

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1995

CUMMINS ENGINE COMPANY, INC.

Incorporated in the State of Indiana I.R.S. Employer Identification  
No. 35-0257090

500 Jackson Street, Box 3005, Columbus, Indiana 47202-3005  
(Principal Executive Office)  
Telephone Number: (812) 377-5000

Securities registered pursuant to Section 12(b) of the Act: Common  
Stock, \$2.50 par value, which is registered on the New York Stock  
Exchange and on the Pacific Stock Exchange.

Securities registered pursuant to Section 12(g) of the Act: None.

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

Indicate by check mark if disclosures of delinquent filers pursuant to  
Item 405 of Regulation S-K are not contained herein and will not be  
contained, to the best of registrant's knowledge, in definitive proxy  
or information statements incorporated by reference in Part III of  
this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates  
was approximately \$1.7 billion at January 28, 1996.

As of January 28, 1996, there were outstanding 40.2 million shares of  
the only class of common stock.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement filed with the  
Securities and Exchange Commission pursuant to Regulation 14A are  
incorporated by reference in Part III of this Form 10-K.

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## PART I

### ITEM 1. BUSINESS

#### OVERVIEW

Cummins Engine Company, Inc. ("Cummins" or "the Company") is a leading worldwide designer and manufacturer of diesel engines, ranging from 76 to 6,000 horsepower. The Company also produces natural gas engines and engine components and subsystems. Cummins provides power for a wide variety of equipment in its key markets: heavy-duty truck, midrange truck, power generation, bus and light commercial vehicles, industrial products and marine.

Cummins sells its products to original equipment manufacturers ("OEMs"), distributors and other customers worldwide and conducts manufacturing, sales, distribution and service activities in most areas of the world. Sales of products to major international firms outside North America are transacted by exports directly from the United States and shipments from foreign facilities (operated through subsidiaries, affiliates, joint ventures or licensees) which manufacture and/or assemble Cummins' products.

In 1995, approximately 58 percent of net sales were made in the United States. Major international markets include Europe (15 percent of net sales); Asia, the Far East and Australia (14 percent of net sales); Canada (7 percent of net sales); and Mexico and South America (4 percent of net sales).

#### BUSINESS MARKETS

##### Heavy-duty Truck

The Company has a complete line of 8-, 10-, 11- and 14-litre diesel engines that range from 260 to 525 horsepower serving the heavy-duty truck market. Cummins' heavy-duty diesel engines are offered as standard or optional power by most major heavy-duty truck manufacturers in North America. The seven largest US heavy-duty truck OEMs produced approximately 97 percent of the heavy-duty trucks sold in North America in 1995. The Company's largest customer for heavy-duty truck engines in 1995 was Navistar International Corporation, which represented approximately 7 percent of the Company's net sales. In 1995, the Company accounted for 58 percent of Navistar's heavy-duty engine purchases.

In 1995, factory retail sales of North American heavy-duty trucks grew by 10 percent from the previous year's level. Factory retail sales were 227,000 units in 1995, compared to 207,000 in 1994 and 174,000 in 1993. The Company's share of the North American heavy-duty truck engine market exceeded 35 percent in 1995 based on data published by the American Automotive Manufacturers Association. The Company's share of the North American heavy-duty truck engine market was 34 percent in 1994 and 35 percent in 1993.

Based on data published by the Society of Motor Manufacturers and Traders, the Company's share of engines for trucks sold in the United Kingdom was 15 percent in 1995.

Based on data published by the National Association of Truck and Bus Manufacturers, Cummins remained the leader of the heavy-duty truck market in Mexico, despite the virtual halt in truck production in that country.

In the fourth quarter of 1995, the Company introduced new versions of its M11 and N14 engines, both of which have advanced electronic controls and information technology. In 1995, the Company also began to ship alternate fueled engines (the L10 natural gas engine) for urban special-purpose truck markets and regional haul operations.

In the heavy-duty truck market, the Company competes with independent engine manufacturers as well as truck producers who manufacture diesel engines for their own products. Certain of these integrated manufacturers also are customers of the Company. In North America, the Company's primary competitors in the heavy-duty truck engine market are Caterpillar, Inc., Detroit Diesel Corporation and Mack Trucks, Inc. The Company's principal competitors in international markets vary from country to country, with local manufacturers generally predominant in each geographic market. Other diesel engine manufacturers in international markets include Mercedes Benz, AB Volvo, Renault Vehicules Industriels, Iveco Diesel Engines, Hino

Motors, Ltd., Mitsubishi Heavy Industries, Ltd., Isuzu Motors, Ltd., DAF Trucks N.V., Scania A.B., Nissan Diesel and Perkins Engines.

