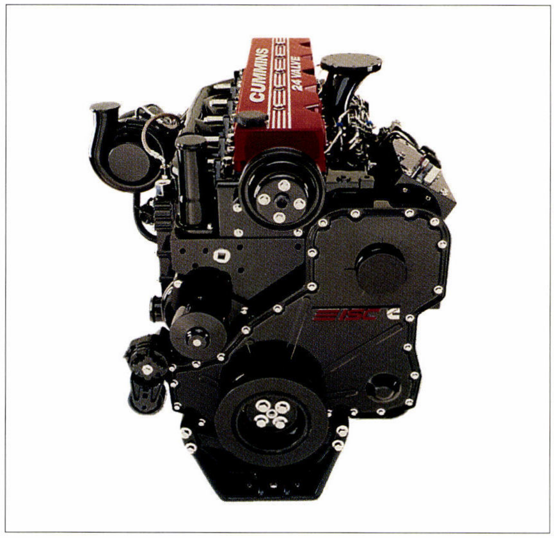
The heavy-duty truck market is the largest of the Automotive Group, representing over half of its sales. In North America, Cummins has been the market leader for a quarter century. Cummins also leads the market in Mexico, Australia and the United Kingdom, and is a major player in other countries.

Heavy-duty truck products include a full range of diesel engines from 260 to 600 horsepower with the industry's fuel economy leader, the M11 Plus, and the performance leader N14 Plus, as well as the revolutionary new top-of-the-line Signature 600 and the natural gas L10.

Medium-duty Truck

Cummins provides power for a wide variety of medium-duty trucks and other on-road vehicles in its key markets: North America, Latin America, Europe and Australia.

The next generation of midrange products, the ISB and ISC, electronic four-valve-head versions bring Interact technology to medium-duty trucks, ranging from 120 to 300 horsepower. These fully electronic engines feature improved power and responsiveness and lower maintenance cost.



Bus and Light Commercial Vehicles

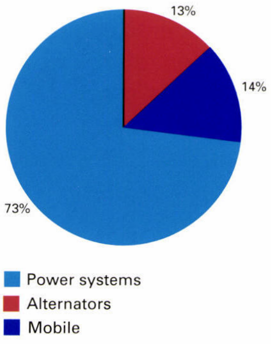
Cummins serves bus and light-duty truck markets with a range of products. The fully electronic ISB engine now powers the Dodge Ram pickup truck, which continues to grow in popularity. Cummins enjoys a strong share of the growing transit bus market in North America, the United Kingdom, Mexico and Asia. International markets increasingly are interested in natural gas to power their transit needs.

Bus and recreational vehicle markets are served by a full range of diesel engines ranging from 130 to 525 horsepower and by natural gas engines ranging from 150 to 300 horsepower.

Net Sales | **Markets and Products**

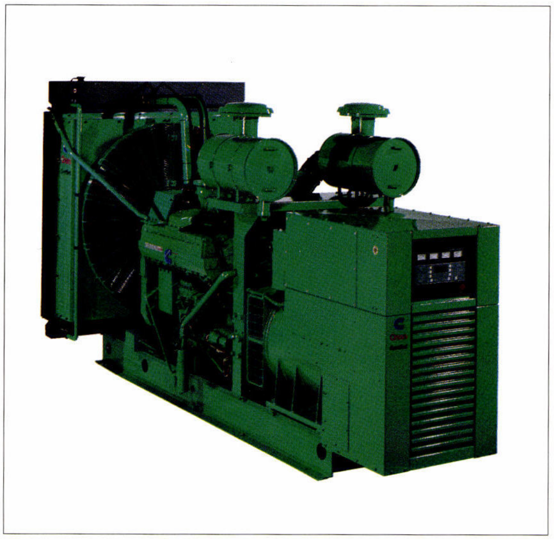
Power Generation Group

1997 Sales $1.2 Billion



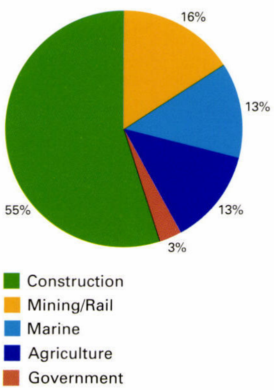
The Power Generation Group is a global provider of a wide range of electricity management equipment and services, primarily focused on electricity generation and control in both the prime power and standby markets.

Products span the full power range from 2 kilowatts to 4 megawatts, including diesel, natural gas, and gasoline-fueled power generation sets. Cummins' agreement with Wartsila of Finland has broadened Cummins' power generation product line and opened new markets.



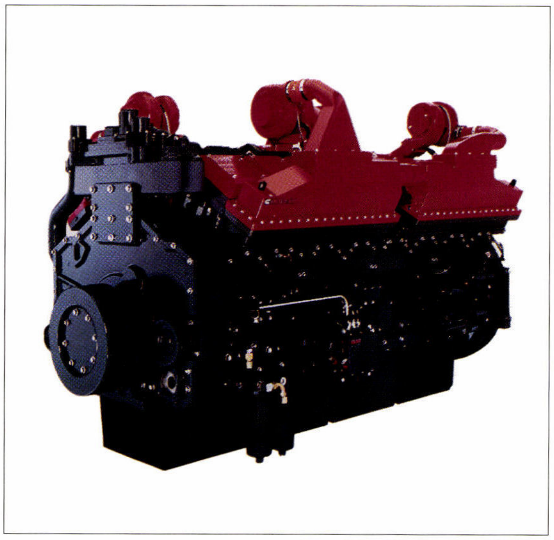
Industrial Group

1997 Sales $1.0 Billion



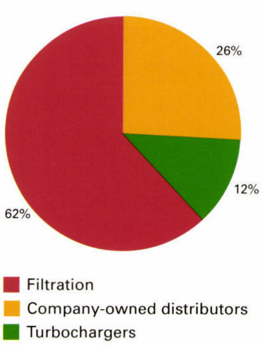
Cummins engines power a variety of construction, logging, mining, rail and agricultural equipment as well as commercial and pleasure boats and government and military equipment. The company holds a strong share of most of these markets worldwide. Cummins has been successful in efforts to partner with major construction and agricultural equipment manufacturers.

Products include Cummins' engine line from 76 to 2,000 horsepower. Through an agreement with Case, Cummins offers financing in North America for all Cummins-powered industrial equipment through Case Credit Corporation.



Filtration Group and Other

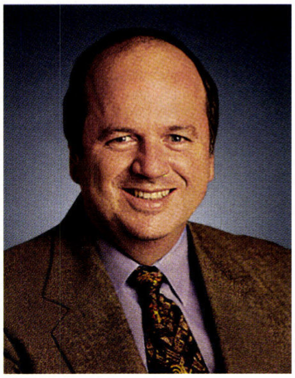
1997 Sales $0.8 Billion



Cummins' filtration subsidiary, Fleetguard, serves a broad customer base in nearly 100 countries. Fleetguard has grown rapidly and is a major player in the $15 billion global filtration market. Market share has increased in each of its markets. Fleetguard offers the most advanced technical solutions available in the industry, including filters for engine and hydraulic fluids and air, as well as industrial and specialty filtration products.

Cummins owns 14 distributorships, most of them outside the United States, with the largest being in Australia and the United Kingdom.

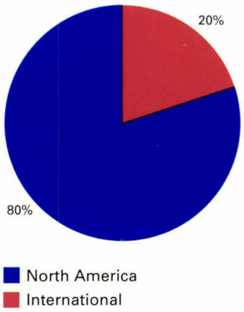
Holset is Cummins' subsidiary which designs and produces turbochargers for worldwide markets.



C. Roberto Cordaro
Executive Vice President,
Group President –
Automotive

Automotive Group

1997 Sales $2.6 Billion



The exciting new Signature 600 was designed with input from Cummins' first Customer Council. Pictured with the cross-country tour trucks are (from left) Jimmy Ray, Jeff England, Glen Keim, Alex Theissen, Mike Mount and Greg Mulvihill.

In 1997, customers around the world chose over 290,000 Cummins engines to power their vehicles. Automotive sales reached $2.6 billion, and the group continued to win *Customers for Life* worldwide through introduction of innovative new products and enhanced customer support.

North American automotive markets in which Cummins participates include heavy-, medium- and light-duty trucks, buses and rear-powered diesel motor homes. These markets accounted for 80 percent of the Automotive Group's sales in 1997, and our 35 percent share made Cummins the overall market leader.

Driven by a generally healthy economy with a robust industrial sector, the North American heavy-duty truck market rebounded strongly in 1997 after its 1996 softening. Despite substantial discounting by competitors, Cummins was the heavy-duty market leader for the 25th consecutive year. Sales of bus engines set a new record, and sales of midrange engines for the highly successful Dodge Ram diesel pickup truck totaled 78,300 in 1997, up over 8 percent from the 1996 record.

Cummins maintained or increased its share in international markets, which were generally strong. Latin America enjoyed an outstanding year, and in Argentina and Brazil, two large markets, Cummins' market share climbed significantly. Sales strengthened in Mexico as its economy continued to recover, and Cummins sustained its dominance in the heavy-duty truck market, with a 70 percent share. We remained the truck and bus engine market leader in the United Kingdom, and our M11 engine demonstrated fuel economy leadership in head-to-head competition in Europe. Demand was also high in Turkey, where our licensee, BMC Sanayi, introduced a new line of medium-duty trucks, and Cummins retained its leadership position in the Australian heavy-duty market. Cummins has also become the heavy-duty truck market leader in South Africa within a few years of re-entering that market once it was reopened to foreign engine producers.

Our automotive midrange joint venture partnerships continue to do very well. Tata Cummins is producing engines; Dongfeng Cummins Engine Company is constructing its production facility; and the European Engine Alliance continues to develop a new family of one-liter-per-cylinder engines. Under the terms of a long-term supply agreement with PACCAR reached in December, some of these engines will power a new range of European-produced DAF trucks.

1997 saw the introduction of the first products from our *Interact* System for medium-duty trucks. These engines incorporate advanced electronic technology to deliver information to the driver, owner, service technician and dispatcher. Early in 1998, Cummins and Chrysler announced production of the ISB engine for the new Dodge Ram diesel pickup truck. The new ISC, designed to lead the premium end of the medium-duty truck, bus and recreational vehicle markets, was introduced in November 1997.

In mid-1997, Cummins announced a revolutionary new engine, the *Signature 600,* targeted at growing higher horsepower owner-operator and high-performance fleet markets. Six trucks from major manufacturers demonstrated the power and performance of the *Signature 600* as they toured the United States and Canada, generating tremendous excitement among potential customers. Production of this engine, as well as the introduction of the last three members of the *Interact* system, is scheduled for 1998.

RoadRelay and CADEC have made Cummins a leader in information products inside the cab. In 1997, we introduced *Inform,* an office software package; *Inspec,* a workshop software package; and *Freightquest,* software for logistics fleet management. As part of our *Smart Power* initiative, we plan to continue investing in a broader range of information management tools to provide comparative advantage to our customers.

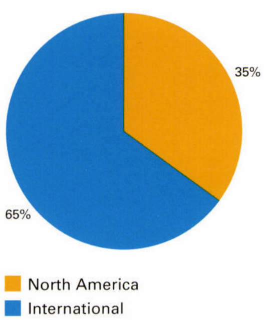
客戶終生信賴 KUNDEN AUF LEBENSZEIT

عمـــلاء مـــدى الحيــــاة **CLIENTES PARA SEMPRE**

John K. Edwards
Executive Vice President,
Group President –
Power Generation

Power Generation Group

1997 Sales $1.2 Billion



1997 was a year of challenge and change for the Power Generation Group as we advanced toward our goal of becoming the world's most cost-effective producer of power generation equipment.

A robust North American economy led to strong recreational vehicle sales in 1997, and Onan maintained its commanding leadership position in the market for small generator sets which provide electrical power for these vehicles. Onan's market share is over 80 percent.