#### Midrange Truck

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The Company has a line of diesel engines ranging from 160 to 300 horsepower serving midrange and intercity delivery truck customers worldwide. In 1996, the Company will begin introducing its next generation of midrange diesel engines, with higher horsepower and electronic controls.

The Company entered the North American midrange diesel engine truck market in 1990. Based upon data published by R. L. Polk, the Company's share of the market for diesel-powered medium-duty trucks in 1995 was 35 percent, compared to 34 percent in 1994 and 31 percent in 1993. A major factor contributing to the Company's market share has been sales to Ford Motor Company. In 1993, Ford completed its introduction of Cummins' B and C Series engines as exclusive diesel power in its medium-duty truck line. Ford was the Company's largest customer for midrange engines for this market in 1995, representing approximately 4 percent of the Company's net sales.

The Company sells its B and C Series engines and engine components outside North America to midrange truck markets in Asia, Europe and South America. Cummins and Tata Engineering and Locomotive Company ("TELCO"), India's largest truck manufacturer, formed a joint venture in 1993 to manufacture B Series engines in India for TELCO vehicles.

In the midrange truck market, the Company competes with independent engine manufacturers as well as truck producers who manufacture diesel engines for their own products. Certain of these integrated manufacturers also are customers of the Company. Primary engine competitors in the midrange truck market in North America are Navistar International Corporation and Caterpillar, Inc. The Company's principal competitors in international markets vary from country to country, with local manufacturers generally predominant in each geographic market. Other diesel engine manufacturers in international markets include Mercedes Benz, AB Volvo, Renault Vehicules Industriels, Iveco Diesel Engines, Hino Motors Ltd., Mitsubishi Heavy Industries, Ltd., Isuzu Motors, Ltd., DAF Group N.V., Scania A.B., Perkins Engines Ltd., Nissan Diesel and MWM Brazil.

#### Power Generation

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In 1995, power generation sales represented 21 percent of the Company's net sales. Products include the complete line of Cummins' engines, Onan's gasoline engines, generator sets and switches and Newage alternators. These products serve the stationary power and mobile markets. In 1994, the Company acquired Power Group International ("PGI"), a developer and manufacturer of a broad range of power generation equipment sold under the trade names of Petbow, Auto Diesel and Agreba.

In stationary power, electrical power generation products and services are provided to major markets worldwide, with a product line ranging from 5 to 1,500 kilowatts. The Company's joint venture with Wartsila Diesel of Finland will extend Cummins' generator set range to 4,000 kilowatts. Providing power generation products for the utility industry has become an increasingly important market, with utilities turning to generator sets to manage peak and seasonal demands in lieu of making capital investments in additional capacity. Onan also provides load management systems for utility interruptible and peak-shaving applications. In the mobile business, Onan produces mobile generator sets, gasoline engines and power electronics for a wide variety of applications. Onan is a leading supplier of power generation sets for the recreational vehicle market in the United States.

In Power Generation, Cummins competes on a global scale with a variety of engine manufacturers and generator set assemblers. Caterpillar, Inc., Detroit Diesel Corporation, Perkins Engines and AB Volvo are the major engine manufacturers with a presence in the high-speed segment of the market. Onan competes with Caterpillar, F G Wilson and Kohler, among others, in the generator set business. Newage competes globally with Leroy Somer, Marathon and Meccalte, among others. In recent years, Emerson Electric, which already owned Leroy Somer, has become a major player with its acquisition of F G Wilson and Caterpillar's subsequent investment in F G Wilson.

#### Bus and Light Commercial Vehicles

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For this market, Cummins has both diesel and natural gas engines for

pickup trucks, school buses, transit buses, delivery trucks and recreational vehicles.

In North America, Chrysler, which offers the Cummins B Series engines in its Dodge Ram pickup truck, was the Company's largest customer for midrange engines in this market, representing approximately 7 percent of the Company's net sales in 1995.

The Company's C Series and M11 diesel engines and L10 natural gas engine are available for the US transit bus market. The demand for alternate fueled products continues to grow. In 1994, Cummins introduced its B Series natural gas engine for school buses in the United States and, in 1995, introduced the C Series natural gas engine.

In these markets, the Company competes with both independent manufacturers of diesel engines and with vehicle producers who manufacture diesel engines for their own products. Primary competitors who manufacture diesel engines for the bus and light commercial truck markets are Detroit Diesel Corporation, General Motors Corporation, Navistar International Corporation, Perkins Engines Ltd., MAN, AB Volvo, Mercedes Benz, Scania A.B. and MWM Brazil.