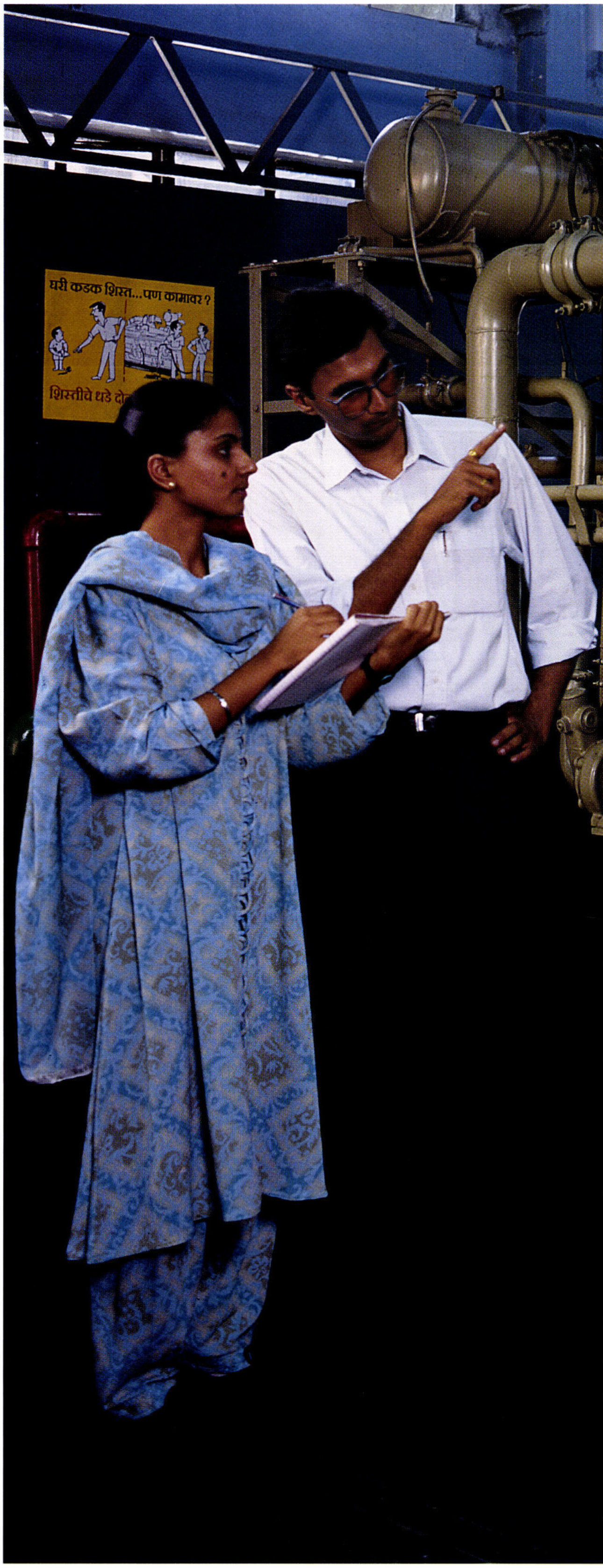
International markets are particularly important for Power Generation. In 1997, sales to customers outside the United States accounted for 65 percent of our total.

We expect our worldwide share for prime and standby power markets to increase as more of our CW170 and CW200 engines are made available to the rapidly growing market for engines ranging from 1 to 4 megawatts.

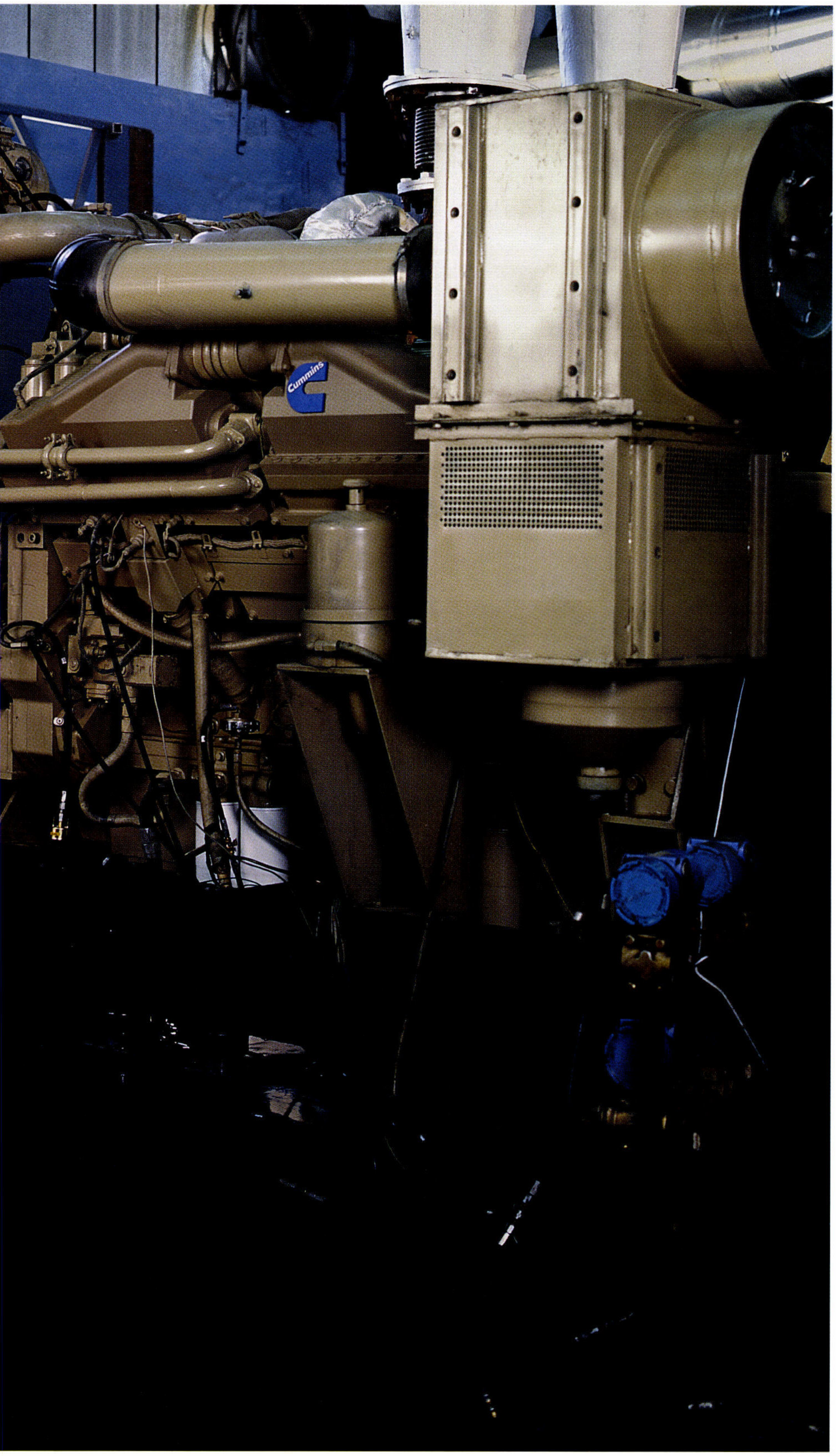
The need for generators to produce prime and standby electrical power continues to grow in most areas of the world. Toward the end of the year, however, economic turbulence in portions of Asia, which has been one of our largest markets over the last few years, depressed sales in that region. As this report is being written, indications are that 1998 will be a difficult year for Southeast Asia although China may not be significantly affected.

Newage, based in England, continued as the world's leading supplier of alternators in the 20 to 2,000 kilowatt range. Since prices in markets outside the United Kingdom are set in local currency, the strength of the pound had a negative effect on profitability, and we are taking action to improve our cost structure.

Around the world, power generation customers are facing an increasingly tough competitive environment. To help them succeed, we have been working hard to provide products more cost effectively.



The new Quantum engines, which will be introduced to markets worldwide in mid-1998, are in round-the-clock use at the Cummins India Limited powerhouse and are monitored by Subhada C. Mandke (left) and Ajit S. Shrikhande.



Early in 1997, we announced that we had reached the difficult decision to close a major manufacturing facility in Huntsville, Alabama. The shutdown is on target for completion early in 1998. We provided support and training to people who were being displaced and worked closely with the Chamber of Commerce and other agencies, with the result that virtually all of the people employed at Onan Huntsville have found new jobs.

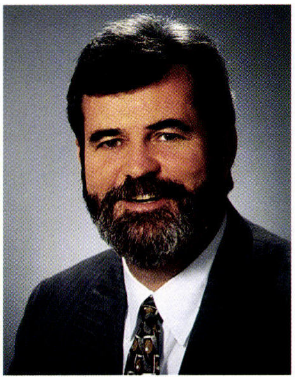
In addition, we restructured our operations in Fridley, Minnesota. This, too, has been a difficult process, but we believe our people understand the need to reduce costs, and they have contributed many ideas to help us reach our goals.

We also worked to shorten lead times and improve production efficiency at our PGI subsidiary in England, where we are preparing to move our operations into a newly constructed plant utilizing the latest manufacturing techniques to produce generator sets and components. The move is planned for the spring of 1998.

To accelerate sales volume and improve customer support, we expanded our successful joint venture with Wartsila Diesel International of Finland to include engineering and marketing. Cummins Komatsu Engine Company continued to progress as planned in 1997. During the year, we increased our ownership interest in Kirloskar Cummins to 51 percent and renamed the company Cummins India Limited.

Notwithstanding the challenges we have faced in 1997, we see exciting growth prospects ahead for Power Generation. Utility markets throughout the world are being deregulated and privatized, giving customers more choices. Because Cummins is the only company to make all elements of a generator set—engines, alternators and electronic controls—we are uniquely well-positioned to win *Customers for Life* by providing integrated power systems solutions for our customers around the world.

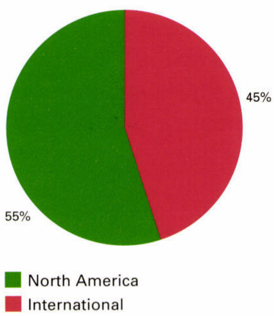
Industrial Group



F. Joseph Loughrey
Executive Vice President,
Group President –
Industrial

Industrial Group

1997 Sales $1.0 Billion



The Cummins KTA19M3 provides reliable power for tug boats on the Hwang Pu River and is the choice of Qiu Genggeng, Managing Director of the Shanghai Deep Ocean Shipping Co., Ltd.

Growth in sales to industrial customers continued to accelerate in 1997, exceeding the $1 billion mark for the first time. Sales were 21 percent higher than in 1996, with 45 percent coming from outside the United States.

To reach our overriding business goal of *Customers for Life,* we broadened our strategic partnerships with Case Corporation and Komatsu Limited into new areas of cooperation, and we strengthened the support we offer our end-user customers. With new technically advanced products coming on line and a generally strong worldwide economy, we have considerable opportunity for further growth.

The goal of the Industrial Group is to be regarded as the best provider of comparative advantage by customers throughout the world—a large and diverse group. Industrial customers currently buy engines ranging from 76 to 2,000 horsepower for use in construction, logging, mining, rail and agricultural equipment, as well as for commercial and pleasure boats and government and military applications.

Sales of engines to construction and mining customers were very strong, particularly in North America, Europe and Korea. Construction sales climbed by 23 percent in 1997 and mining sales increased by 9 percent. Agricultural sales, 45 percent higher than in 1996, rose in North America, Latin America, Europe and Uzbekistan.

Also, 1997 was another strong year for our marine business, with a 9-percent sales increase. Sales to marine customers have more than doubled over the last five years.

1997 marked the successful introduction of several new industrial products. They include engines from our *Quantum* series, offering our marine, rail and mining customers improved power, as well as emissionized engines for construction markets and natural gas engines. More products—many incorporating advanced electronic features—are scheduled for release in 1998.

Smart Power and electronic controls offer Cummins an opportunity to give industrial customers comparative advantage.

A prime example is the *CENSE* advanced management system available on our *Quantum* engines, giving our customers access to real-time engine information on an ongoing basis. *CENSE* allows customers to monitor and record critical functions within the engine, including lubrication, cooling, fuel and air handling in addition to crankcase pressure and individual cylinder performance.

For many of our customers, *comparative advantage* means being able to use their equipment 24 hours a day, 365 days a year. Beginning in 1997, *QuickServe,* the innovative distributor-based program designed to provide one-hour in-shop diagnosis and four-hour repairs, became available to industrial customers.

In response to input from our Mining and Construction Customer Councils, we are currently designing an "out-of-shop" service program to bring the advantages of *QuickServe* to customers in the field. The program will be available in 1998.

Building upon existing relationships with key delivery partners is a major element in our strategy. We continued to make progress in 1997.

In August, we reached agreement with Case Credit Corporation to provide a full array of financing options to all North American retail purchasers, dealers and manufacturers of Cummins-powered industrial equipment.

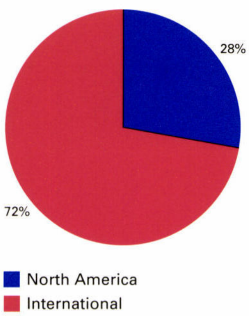
In December, we announced a third joint venture with Komatsu. Cummins and Komatsu will work together to develop diesel engines for the next generation of industrial equipment, putting us in an excellent position to meet the needs of our customers into the 21st century.

CUSTOMERS FOR LIFE CLIENTI PER SEMPRE

M. David Jones
Vice President – Filtration Group and President, Fleetguard, Inc.

Filtration Group and Other

1997 Sales $0.8 Billion



The new Fleetguard FS1010 fuel/water separator is used in a wide variety of on- and off-highway equipment. Shown here are Jerry Wilson (left), Branch Coordinator at Carlisle Equipment, and Greg Codozor, President of Filters Unlimited, Inc., both of Indianapolis, Ind.

Reported sales for the Filtration Group include those of our filtration company Fleetguard, our turbocharger subsidiary Holset, and company-owned distributors, primarily located outside the United States. Seventy-two percent of the total group's 1997 sales of $754 million originated outside the United States.

Fleetguard, the largest company in the group, moved rapidly toward its goal of global leadership during 1997. Fleetguard's sales and profits climbed, and it maintained its position as the leading supplier of heavy-duty diesel engine filtration in the world, with more than half its sales coming from outside the United States.

In January 1998, Cummins completed the acquisition of Nelson Industries, Inc., extending its scope to include both filtration and acoustic products. Nelson, whose annual growth rate has exceeded 15 percent over the past five years, is North America's leading producer of exhaust systems and the number two supplier of air intake systems for diesel-powered equipment.

The combination of Nelson and Fleetguard represents an exceptional fit of complementary product lines, diversified equipment markets and global distribution channels.

Fleetguard's current product line includes air, coolant, fuel, hydraulic and lube filter elements for diesel engine applications and hydraulic systems as well as a broad range of coolant additives, cold weather aids, adapter kits, service parts, maintenance kits and filter housings. Fuel filters made by our Kuss subsidiary were installed in 60 percent of the automobiles made in North America in 1997.

Profitable growth is a primary focus at Fleetguard. Over the past five years, Fleetguard's sales have risen by an average compound rate of over 9 percent. Profits have grown even faster, at an average compound rate of 14 percent, in the same period.

Fleetguard has a broad customer base of original equipment manufacturers, distribution partners and end users in almost 100 countries. To support customers, Fleetguard provides 24-hour coverage and multilingual capabilities through global Customer Assistance Centers and integrated information systems, including extensive electronic data interchange (EDI) capability and flexible delivery scheduling.

Fleetguard is at the forefront of filtration technology, offering customers the most advanced technical solutions available in the industry. In 1997, Fleetguard was recognized for the second consecutive year by the American Filtration and Separations Society for an innovative new product, the *Venturi* combination full flow/bypass lube filter incorporating an advanced nozzle design and *StrataPore* multi-layered media.

Additionally, Fleetguard's extended service *ES* System of air, coolant, fuel and lube products has revolutionized the industry by reducing equipment downtime through extended drain intervals.

In 1997, Fleetguard received the Tennessee Quality Achievement Award patterned after the Malcolm Baldrige National Quality Award. The award, presented by the Governor of Tennessee early in 1998, recognized Fleetguard for business excellence and sound quality processes.

At Fleetguard, our strategy for the future includes maintaining our technological lead and continuing to win and retain *Customers for Life.*

The acquisition of Nelson produces synergies in sales and technology development as well as operating efficiencies. It expands the Filtration Group's product line, opens up existing global markets to Nelson's products and positions the Filtration Group for continued worldwide growth.

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Overview
Profit before interest and taxes was a record $312 million in 1997, 34 percent higher than in 1996 on a 7-percent increase in sales. This was accomplished while the company was in the midst of start-up activities of its new products and joint ventures and completing restructuring actions.

Net earnings were $212 million in 1997, $160 million in 1996 and $224 million in 1995.

Results of Operations
Net Sales:
In 1997, the company had revenues of $5.6 billion, the sixth consecutive year of record sales. Revenues from sales of engines were 56 percent of the company's net sales in 1997, with engine revenues and unit shipments 10 percent and 11 percent higher, respectively, than in 1996. The company shipped a record 369,800 engines in 1997, compared to 332,300 in 1996 and 338,900 in 1995 as follows:

Unit shipments	1997	1996	1995
Midrange engines	264,300	237,400	222,100
Heavy-duty engines	94,900	85,000	107,300
High-horsepower engines	10,600	9,900	9,500
	369,800	332,300	338,900

Revenues from non-engine products, which were 44 percent of net sales in 1997, were 3 percent higher than in 1996. The increase in 1997 was due primarily to filtration products and PowerCare (which includes new parts and remanufactured engines and parts) in North American and European markets. Sales of the remaining non-engine products, in the aggregate, were essentially level with 1996.

The company's sales for each of its key markets during the last three years were:

$ Millions	1997	1996	1995
Automotive	$2,622	$2,447	$2,689
Power Generation	1,205	1,213	1,092
Industrial	1,044	863	776
Filtration and Other	754	734	688
	$5,625	$5,257	$5,245

Sales of $2.6 billion in 1997 for *automotive* markets were 7 percent higher than in 1996 and 2 percent lower than in 1995, when North American heavy-duty truck production was at record levels. In 1997, heavy-duty truck engine revenues and unit shipments were both 11 percent higher than in 1996, with unit shipments up 6 percent over 1996 for the North American market, where Cummins continued to be the market leader with a 32-percent market share. The company announced in 1997 a new electronic engine (the Signature 600) for this market, with initial shipments scheduled in 1998. International unit shipments for the heavy-duty market in 1997 were 55 percent higher than in 1996 due to the recovery in European automotive markets and strong demand in Mexico.

Revenues from the sales of engines for medium-duty trucks in 1997 were essentially level with the prior year, with sales in international markets (Brazil, Europe and Mexico) offsetting a lower level of unit shipments in North America. For the bus and light commercial vehicle market, engine revenues in 1997 were 15 percent higher than in 1996, on a 13-percent increase in unit shipments. The increase in 1997 was due to both record unit shipments to Chrysler for the Dodge Ram pickup, which were 8 percent higher than in 1996 and 22 percent higher than in 1995, and strong demand in bus markets. In early 1998, the company and Chrysler jointly announced production of a new fully electronic engine for the new Dodge Ram pickup. In November 1997, the company introduced the new ISC engine for the premium end of the medium-duty truck, bus and recreational vehicle markets.

Revenues of $1.2 billion in 1997 for *power generation,* while level with 1996, were 10 percent higher than in 1995. Sales of the company's generator sets continued to reflect growth in Latin American and most Asian markets during 1997. In addition, sales of alternators were 4 percent higher than the prior year, despite the effects of the strong UK pound. Demand for small generator sets that provide electrical power for recreational vehicles also continued to be strong in North America where the company enjoys over an 80-percent market share. However, 1997 sales were lower than in prior years due to the company's exiting the gas engine business in 1996.

In 1997, sales for *industrial* markets were 21 percent higher than in 1996 and 35 percent higher than in 1995, exceeding $1 billion for the first time. Sales for construction markets in 1997 were 23 percent higher than in 1996 with increases in North America and new business in Europe. Sales for agricultural markets were 45 percent higher than the prior year, with the increase due to strong markets and sales in Uzbekistan. Sales for the marine market in 1997 were 9 percent higher than in 1996 and 39 percent higher than in 1995. The company's sales to the mining market also were 9 percent higher than the prior year.

Sales of $754 million in 1997 for *filtration and other* markets were 3 percent higher than in 1996 and 10 percent higher than in 1995. Fleetguard continued to enjoy a 9-percent sales growth in 1997. In January 1998, the company completed the acquisition of Nelson Industries, Inc., a manufacturer of filtration and exhaust system products, which will significantly expand the company's product line.

Net sales by marketing territory for each of the last three years were:

$ Millions	1997	1996	1995
United States	$3,123	$2,925	$3,018
Asia/Australia	898	868	723
Europe/CIS	796	759	783
Mexico/Latin America	364	260	233
Canada	318	313	384
South Africa/Middle East	126	132	104
	$5,625	$5,257	$5,245

Europe and the CIS, which represented 14 percent of the company's sales in 1997, were 5 percent higher than in 1996 as a result of recovery in automotive markets and increased industrial business. Business in Mexico and Latin America also was strong in 1997, a 40-percent increase over 1996. In Australia, the company's sales are primarily for automotive, power generation and mining markets, and, in 1997, were essentially level with 1996. Asian countries, in total, represented 12 percent of the company's sales in 1997 and 1996 and 10 percent in 1995. In Indonesia, Malaysia, Thailand and Korea, the company's business is primarily power generation, industrial and parts. Business in this area in the fourth quarter of 1997 was 9 percent below the third quarter, although, for the year, it exceeded the 1996 level. Despite the slowdown due to economic turmoil in these countries, the company has experienced no material changes to date in other parts of Asia. With the awareness that the company's business can change rapidly, it is difficult to forecast the future effect of this region's uncertainties.

Gross Margin:

The company's gross margin percentage was 22.8 percent of sales in 1997, compared to 22.5 percent in 1996 and 24.2 percent in 1995. The company's gross margin percentage benefited from volume and mix in 1997 ($116 million, or 32-percent leverage). In addition, net benefits from the company's restructuring actions served to mitigate higher costs associated with new product introductions. Product coverage costs were 2.6 percent of net sales in 1997, compared to 2.7 percent in 1996 and 2.4 percent in 1995.

Operating Expenses:

Selling and administrative expenses were 13.2 percent of net sales in 1997, compared to 13.8 percent in 1996 and 13.2 percent in 1995. On the 7-percent sales increase in 1997, these expenses, which include volume-variable components, were up less than 3 percent in absolute dollars. Net benefits of the company's restructuring actions offset increases in costs associated with new product launches and information systems during 1997.

The company has undertaken a program to prepare its computer systems and applications for the year 2000. This will be accomplished with the use of existing information technology resources and external consulting services. The company expects to incur expenditures of approximately $43 million to remedy this problem. In 1997, $3 million was expensed, and the company estimates an expense of $18 million in 1998.

Research and engineering expenses were 4.6 percent of net sales in 1997, compared to 4.8 percent in 1996 and 5.0 percent in 1995. This is a result of certain product developments moving to the production stage and expense controls.