#### Industrial Products

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Cummins' engines power more than 3,000 models of equipment for the construction, logging, mining, agricultural, petroleum, rail and government markets throughout the world. Worldwide sales of Cummins products to this market in 1995 exceeded 67,000 engines, an increase of approximately 16 percent, compared to 1994. The Company introduced in 1993 its B Series engine rated at 200 horsepower that met the 1996 California off-highway emissions standards. The Company now has a complete line of diesel engines certified to meet these stringent standards.

In construction markets, the Company's relationship with Komatsu continued to expand. Cummins and Komatsu formed joint ventures in 1993 to produce Cummins B Series engines in Japan and Komatsu's 30-litre engine in the United States. Production at both joint venture sites has begun on schedule. Coupled with Cummins' relationship with Komatsu Dresser in North America, this alliance provides a strong base in the Company's construction markets.

The Company introduced in late 1995 its new high-horsepower products (the QSK19) using the CELECT high-pressure injection fuel system. Cummins' relationship with Wartsila has extended the Company's product line from 2,000 horsepower to 6,000 horsepower, which will provide new opportunities in mining and rail markets.

#### Marine

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Marine product applications span 76 to 6,000 horsepower for recreational, commercial and military markets. Cummins engines already comply with anticipated regulations through the year 2000.

#### Fleetguard and Holset

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Sales of filter and turbocharger products represented 11 percent of the Company's net sales in 1995.

Fleetguard is a leading manufacturer of products for the North American heavy-duty filter industry. Its products also are produced and sold in international markets, including Europe, Mexico, India, Australia, China, South Africa and the Far East.

Holset's products also are sold worldwide. In 1994, Holset introduced a variable geometry turbocharger design for truck powertrains. In 1994, Holset and TELCO entered into a joint venture to produce turbochargers in India. In 1995, Holset entered into a joint venture to produce and market turbochargers in China and an alliance with Mitsubishi Heavy Industries of Japan, covering cross-sourcing turbochargers, joint materials sourcing and collaborative international marketing.

#### BUSINESS OPERATIONS

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##### International

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The Company has manufacturing facilities worldwide, including major

operations in Europe, India, Mexico and Brazil. Cummins has entered into license agreements that provide for the manufacture and sale of the Company's products in Turkey, China, Pakistan, South Korea and other countries.

In addition, the Company has entered into alliances with business partners in various areas of the world. Cummins and Scania of Sweden have a joint venture to develop a fuel system for heavy-duty diesel engines. Cummins has a joint venture with TELCO of India to manufacture the Cummins B Series engines in India for TELCO trucks. Cummins and Komatsu Ltd. of Japan have formed joint ventures to manufacture the B Series engines in Japan and high-horsepower Komatsu-designed engines in the United States. In 1995, the Company formed a joint venture with China National Heavy Duty Truck Corporation, previously a Cummins' licensee, to manufacture a broad line of diesel engines in China. In 1995, the Company also entered into a joint venture with Wartsila Diesel International of Finland to manufacture both diesel and natural gas engines above 2,500 horsepower. Several of the Company's subsidiaries have similar ventures throughout the world.

Because of the Company's increasingly global business, its operations are subject to risks, such as currency controls and fluctuations, import restrictions and changes in national governments and policies. Generally, Cummins expects to benefit from the North American Free Trade Agreement and the General Agreement on Tariffs and Trade. However, economic conditions in Mexico and the devaluation of the Mexican peso have adversely affected the Company's operations in Mexico and are expected to continue to do so in 1996.

#### Research and Development

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Cummins conducts an extensive research and engineering program to achieve product improvements, innovations and cost reductions for its customers, as well as to satisfy legislated emissions requirements. The Company is in the midst of a program to refurbish and extend its engine range. The Company also offers a natural gas-powered engine product line for certain of its markets. As disclosed in Note 1 to the Consolidated Financial Statements, research and development expenditures approximated \$230 million in 1995, \$200 million in 1994 and \$160 million in 1993.

#### Sales and Distribution

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While the Company has supply agreements with some customers, including Ford, Chrysler and Komatsu Dresser, for Cummins engines in both on- and off-highway markets, most of the Company's business is done on open purchase orders. These purchase orders usually may be canceled on reasonable notice without cancellation charges. Therefore, while incoming orders generally are indicative of anticipated future demand, the actual demand for the Company's products may change at any time. While the Company typically does not measure backlog, customers provide information about future demand, which is used by the Company for production planning. Lead times for the Company's engines are dependent upon the customer, market and application.