Income from joint ventures and alliances was $10 million in 1997. The increase in income over prior years was due to earnings and royalties from Kirloskar Cummins and the joint ventures with Komatsu. In the fourth quarter of 1997, the company began consolidating the results of Kirloskar Cummins, which was renamed Cummins India Limited, as a result of increasing Cummins' ownership interest to 51 percent.

Other:
Interest expense of $26 million was $8 million higher than in 1996 and $13 million higher than in 1995 due to the increased level of borrowings in 1997 to support higher capital expenditures, working capital and share repurchases.

In 1995, the company's results included restructuring charges of $118 million for costs to consolidate operations and reduce its worldwide work force. During 1997, restructuring actions included the sale of the company's vibration attenuation business, continued work force reductions and the culmination of certain plant closings. The earnings statement effect of this activity was not material. To date, approximately 3,300 employees have separated from the company as a result of these restructuring actions.

Provision for Income Taxes:
The company's income tax provision in 1997 was $74 million, an effective tax rate of 26 percent, reflecting tax breaks on export sales and benefits from the research tax credit. In 1996, the company's effective tax rate was 25 percent. In 1995, the company reduced its valuation allowance for tax benefit carryforwards $68 million. The tax provision for 1995 also included a credit of $35 million for additional tax benefits related to the amendment of prior years' returns.

Cash Flow and Financial Condition

Key elements of cash flows were:

$ Millions	1997	1996	1995
Net cash from operating and investing activities	$ (154)	$ (66)	$ 33
Net cash from financing activities	96	110	(121)
Effect of exchange rate changes on cash	(1)	4	1
Net change in cash	$ (59)	$ 48	$ (87)

During 1997, net cash used for operating and investing activities was $154 million. The higher level of net cash requirements in 1997 was due primarily to planned capital expenditures ($405 million in 1997, compared to $304 million in 1996 and $223 million in 1995) for investments in new products and for working capital. The company expects a decrease in capital expenditures during 1998 as new engines move into production. Net working capital, excluding the consolidation of Cummins India Limited's working capital of $46 million, was 10.8 percent of sales, compared to 10.1 percent in 1996. Investments in joint ventures and alliances of $47 million reflected the net effect of capital contributions, primarily to the joint venture with Wartsila, and cash generated by certain joint ventures.

Net cash provided from financing activities was $96 million in 1997. As disclosed in *Note 5,* the company issued $120 million in debentures under a shelf registration statement in 1997 and filed a registration statement with the Securities and Exchange Commission in December 1997 for $1 billion. Notes and debentures to be issued initially under this registration statement will be used to repay interim financing obtained in early 1998 for the acquisition of Nelson Industries, Inc., and to pay down other indebtedness outstanding at December 31, 1997.

As disclosed in *Note 9,* the company has repurchased 3.9 million shares of its common stock since 1994. In 1997, the company also issued 3.75 million shares of its common stock to an employee benefits trust. Shares held by this trust are not used in the calculation of earnings per share until distributed from the trust and allocated to a benefit plan.

In April 1997, the company announced a 10-percent increase in its quarterly stock dividend from 25 cents per share to 27.5 cents. The increase was effective with the dividend payment in June 1997.

As more fully disclosed in *Note 13,* diesel engine manufacturers, including Cummins, are involved in discussions with the Environmental Protection Agency, the U.S. Department of Justice and the California Air Resources Board regarding diesel engine emissions.

Forward-looking Statements

This Management's Discussion and Analysis of Results of Operations and Financial Condition and other sections of this Annual Report contain forward-looking statements that are based on current expectations, estimates and projections about the industries in which Cummins operates, management's beliefs and assumptions made by management. Words, such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions (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. Cummins undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Future factors include increasing price and product competition by foreign and domestic competitors, including new entrants; rapid technological developments and changes; the ability to continue to introduce competitive new products on a timely, cost-effective basis; the mix of products; the achievement of lower costs and expenses; domestic and foreign governmental and public policy changes, including environmental regulations; protection and validity of patent and other intellectual property rights; reliance on large customers; technological, implementation and cost/financial risks in increasing use of large, multi-year contracts; the cyclical nature of Cummins' business; the outcome of pending and future litigation and governmental proceedings; and continued availability of financing, financial instruments and financial resources in the amounts, at the times and on the terms required to support Cummins' future business.

These are representative of the future factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general domestic and international economic conditions, including interest rate and currency exchange rate fluctuations, and other future factors.

Millions, except per share amounts	1997	1996	1995
Net sales	$5,625	$5,257	$5,245
Cost of goods sold	4,345	4,072	3,974
Gross profit	1,280	1,185	1,271
Selling and administrative expenses	744	725	692
Research and engineering expenses	260	252	263
(Income) expense from joint ventures and alliances	(10)	—	2
Interest expense	26	18	13
Other (income) expense, net	(26)	(24)	6
Restructuring charges	—	—	118
Earnings before income taxes	286	214	177
Provision (credit) for income taxes	74	54	(47)
Net earnings	$ 212	$ 160	$ 224
Basic earnings per share	$ 5.55	$ 4.02	$ 5.53
Diluted earnings per share	5.48	4.01	5.52

The accompanying notes are an integral part of this statement.

Millions, except per share amounts December 31,	1997	1996
Assets		
Current assets:		
Cash and cash equivalents	$ 49	$ 108
Receivables	771	669
Inventories	677	587
Other current assets	213	189
	1,710	1,553
Investments and other assets:		
Investments in joint ventures and alliances	204	207
Other assets	142	119
	346	326
Property, plant and equipment:		
Land and buildings	495	460
Machinery, equipment and fixtures	2,079	1,931
Construction in process	392	270
	2,966	2,661
Less accumulated depreciation	1,434	1,375
	1,532	1,286
Intangibles, deferred taxes and deferred charges	177	204
Total assets	$3,765	$3,369
Liabilities and shareholders' investment		
Current liabilities:		
Loans payable	$ 90	$ 93
Current maturities of long-term debt	42	39
Accounts payable	386	380
Accrued salaries and wages	87	84
Accrued product coverage and marketing expenses	120	126
Income taxes payable	18	16
Other accrued expenses	312	283
	1,055	1,021
Long-term debt	522	283
Other liabilities	713	747
Minority interest	53	6
Shareholders' investment:		
Common stock, $2.50 par value, 48.1 and 43.9 shares issued	120	110
Additional contributed capital	1,119	929
Retained earnings	713	535
Common stock in treasury, at cost, 6.0 and 4.5 shares	(245)	(169)
Common stock held in trust for employee benefit plans, 3.7 shares	(175)	—
Unearned compensation	(42)	(46)
Cumulative translation adjustments	(68)	(47)
	1,422	1,312
Total liabilities and shareholders' investment	$3,765	$3,369

The accompanying notes are an integral part of this statement.

Millions	1997	1996	1995
Cash flows from operating activities:			
Net earnings	$ 212	$ 160	$ 224
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation and amortization	158	149	143
Restructuring actions	(24)	(42)	114
Receivables	(80)	(56)	(91)
Inventories	(65)	(62)	3
Accounts payable and accrued expenses	(18)	28	99
Deferred income taxes	22	17	(100)
Other	(5)	(1)	14
Total adjustments	(12)	33	182
	200	193	406
Cash flows from investing activities:			
Property, plant and equipment:			
Additions	(405)	(304)	(223)
Disposals	21	26	6
Investments in joint ventures and alliances	(47)	(5)	(147)
Acquisitions and dispositions of business activities	76	10	(1)
Other	1	14	(8)
	(354)	(259)	(373)
Net cash (used in) provided by operating and investing activities	(154)	(66)	33
Cash flows from financing activities:			
Proceeds from borrowings	281	200	2
Payments on borrowings	(50)	(47)	(37)
Net (payments) borrowings under credit agreements	(12)	32	19
Repurchases of common stock	(75)	(34)	(69)
Dividend payments	(45)	(40)	(40)
Other	(3)	(1)	4
	96	110	(121)
Effect of exchange rate changes on cash	(1)	4	1
Net change in cash and cash equivalents	(59)	48	(87)
Cash and cash equivalents at beginning of year	108	60	147
Cash and cash equivalents at end of year	$ 49	$ 108	$ 60
Cash payments during the year for:			
Interest	$ 21	$ 16	$ 13
Income taxes	42	40	59

The accompanying notes are an integral part of this statement.

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Consolidated Statement of Shareholders' Investment

Millions, except per share amounts	1997	1996	1995
Common stock:			
Balance at beginning of year	$ 110	$ 110	$ 109
Issued to trust for employee benefit plans	9	—	—
Other	1	—	1
Balance at end of year	120	110	110
Additional contributed capital:			
Balance at beginning of year	929	926	927
Issued to trust for employee benefit plans	171	—	—
Other	19	3	(1)
Balance at end of year	1,119	929	926
Retained earnings:			
Balance at beginning of year	535	406	232
Net earnings	212	160	224
Cash dividends	(45)	(40)	(40)
Additional minimum liability for pensions	12	9	(10)
Other	(1)	—	—
Balance at end of year	713	535	406
Common stock in treasury:			
Balance at beginning of year	(169)	(135)	(72)
Repurchased	(76)	(34)	(69)
Issued	—	—	6
Balance at end of year	(245)	(169)	(135)
Common stock held in trust for employee benefit plans:			
Issued	(180)	—	—
Shares allocated to benefit plans	5	—	—
Balance at end of year	(175)	—	—
Unearned compensation:			
Balance at beginning of year	(46)	(51)	(55)
Shares allocated to participants	4	5	4
Balance at end of year	(42)	(46)	(51)
Cumulative translation adjustments:			
Balance at beginning of year	(47)	(73)	(69)
Adjustments	(21)	26	(4)
Balance at end of year	(68)	(47)	(73)
Shareholders' investment	$1,422	$1,312	$1,183

	1997	1996	1995
Shares of stock			
Common stock, $2.50 par value, 150.0 shares authorized			
Balance at beginning of year	43.9	43.9	43.8
Shares issued	4.2	—	—
Other	—	—	.1
Balance at end of year	48.1	43.9	43.9
Common stock in treasury			
Balance at beginning of year	4.5	3.7	2.2
Shares repurchased	1.5	.8	1.6
Shares issued	—	—	(.1)
Balance at end of year	6.0	4.5	3.7
Common stock held in trust for employee benefit plans	3.7	—	—

The accompanying notes are an integral part of this statement.

Note 1. Accounting Policies:

Principles of Consolidation: The consolidated financial statements include all significant majority-owned subsidiaries. Affiliated companies in which Cummins does not have a controlling interest, or for which control is expected to be temporary, are accounted for using the equity method. Use of estimates and assumptions as determined by management is required in the preparation of consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates and assumptions.

Revenue Recognition: The company recognizes revenues on the sale of its products, net of estimated costs of returns, allowances and sales incentives, when the products are shipped to customers. The company generally sells its products on open account under credit terms customary to the region of distribution. The company performs ongoing credit evaluations of its customers and generally does not require collateral to secure its customers' receivables.

Foreign Currency: Assets and liabilities of foreign entities, where the local currency is the functional currency, have been translated at year-end exchange rates, and income and expenses have been translated to U.S. dollars at average-period rates. Adjustments resulting from translation have been recorded in shareholders' investment and are included in net earnings only upon sale or liquidation of the underlying foreign investment.

For foreign entities where the U.S. dollar is the functional currency, including those operating in highly inflationary economies, inventory, property, plant and equipment balances and related income statement accounts have been translated using historical exchange rates. The resulting gains and losses have been credited or charged to net earnings.

Other Costs: Estimated costs of commitments for product coverage programs are charged to earnings at the time the company sells its products.

Research & development expenditures, net of contract reimbursements, are expensed when incurred and were $250 million in 1997, $235 million in 1996 and $230 million in 1995.

Maintenance and repair costs are charged to earnings as incurred.

Inventories: Inventories are generally stated at cost or net realizable value. Approximately 20 percent of domestic inventories (primarily heavy-duty and high-horsepower engines and engine parts) are valued using the last-in, first-out (LIFO) cost method. Inventories at December 31 were as follows:

$ Millions	1997	1996
Finished products	$351	$334
Work-in-process and raw materials	388	319
Inventories at FIFO cost	739	653
Excess of FIFO over LIFO	(62)	(66)
	$677	$587

Property, Plant and Equipment: A modified units-of-production method, which is based upon units produced subject to a minimum level, is used to depreciate substantially all engine production equipment. The straight-line depreciation method is used for all other equipment. The estimated depreciable lives range from 20 to 40 years for buildings and 3 to 20 years for machinery, equipment and fixtures.

Software: Costs of internally developed software are expensed as incurred. External software costs (excluding research, reengineering and training) are capitalized and amortized over five years. Capitalized software, net of amortization, was $32 million at December 31, 1997 and $19 million at December 31, 1996.

Earnings Per Share: Effective January 1, 1997, Cummins adopted SFAS No. 128, a new accounting rule on calculating earnings per share. Under the new rule, basic earnings per share are computed by dividing net earnings by the weighted-averge number of shares outstanding for the period; diluted earnings per share are computed by dividing net earnings by the weighted-average number of shares, assuming the exercise of stock options. Shares of stock held by the employee benefits trust are not included in outstanding shares for EPS until distributed from the trust. Prior years have been restated to reflect this new rule.

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Millions, except per share amounts	Net Earnings	Weighted Average Shares	Per share
1997			
Basic	$212	38.2	$5.55
Options	—	.5	
Diluted	$212	38.7	$5.48
1996			
Basic	$160	39.8	$4.02
Options	—	.1	
Diluted	$160	39.9	$4.01
1995			
Basic	$224	40.6	$5.53
Options	—	.1	
Diluted	$224	40.7	$5.52

Note 2. Subsequent Event: In January 1998, Cummins completed the acquisition of the stock of Nelson Industries, Inc., for $450 million. Nelson, a filtration and exhaust systems manufacturer, will be consolidated from the date of its acquisition. The purchase price in excess of net assets will be amortized over 40 years.

Note 3. Restructuring Charges: Results of operations in 1995 included restructuring charges of $118 million ($77 million after taxes) for costs to reduce the worldwide work force through a series of actions, including voluntary and involuntary separations, retirements and plant consolidations. Facility consolidations included closing or restructuring selected operations in Europe, Brazil and North America. In 1997, restructuring actions included the sale of the company's vibration attenuation business, continued work force reductions and the culmination of certain plant closings. The earnings statement effect of this activity was not material. A total of approximately $83 million has been charged to the liabilities as of December 31, 1997.

Note 4. Investments in Joint Ventures and Alliances: Investments in joint ventures and alliances at December 31 were as follows:

$ Millions	1997	1996
Cummins Wartsila	$ 88	$ 59
Consolidated Diesel	32	38
Kirloskar Cummins	—	36
Chongqing Cummins	16	16
Tata Cummins	16	13
Behr America, Inc.	14	12
Other	38	33
	$204	$207

In the fourth quarter of 1997, the company increased its ownership interest in Kirloskar Cummins to 51 percent and began consolidating the subsidiary, which was renamed Cummins India Limited.

Net sales of the joint ventures and alliances were $1.3 billion in 1997 and 1996 and $1.1 billion in 1995. Summary balance sheet information for the joint ventures and alliances was as follows:

$ Millions December 31,	1997	1996
Current assets	$ 447	$ 458
Noncurrent assets	533	478
Current liabilities	(258)	(305)
Noncurrent liabilities	(305)	(248)
Net assets	$ 417	$ 383
Cummins' share	$ 204	$ 207

In connection with various joint venture agreements, Cummins is required to purchase products from the joint ventures in amounts to provide for the recovery of specified costs of the ventures. Under the agreement with Consolidated Diesel, Cummins' purchases were $538 million in 1997 and $540 million in 1996.

Note 5. Long-Term Debt: Long-term debt at December 31 was:

$ Millions	1997	1996
Commercial paper	$242	$ 90
6.75% notes, due 2027	120	—
8.2% notes, due 2003	96	108
Guaranteed notes of ESOP Trust, due 1998	65	67
10.35%–10.65% medium-term notes, through 1998	14	35
Other	27	22
Total	564	322
Current maturities	(42)	(39)
Long-term debt	$522	$283

Maturities of long-term debt for the five years subsequent to December 31, 1997 are $42 million, $25 million, $21 million, $21 million and $24 million. At both December 31, 1997 and 1996, the weighted-average interest rates on loans payable and current maturities of long-term debt approximated 7 percent.

Note 5. (continued)

In 1997, the company issued $120 million of 6.75-percent debentures that mature in 2027. Holders have a one-time option in 2007 to redeem the debentures and Cummins has a recall right after ten years. The company filed a Shelf Registration Statement with the Securities and Exchange Commission in 1997 in the amount of $1 billion to issue from time to time debt securities, preferred stock, preference stock, common stock or warrants at prices and on terms to be determined at the time of sale. In the first quarter of 1998, the company issued $765 million face amount of notes and debentures under this registration statement to finance the acquisition of Nelson and pay down other indebtedness outstanding at December 31, 1997. In 1996, a subsidiary of the company issued 8.2-percent notes that resulted in net proceeds of $100 million.

At December 31, 1997, there were no outstanding borrowings under the company's $400 million revolving credit agreement. In January 1998, the agreement was amended, forming two $500 million agreements maturing in 1999 and 2003. These agreements support the company's commercial paper borrowings. The commercial paper initially was issued in 1996 as replacement financing for an arrangement whereby the company sold up to $110 million receivables without recourse. The agreement for the sale of receivables expired in the second quarter of 1996 and was not renewed by the company. The company also has other domestic and international credit lines with approximately $250 million available at December 31, 1997.

The company has guaranteed the outstanding borrowings of its ESOP Trust. The notes are due in July 1998 and the Trust intends to refinance the notes with the company continuing to guarantee the borrowings. Cash contributions to the Trust, together with the dividends accumulated on the common stock held by the Trust, are used to pay interest and principal. Cash contributions and dividends to the Trust and the company's compensation expense approximated $10 million in each year. The unearned compensation, which is reflected as a reduction to shareholders' investment, represents the historical cost of the shares of common stock that have not yet been allocated by the Trust to participants.

Note 6. Other Liabilities: Other liabilities at December 31 included the following:

$ Millions	1997	1996
Accrued retirement and postemployment benefits	$487	$530
Accrued product coverage and marketing expenses	111	112
Accrued compensation	34	28
Deferred income taxes	25	28
Other	56	49
	$713	$747

Note 7. Income Taxes: The provision for income taxes was as follows:

$ Millions	1997	1996	1995
Current:			
U.S. Federal and state	$16	$22	$ 30
Foreign	32	15	23
	48	37	53
Deferred:			
U.S. Federal and state	26	—	(93)
Foreign	—	17	(7)
	26	17	(100)
	$74	$54	$ (47)

The company expects to realize all of its tax assets, including the use of all carryforwards, before any expiration. A valuation allowance previously maintained against tax carryforward benefits was released to earnings as a reduction of income tax expense in the amount of $68 million in 1995. Tax benefits of $35 million also were recorded as a reduction to income tax expense in 1995 for changes in the treatment of foreign tax credits and foreign sales corporation benefits for prior years.

Significant components of net deferred tax assets related to the following tax effects of differences between financial and tax reporting at December 31:

$ Millions	1997	1996
Employee benefit plans	$266	$247
Product coverage & marketing expenses	64	72
Restructuring charges	9	10
U.S. plant and equipment	(139)	(125)
Net foreign taxable differences, primarily plant and equipment	(23)	(23)
U.S. Federal carryforward benefits:		
General business tax credits, expiring 2009 to 2011	31	45
Minimum tax credits, no expiration	10	9
Other net differences	13	21
	$231	$256

Balance Sheet Classification		
Current assets	$129	$131
Noncurrent assets	127	153
Noncurrent liabilities	(25)	(28)
	$231	$256

Earnings before income taxes and differences between the effective tax rate and U.S. Federal income tax rates were:

$ Millions	1997	1996	1995
Earnings before income taxes:			
U.S.	$205	$134	$135
Foreign	81	80	42
	$286	$214	$177
Tax at 35 percent U.S. statutory rate	$100	$ 75	$ 62
Adjustment to beginning-of-year valuation allowance	—	—	(68)
Change in treatment of foreign tax credit and foreign sales corporation benefits of prior years	—	—	(35)
Research tax credits	(11)	(6)	(6)
Current-year foreign sales corporation benefits	(11)	(11)	(5)
Differences in rates and taxability of foreign subsidiaries	(3)	—	—
All other, net	(1)	(4)	5
	$ 74	$ 54	$ (47)

Note 8. Retirement Plans: The company has various contributory and noncontributory pension plans covering substantially all employees. Benefits for salaried plans generally are based upon annual compensation, and benefits under the hourly plans generally are based upon various monthly amounts for each year of service.

The company has a non-qualified excess benefit plan that provides certain employees with defined retirement benefits in excess of qualified plan limits imposed by U.S. tax law. In addition, the company has a plan that provides officers and other key employees with term life insurance during active employment and supplemental retirement benefits.

It is the company's policy to make contributions to pension plans sufficient to meet the funding requirements of applicable laws and regulations, plus such additional amounts as deemed to be appropriate. Plan assets consisted principally of equity securities and corporate and fixed-income Government obligations. Cummins common stock represented 7 percent of plan assets at December 31, 1997.

The company's pension expense under these plans was as follows:

$ Millions	1997	1996	1995
Service cost	$ 41	$ 45	$ 40
Interest cost	115	104	99
Asset return:			
Actual	(414)	(155)	(214)
Deferred	280	39	110
Amortization of transition asset	(9)	(9)	(9)
Other	13	16	14
	$ 26	$ 40	$ 40

The liability for these plans at December 31 was as follows:

$ Millions	1997	1996
Vested	$(1,449)	$(1,286)
Accumulated	$(1,637)	$(1,410)
Projected	$(1,693)	$(1,491)
Plan assets	1,905	1,555
Funded status	212	64
Unrecognized:		
Experience gain [a]	(269)	(114)
Prior service cost [b]	63	70
Transition asset [c]	(11)	(21)
Adjustment to recognize minimum liability [d]	—	(35)
Prepaid pension liability	$ (5)	$ (36)

[a] The net deferred gain resulting from investments, other experience and changes in assumptions.
[b] The prior service effect of plan amendments deferred for recognition over remaining service.
[c] The balance of the initial difference between assets and obligations deferred for recognition over a 15-year period.
[d] An adjustment to reflect the unfunded accumulated benefit obligation for plans whose benefits exceed the assets.

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Note 8. (continued)
The projected benefit obligation for underfunded plans was $418 million at December 31, 1997 and $694 million at December 31, 1996, of which $13 million and $109 million, respectively, was recorded as a liability. The assumed long-term rate of compensation increase for salaried plans approximated expected inflation in both 1997 and 1996. Other significant assumptions for the company's principal plans were:

	1997	1996
Weighted-average discount rate for benefit obligations	7.5%	7.75%
Long-term rate of return on plan assets	10.0%	9.25%

Cummins also provides various health care and life insurance benefits to eligible retirees and their dependents but reserves the right to change benefits covered under these plans. The plans are contributory with retirees' contributions adjusted annually, and they contain other cost-sharing features, such as deductibles, coinsurance and spousal contributions. The general policy is to fund benefits as claims and premiums are incurred.

The company's expense under these plans was as follows:

$ Millions	1997	1996	1995
Service cost	$ 8	$ 9	$ 8
Interest cost	41	36	38
Other	9	10	7
	$58	$55	$53

The accrued liability for these plans at December 31 was:

$ Millions	1997	1996
Obligation for:		
Retirees	$339	$273
Eligible to retire	133	145
Others	124	127
Unrecognized:		
Prior service cost	12	4
Experience loss	(62)	(38)
	$546	$511
Significant assumptions:		
Weighted-average discount rate	7.5%	7.75%
Present trend rate	8.0%	8.9%
Ultimate trend rate in 10 years	5.25%	5.50%

Increasing the health care cost trend rate by one percent would increase the obligation by $38 million and annual expense by $4 million.

Note 9. Common Stock: The company increased its quarterly common stock dividend from 25 cents per share to 27.5 cents, effective with the dividend payment in June 1997.

The company has repurchased 3.9 million shares of its common stock since 1994. In 1997, the company repurchased 1.3 million shares from Ford Motor company and another .2 million shares on the open market at an aggregate purchase price of $75 million. The company repurchased .8 million shares on the open market at an aggregate purchase price of $34 million in 1996 and 1.6 million shares at an aggregate purchase price of $69 million in 1995. All of the acquired shares are held as common stock in treasury.

In 1997, the company issued 3.75 million shares of its common stock to an employee benefits trust to fund obligations of employee benefit and compensation plans, principally retirement savings plans. Shares of the stock held by this trust are not used in the calculation of earnings per share until allocated to a benefit plan.

Note 10. Shareholders' Rights Plan: The company has a Shareholders' Rights Plan which it first adopted in 1986. The Rights Plan provides that each share of the company's common stock has associated with it a stock purchase right. The Rights Plan becomes operative when a person or entity acquires 15 percent of the company's common stock or commences a tender offer to purchase 20 percent or more of the company's common stock without the approval of the Board of Directors.

Note 11. Employee Stock Plans: Under the company's stock incentive and option plans, officers and other eligible employees may be awarded stock options, stock appreciation rights and restricted stock. Under the provisions of the stock incentive plan, up to one percent of the company's outstanding shares of common stock at the end of the preceding year is available for issuance under the plan each year. At December 31, 1997, there were 87,281 shares of common stock available for grant and 852,700 options exercisable under the plans.

Options	Number of shares	Weighted-average exercise price
Dec. 31, 1994	864,797	$ 37.49
Granted	360,625	39.98
Exercised	(22,520)	30.83
Canceled	(19,627)	41.03
Dec. 31, 1995	1,183,275	38.45
Granted	394,150	40.13
Exercised	(47,475)	32.43
Canceled	(19,800)	41.00
Dec. 31, 1996	1,510,150	38.88
Granted	766,500	60.61
Exercised	(294,025)	35.85
Canceled	(61,775)	42.66
Dec. 31, 1997	1,920,850	46.08

Options outstanding at December 31, 1997 have exercise prices between $15.94 and $79.81 and a weighted-average remaining life of 8 years. The weighted-average fair value of options granted was $14.94 per share in 1997 and $11.36 per share in 1996. The fair value of each option was estimated on the date of grant using a risk-free interest rate of 6.4 percent in 1997 and 6.7 percent in 1996, current annual dividends, expected lives of 10 years and expected volatility of 23 percent. A fair-value method of accounting for awards subsequent to January 1, 1995, would have had no material effect on results of operations.

Note 12. Segments of the Business: The company operates in a single industry segment—designing, manufacturing and marketing diesel engines and related products. The company's key markets for engines are automotive (heavy- and medium-duty trucks, buses and light commercial vehicles), power generation and industrial. Manufacturing, marketing and technical operations are maintained in major areas of the world. Earnings for each area may not be a meaningful representation of each area's contribution to consolidated operating results because of significant sales of products between and among the company's various domestic and international operations.

Summary financial information is listed below for each geographic area:

$ Millions	US	Europe/CIS	All Other	Corporate Items	Combined
1997					
Net sales:					
To customers in the area	$3,098	$ 792	$811	$ —	$4,701
To customers outside the area	552	349	23	—	924
Intergeographic transfers	561	220	140	(921)	—
Total	$4,211	$1,361	$974	$(921)	$5,625
Earnings before income taxes	$ 168	$ 60	$ 48	$ 10	$ 286
Identifiable assets	$2,311	$ 682	$673	$ 99	$3,765
1996					
Net sales:					
To customers in the area	$2,904	$ 770	$619	$ —	$4,293
To customers outside the area	581	363	20	—	964
Intergeographic transfers	415	180	129	(724)	—
Total	$3,900	$1,313	$768	$(724)	$5,257
Earnings before income taxes	$ 111	$ 75	$ 22	$ 6	$ 214
Identifiable assets	$2,069	$ 624	$517	$ 159	$3,369
1995					
Net sales:					
To customers in the area	$3,010	$ 772	$524	$ —	$4,306
To customers outside the area	587	342	10	—	939
Intergeographic transfers	367	186	126	(679)	—
Total	$3,964	$1,300	$660	$(679)	$5,245
Earnings (loss) before income taxes	$ 178	$ 113	$ 24	$(138)	$ 177
Identifiable assets	$1,853	$ 598	$483	$ 122	$3,056

Note 12. (continued)
Total sales for each geographic area are classified by manufacturing source and include sales to customers within and outside the area and intergeographic transfers. Transfer prices for sales between the company's various operating units generally are at arm's length, based upon business conditions, distribution costs and other costs which are expected to be incurred in producing and marketing products. Corporate items include interest and other income and expense. Identifiable assets are those resources associated with the operations in each area. Corporate assets are principally cash and investments.
Net sales by marketing territory were as follows:

$ Millions	1997	1996	1995
United States	$3,123	$2,925	$3,018
Asia/Australia	898	868	723
Europe/CIS	796	759	783
Mexico/Latin America	364	260	233
Canada	318	313	384
South Africa/Middle East	126	132	104
	$5,625	$5,257	$5,245

Note 13. Guarantees, Commitments and Other Contingencies: At December 31, 1997, the company had the following minimum rental commitments for noncancelable operating leases: $33 million in 1998, $26 million in 1999, $21 million in 2000, $16 million in 2001, $14 million in 2002 and $47 million thereafter. Rental expense under these leases approximated $60 million in 1997 and $55 million in 1996 and 1995.

Commitments under outstanding letters of credit, guarantees and contingencies approximated $120 million. Based on borrowing rates currently available to the company for bank loans with similar terms and average maturities, the fair value of total indebtedness of $654 million at December 31, 1997 was $878 million. The carrying values of all other receivables and liabilities approximated fair values.

In December 1997, the company entered into an agreement to fix the interest rates on the planned debt issuance in early 1998. The gain or loss upon settlement will be amortized over the terms of the notes and debentures.

The company enters into forward exchange contracts to hedge the effects of fluctuating currency rates on accounts receivable and payable that are denominated in other than the functional currencies of entities. The contracts typically provide for the exchange of different currencies at specified future dates and rates. The gain or loss due to the difference between the forward exchange rates of the contracts and current rates offset in whole or in part the loss or gain on the assets or liabilities being hedged. The company had $257 million of contracts outstanding at December 31, 1997, which mature in 1998 and are denominated in a variety of foreign currencies where the company does business.

Commodity swap contracts at December 31, 1997, amounted to $41 million and have the effect of fixing the company's cost of certain future material purchases. These contracts mature through 1999. Gains or losses on the contracts are reflected in earnings concurrently with the hedged items.

The Environmental Protection Agency, the U.S. Department of Justice and the California Air Resources Board (collectively the government agencies) have raised concerns with diesel engine manufacturers, including Cummins, about the level of nitrogen oxide (NOx) emissions from diesel engines under certain driving conditions. The government agencies also have raised concerns about the strategies that diesel manufacturers have employed to maximize fuel economy and lessen other pollutants, while also meeting Clean Air Act standards for NOx emissions. The government agencies have indicated that they may conclude that diesel manufacturers have been in violation of the Clean Air Act and have, therefore, issued conditional certificates of conformity on the 1998 heavy-duty, on-highway diesel engine models. Cummins believes that it is in full compliance with all laws and regulations regarding emissions. The government agencies have not made any final determinations or allegations. The industry and Cummins are engaged in confidential discussions regarding these emissions, the technical challenges confronted if new emissions standards are imposed, the commercial impact of the government's policy and legal positions and related issues. Both the industry and the government agencies are taking these concerns and discussions very seriously and are working diligently toward an amicable resolution. It is premature to predict the outcome of the discussions or whether the outcome will have a material effect on Cummins.

Cummins and its subsidiaries are defendants in a number of pending legal actions, including actions related to use and performance of the company's products. The company carries product liability insurance covering significant claims for damages involving personal injury and property damage. In the event the company is determined to be liable for damages in connection with actions and proceedings, the unreserved and uninsured portion of such liability is not expected to be material. The company also has been identified as a potentially responsible party at several waste disposal sites under U.S. and related state environmental statutes and regulations. The company denies liability with respect to many of these legal actions and environmental proceedings and vigorously is defending such actions or proceedings. The company has established reserves that it believes are adequate for its expected future liability in such actions and proceedings where the nature and extent of such liability can be estimated reasonably based upon presently available information.

Note 14. Quarterly Financial Data (unaudited):

$ Millions, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
1997					
Net sales	$1,304	$1,396	$1,366	$1,559	$5,625
Gross profit	286	324	309	361	1,280
Net earnings	41	53	54	64	212
Basic earnings per share	$ 1.07	$ 1.40	$ 1.41	$ 1.69	$ 5.55
Diluted earnings per share	1.06	1.38	1.38	1.66	5.48
1996					
Net sales	$1,316	$1,316	$1,264	$1,361	$5,257
Gross profit	316	300	270	299	1,185
Net earnings	49	44	26	41	160
Basic earnings per share	$ 1.21	$ 1.11	$ .67	$ 1.03	$ 4.02
Diluted earnings per share	1.21	1.10	.67	1.03	4.01

Earnings per share for 1996 and the first three quarters of 1997 have been restated to reflect the adoption of SFAS No. 128 as disclosed in *Note 1.*

Responsibility for Financial Statements

Management is responsible for the preparation of the company's consolidated financial statements and all related information appearing in this Report. The statements and notes have been prepared in conformity with generally accepted accounting principles and include some amounts which are estimates based upon currently available information and management's judgment of current conditions and circumstances. The company engaged Arthur Andersen LLP, independent public accountants, to examine the consolidated financial statements. Their report appears on this page.

To provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that accounting records are reliable for preparing financial statements, management maintains a system of accounting and controls, including an internal audit program. The system of accounting and controls is improved and modified in response to changes in business conditions and operations and recommendations made by the independent public accountants and the internal auditors.

The Board of Directors has an Audit Committee whose members are not employees of the company. The committee meets periodically with management, internal auditors and representatives of the company's independent public accountants to review the company's program of internal controls, audit plans and results, and the recommendations of the internal and external auditors and management's responses to those recommendations.

Report of Independent Public Accountants

To the Shareholders and Board of Directors of Cummins Engine Company, Inc.:

We have audited the accompanying consolidated statement of financial position of Cummins Engine Company, Inc., (an Indiana corporation) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of earnings, cash flows and shareholders' investment for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cummins Engine Company, Inc., and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

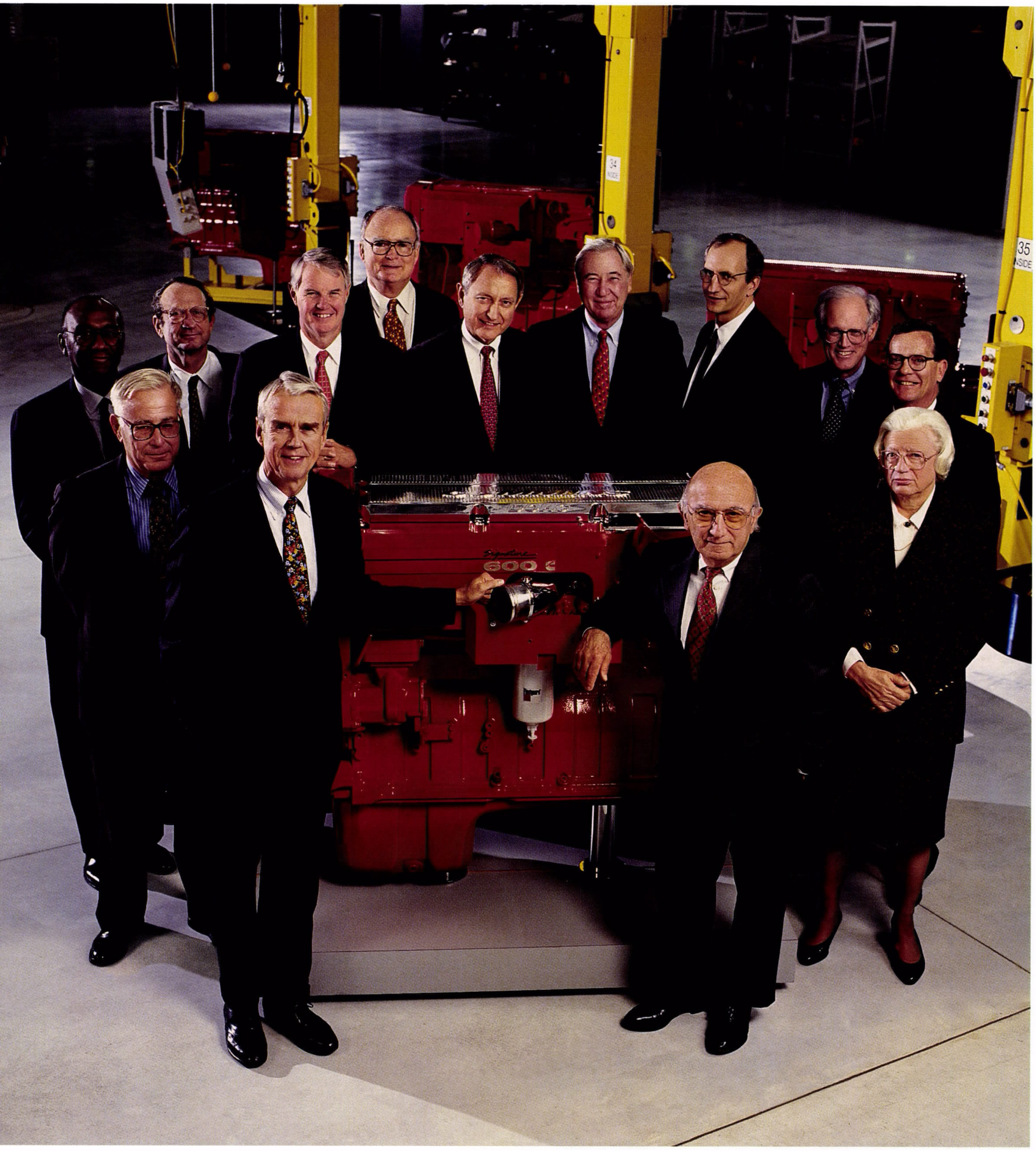
Arthur Andersen LLP

Chicago, Illinois,
January 26, 1998.

$ Millions, except per share amounts	1997	1996	1995	1994	1993
Net sales	$5,625	$5,257	$5,245	$4,737	$4,248
Cost of goods sold	4,345	4,072	3,974	3,551	3,211
Gross profit	1,280	1,185	1,271	1,186	1,037
Selling and administrative expenses	744	725	692	641	579
Research and engineering expenses	260	252	263	238	210
(Income) expense from joint ventures and alliances	(10)	—	2	(4)	—
Interest expense	26	18	13	17	36
Other (income) expense, net	(26)	(24)	6	—	7
Restructuring charges	—	—	118	—	—
Earnings before income taxes	286	214	177	294	205
Provision (credit) for income taxes	74	54	(47)	41	22
Earnings before extraordinary items	212	160	224	253	183
Early extinguishment of debt	—	—	—	—	(6)
Net earnings	$ 212	$ 160	$ 224	$ 253	$ 177
Earnings per share before extraordinary items:					
Basic	$ 5.55	$ 4.02	$ 5.53	$ 6.14	$ 5.01
Diluted	5.48	4.01	5.52	6.11	4.77
Net earnings per share:					
Basic	$ 5.55	$ 4.02	$ 5.53	$ 6.14	$ 4.85
Diluted	5.48	4.01	5.52	6.11	4.63
Number of shares for EPS:					
Basic	38.2	39.8	40.6	41.2	34.9
Diluted	38.7	39.9	40.7	41.4	38.3
Cash dividends per share	$1.075	$ 1.00	$ 1.00	$ .625	$ .20
Shareholders' investment per share	37.02	33.24	29.39	25.79	18.40
Working capital	$ 655	$ 532	$ 335	$ 458	$ 371
Property, plant and equipment, net	1,532	1,286	1,148	1,090	958
Total assets	3,765	3,369	3,056	2,706	2,390
Total indebtedness	654	415	219	233	236
Shareholders' investment	1,422	1,312	1,183	1,072	821
Property, plant and equipment additions	$ 405	$ 304	$ 223	$ 238	$ 174
Depreciation and amortization	158	149	143	128	125
Shareholders of record	4,700	4,800	5,000	4,800	4,400
Number of employees [a]	26,300	23,500	24,300	25,600	23,600

[a] Represents the number of employees at year-end. At December 31, 1997, number of employees included 2,800 employees of Cummins India Limited, which was consolidated in the fourth quarter of 1997.

Earnings per share for 1993 through 1996 have been restated to reflect the adoption of SFAS No. 128 as disclosed in *Note 1* to the *Consolidated Financial Statements.*



YAŞAM BOYU MÜŞTERIMIZ ग्राहक, जीवनसाथी।

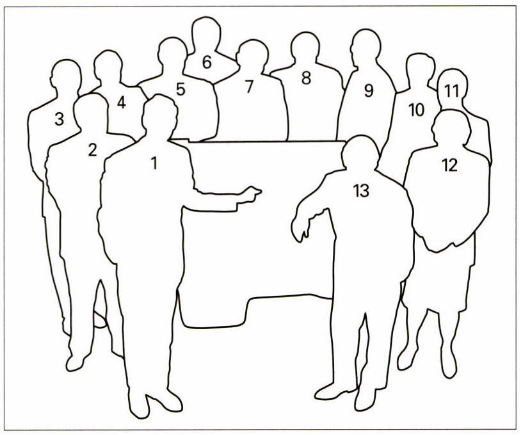
Directors and Committees

Directors

James A. Henderson [e]	Chairman and Chief Executive Officer of Cummins
Theodore M. Solso [e]	President and Chief Operating Officer of Cummins
Harold Brown [c,f,h]	Counselor, Center for Strategic & International Studies; Partner, Warburg, Pincus & Co., venture banking firm
Robert J. Darnall [a,d,f]	Chairman, President and Chief Executive Officer, Inland Steel Industries, Inc., steel manufacturing and materials distribution
John M. Deutch [a,f,h]	Institute Professor, Massachusetts Institute of Technology
Walter Y. Elisha [b,c,f]	Chairman, Springs Industries, Inc., manufacturer of home furnishings, industrial and specialty fabrics
Hanna H. Gray [c,d,f]	President Emeritus and Professor of History, University of Chicago
William I. Miller [a,d,e,f]	Chairman, Irwin Financial Corporation, financial services company
Donald S. Perkins [a,f,h]	Retired Chairman, Jewel Companies, Inc., diversified retailing
William D. Ruckelshaus [c,f,h]	Principal, Madrona Investment Group, L.L.C.
Henry B. Schacht [a,b,f,g]	Former Chairman, Lucent Technologies, Inc., communication industry products
Franklin A. Thomas [c,f,g,h]	Consultant, TFF Study Group, non-profit initiative to assist the development process in South Africa
J. Lawrence Wilson [a,b,f]	Chairman and Chief Executive Officer, Rohm and Haas Company, chemicals and plastics manufacturing
J. Irwin Miller	Honorary Chairman

a Audit Committee
b Business Development and Finance Committee
c Compensation Committee
d Employee Development and Corporate Responsibility Committee
e Executive Committee
f Nominating and Organization Committee
g Proxy Committee
h Technology Committee

Key to Opposite Page



1 James A. Henderson
2 Harold Brown
3 Franklin A. Thomas
4 John Deutch
5 J. Lawrence Wilson
6 William D. Ruckelshaus
7 Robert J. Darnall
8 Donald S. Perkins
9 William I. Miller
10 Henry B. Schacht
11 Theodore M. Solso
12 Hanna H. Gray
13 Walter Y. Elisha

Officers and Executives

Executive Officers

Senior Management

James A. Henderson	Chairman and Chief Executive Officer
Theodore M. Solso	President and Chief Operating Officer

Corporate Support

Kiran M. Patel	Vice President and Chief Financial Officer	
Mark R. Gerstle	Vice President	Cummins Business Services and Secretary
Jean S. Blackwell	Vice President	Human Resources
Pamela F. Carter	Vice President	General Counsel
Mark E. Chesnut	Vice President	Public Policy
George Fauerbach	Vice President	Business Development
Rick J. Mills	Vice President	Corporate Controller
Brenda S. Pitts	Vice President	Corporate Responsibility and Diversity
John A. Swaim	Vice President	Quality
Donald W. Trapp	Vice President	Treasurer

Automotive Group

C. Roberto Cordaro	Executive Vice President,	
	Group President	Automotive
Martha F. Brooks	Vice President	Worldwide Marketing for Medium-Duty and Heavy-Duty Trucks
Charles J. Bumb	Vice President	National Accounts
Keith E. Chambers	Vice President	Heavy-Duty Engine Program
Pedro N. Ferro	Vice President	Automotive Information Business
Dale F. Good	Vice President	North American Automotive Sales and Service
Jeffrey D. Jones	Vice President	National Accounts
Peter V. McDowell	Vice President	European Automotive Business
Larry O. Moore	Vice President	Worldwide Operations, Automotive Business
John H. Stang	Vice President	Automotive Engineering
Christine M. Vujovich	Vice President	Worldwide Marketing for Bus and Light Commercial Automotive, and Environmental Management

Power Generation Group

John K. Edwards	Executive Vice President,	
	Group President	Power Generation
Iain M. Barrowman	President	Cummins Wartsila SAS
Siisi Adu-Gyamfi	Vice President	Marketing, Power Generation
Samuel D. Hires	Vice President	High-Horsepower Engineering
Jerry E. Johnson	General Manager	Power Generation Americas
Michael F. Mitchell	Vice President	Operations, Power Generation
Tony Satterthwaite	Executive Director	Power Generation, Asia Pacific
Steven L. Zeller	Vice President and	
	Managing Director	Newage International Ltd.

Industrial Group

F. Joseph Loughrey	Executive Vice President,	
	Group President	Industrial
Alan R. Dohner	Vice President	SmartPower
James D. Kelly	Vice President	Industrial Marketing
Frank J. McDonald	Vice President	Worldwide Midrange Operations
Bryan W. Swank	Vice President	Worldwide Midrange Engineering
Bharat S. Vedak	Vice President	Industrial Customer Engineering
William H. Wolpert	General Manager	Worldwide Marine Business

Filtration Group

M. David Jones	Vice President	Filtration Group
	President	Fleetguard, Inc.
Rockne G. Flowers	Executive Vice President	Business Development

North America

Gottfried Muench	Vice President	PowerCare and Distribution
Richard M. Gold	Vice President	PowerCare Business
Robert J. Weimer	Vice President	PowerCare Customer Support

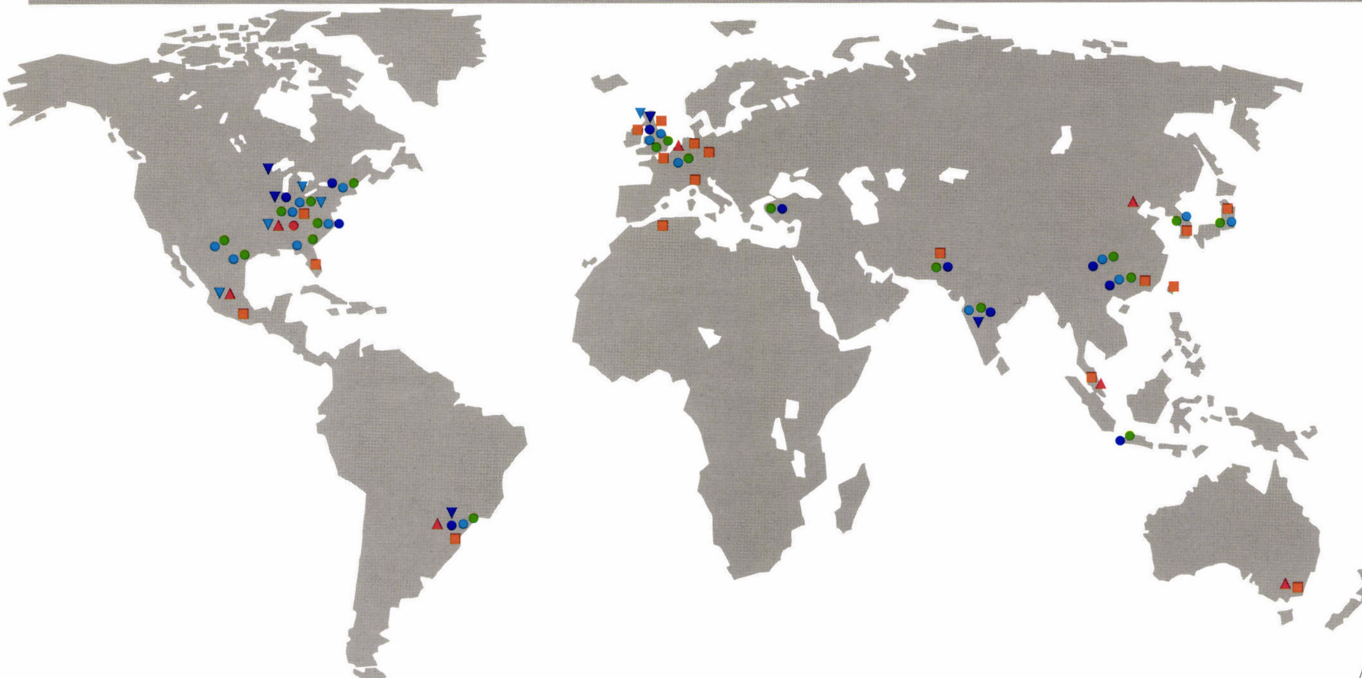
International

Mark A. Levett	Vice President	International
Steven M. Chapman	Vice President	China and Southeast Asia
J. Thompson Dewing	Vice President and	
	Managing Director	Central Area Business Organization
Ricardo Chuahy	General Manager	Latin America
	President	Cummins Brasil
Michael Green	Managing Director	South Pacific
Jong S. Kim	Managing Director	Korea
Steven P. Knaebel	Vice President	Mexico
	President	CUMMSA
Ronald L. Moore	Managing Director	India
Hiroyuki Tajima	Managing Director	Japan

Technology and Operations Support

Patrick F. Flynn	Vice President	Research
Jeffrey C. Hamilton	Vice President	Advanced Engineering and Technology Planning
H. Karl Kuehner	Vice President	Fuel Systems
Thomas Linebarger	Managing Director	Holset Engineering Company, Ltd.
Richard B. Stoner, Jr.	Group Vice President	Technology Businesses
Richard M. Sturgeon	Vice President	Information Technology
Ronald H. Temple	Vice President	Electronic Technology
John C. Wall	Vice President	Research and Development

Cummins' Worldwide Locations

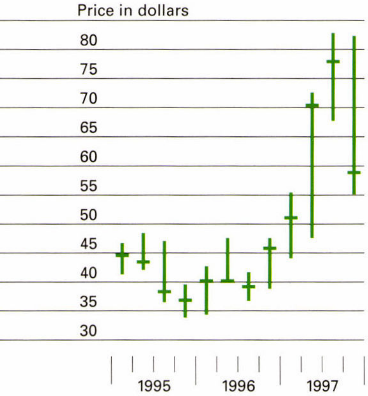


- ■ International Offices
- ▲ Parts Distribution Centers
- ▼ Technical Centers
- * Joint Venture
- ** Licensee

Operations	Production	Automotive	Power Generation	Industrial	Filtration
BMC Sanayi ve Ticaret A.S.** *Izmir, Turkey*	B3.9/5.9 C8.3	●			
Chongqing Cummins Engine Company Ltd.* *Chongqing, China*	NT K19/38/50 L10/M11	●	●	●	
Columbus Engine Plant *Columbus, Indiana*	N14/NT Signature 600	●	●	●	
Columbus Midrange Engine Plant *Columbus, Indiana*	B5.9 ISB	●			
Consolidated Diesel Company* *Rocky Mount, North Carolina*	B3.9/5.9 C8.3 ISB ISC	●	●	●	
Cummins Brasil Ltda. *Sao Paulo, Brazil*	B3.9/5.9 C8.3 NT/N14	●	●	●	
Cummins India Limited *Pune, India*	C8.3 NT/N14 V28/K's G-NT/N14/G-K's	●	●	●	
Cummins Industrial Center *Seymour, Indiana*	K19 V903 QSK19		●	●	
Cummins Komatsu Engine Co.* *Seymour, Indiana*	QST30		●	●	
Cummins Marine Division *Charleston, South Carolina*	Marine product development and upfit			●	
Cummins Natural Gas Engines, Inc. *Fort Worth, Texas*	G-NT G-K19 G-V28		●	●	
Cummins Wartsila SAS* *Mulhouse, France*	QSZ		●	●	
Cummins Wartsila SAS* *Daventry, England*	QSW		●	●	
Darlington Engine Plant *Darlington, England*	B3.9/5.9 C8.3	●	●	●	
Daventry Engine Plant *Daventry, England*	K38/50		●	●	
Dongfeng Cummins Engine Co. Ltd.* *Xiangfan, Hubei, China*	C8.3	●	●	●	
Dongfeng Motor Corporation** *Xiangfan, Hubei, China*	B3.9/5.9	●			
Engine Systems Ltd.* *Bin Qasim, Pakistan*	B5.9 C8.3	●		●	
Fleetguard, Inc. *Nashville, Tennessee*	Filtration products				●
Jamestown Engine Plant *Jamestown, New York*	M11 L10 G-L10	●	●	●	
Komatsu Cummins Engine Company, Ltd.* *Oyama, Japan*	B3.9/B5.9		●	●	
Nelson Industries, Inc. *Stoughton, Wisconsin*	Filtration and exhaust systems				●
Onan Corporation *Fridley, Minnesota*	Generator sets and electronic controls		●		
PT Perkasa Heavyndo** *Jakarta, Indonesia*	B3.9/B5.9	●		●	
SsangYong Heavy Industries Co., Ltd.** *Seoul, South Korea*	K19 V903		●	●	
Tata Cummins Ltd.* *Jamshedpur, India*	B3.9/B5.9	●			

Cummins Technical Centers Columbus, Indiana Fridley, Minnesota Darlington, England Pune, India Sao Paulo, Brazil	Research, technology, and engine and other product development
Components Atlas Inc. *Fostoria, Ohio*	Crankshafts and camshafts
Cummins S.A. *San Luis Potosi, Mexico*	Engine components and remanufactured engines
Diesel ReCon Company *Memphis, Tennessee*	Remanufactured engines and components
Fuel Systems Division *Columbus, Indiana*	Fuel system design and manufacture
Holset Engineering Company Ltd. *Huddersfield, England*	Turbochargers
Newage International Ltd. *Stamford, England*	Alternators

Cummins' Common Stock Price



Annual Meeting:

Shareholders are invited to attend the company's Annual Meeting on April 7, 1998 at 10:30 a.m. (Eastern Standard Time) in Columbus, Indiana. The meeting will be held in the Robbins Auditorium of Columbus East High School.

Stock Transfer Agent, Registrar and Dividend Disbursing Agent:

The First Chicago Trust Company of New York is the company's common stock transfer agent and registrar. The bank maintains the company's shareholder records and is responsible for disbursing dividend checks. Changes of address and questions should be addressed as follows:

General Shareholder Correspondence
First Chicago Trust Company of New York
P. O. Box 2500, Jersey City, NJ 07303-2500

Questions concerning transfers of stock ownership should be directed to The First Chicago Trust Company of New York, P. O. Box 2506. Cummins' Shareholder Representatives at the bank may be called at 201-324-0498. They also are available on the Internet at http://www.fctc.com and for the hearing impaired at TDD @ 201-222-4955

Dividend Distribution:

Common stock dividends are payable quarterly, upon authorization of the Board of Directors, on or about the fifteenth of March, June, September and December.

Dividend Reinvestment:

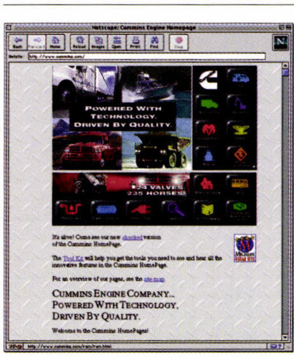
As an added service to shareholders, Cummins has a Dividend Reinvestment Plan, administered by First Chicago Trust Company of New York. This plan gives shareholders of record the option of having their cash dividends and optional cash payments applied toward the purchase of additional shares. Commissions and other expenses of the plan are paid by Cummins so that participants' funds are used solely for the purchase of additional shares.

Shareholders wishing information about this plan may call 800-446-2617 or write to:

First Chicago Trust Company of New York
P. O. Box 2598, Jersey City, NJ 07303-2598

Exchange Listings:

The common stock of Cummins Engine Company, Inc., was listed on the New York Stock Exchange in 1964 and the Pacific Stock Exchange in 1988. The stock is listed under the symbol CUM.



Inquiries:

Shareholders or others desiring a copy of the company's 1997 Form 10-K filed with the Securities and Exchange Commission, quarterly results or other information about the company may contact:

Linda J. Hall
Director–Investor Relations
Cummins Engine Company, Inc.
Box 3005 (Mail Code 60118)
Columbus, IN 47202-3005
ljhall@cob.cummins.com
Phone: 812-377-3121 Fax: 812-377-4937

General information, the Annual Report, quarterly results and other financial information also are available on Cummins' home page on the Internet (http://www.cummins.com).

The company's press releases by fax may be requested by calling News on Demand at 888-329-2305.

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평생고객 MENGUTAMAKAN PELANGGAN

YAŞAM BOYU MÜŞTERIMIZ ग्राहक, जीवनसाथी।

CLIENTES DE POR VIDA CLIENTS POUR LA VIE

客戶終生信賴 KUNDEN AUF LEBENSZEIT

عملاء مدى الحياة CLIENTES PARA SEMPRE

ЗАКАЗЧИКИ–НА ВСЮ ЖИЗНЬ 生涯顧客

客戶終生信賴 KUNDEN AUF LEBENSZEIT

ग्राहक, जीवनसाथी। YAŞAM BOYU MÜŞTERIMIZ

CLIENTES PARA SEMPRE عملاء مدى الحياة

CLIENTS POUR LA VIE CLIENTES DE POR VIDA

MENGUTAMAKAN PELANGGAN 평생고객

生涯顧客 ЗАКАЗЧИКИ–НА ВСЮ ЖИЗНЬ

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