Historically, during the third quarter of the year, the Company has experienced modest seasonal declines in production, which have had an effect on the demand for Cummins' products during that quarter of each year.

The Company's products compete on a number of factors, including performance, price, delivery, quality and customer support. Cummins believes that its continued focus on cost, quality and delivery, its extensive technical investment, its full product line and customer-led support programs are key elements of its competitive position.

Cummins warrants its engines, subject to proper use and maintenance, against defects in factory workmanship or materials for either a specified time period or mileage or hours of use. Warranty periods vary by engine family and market segment.

There are approximately 6,700 locations in North America, primarily owned and operated by OEMs or their dealers, at which Cummins-trained service personnel and parts are available to maintain and repair Cummins engines. The Company's parts distribution centers are located strategically throughout the world.

Cummins also sells engines, parts and related products through distributorships worldwide. The Company believes its distribution system is an important part of its marketing strategy and competitive position. Most of its North American distributors are independently owned and operated. The Company has agreements with each of these

distributors, which typically are for a term of three years, subject to certain termination provisions. Upon termination or expiration of the agreement, the Company is obligated to purchase various assets of the distributorship. The purchase obligation of the Company relates primarily to inventory of the Company's products, which can be resold by the Company over a reasonable period of time. In the event the Company had been required to fulfill its obligations to purchase assets from all distributors simultaneously at December 31, 1995, the aggregate cost would have been approximately \$200 million. Management believes it is unlikely that a significant number of distributors would terminate their agreements at the same time, requiring the Company to fulfill its purchase obligation.

#### Supply

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The Company machines many of the components used in its engines, including blocks, heads, rods, turbochargers, crankshafts and fuel systems. Cummins has adequate sources of supply of raw materials and components required for its operations. The Company has arrangements with certain suppliers who are the sole sources for specific products. While the Company believes it has adequate assurances of continued supply, the inability of a supplier to deliver could have an adverse effect on production at certain of the Company's manufacturing locations.

#### Employment

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At December 31, 1995, Cummins employed 24,300 persons worldwide, approximately 10,100 of whom are represented by various unions. The Company has labor agreements covering employees in North America, South America and the United Kingdom. In 1995, members of the Diesel Workers Union and the Office Committee Union at the Company's midrange engine plant in Southern Indiana ratified 5-year agreements. In December 1995, members of the Office Committee Union ratified an early agreement which extends until 1999 for offices and plants in Southern Indiana and the Company's Technical Center. In 1993, members of the Diesel Workers Union reached an agreement that will extend until the year 2004. In 1995, members of the United Auto Workers at the Company's crankshaft plant in Fostoria, Ohio, reached an agreement which will extend for five years.

The Company has no major contracts expiring during the next 18 months.

#### ENVIRONMENTAL COMPLIANCE

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##### Product Environmental Compliance

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Cummins engines are subject to extensive statutory and regulatory requirements that directly or indirectly impose standards with respect to emissions and noise. Cummins' products comply with emissions standards that the US Environmental Protection Agency ("EPA") and California Air Resources Board ("CARB") have established for heavy-duty on-highway diesel engines produced through 1996. Cummins' ability to comply with these and future emissions standards is an essential element in maintaining its leadership position in the North American heavy-duty truck and other automotive markets, as well as in supplying other markets. The Company will make significant capital and research expenditures to comply with these standards. Failure to comply could result in adverse effects on future financial results.

Cummins has successfully completed the certification of its 1996 on-highway products, which include both midrange and heavy-duty engines. All of these products underwent extensive laboratory and field testing prior to their release.

Emissions Averaging, Banking and Trading regulations were promulgated by the EPA in July 1990. By selling 1991, 1992 and 1993 model year engines with emissions levels below applicable standards and by introducing several of the Company's 1994 configurations early, Cummins generated substantial oxides of nitrogen and particulate matter credits. These credits expire on December 31, 1996 if not used before this date. While a portion of the Company's 1996 products will use some of these credits as part of an effort to achieve cost-effective compliance, the Company does not believe that the cost of compliance without relying on these credits would be material. The Company closely manages credit generation and use and believes that engines currently using credits will be brought into compliance during the course of normal engineering improvements or will be replaced by engines meeting future emissions standards without any material financial effect.

The next major change in emissions requirements for heavy-duty on-highway diesel engines occurs in 1998, when the oxides of nitrogen standard is lowered from 5.0 to 4.0 g/bhp-hr. 1998 is also the effective date for the Clean Fuel Fleet Vehicle program. Beginning January 1, 1998, fifty percent of new vehicles purchased by certain centrally fueled fleets in 22 ozone non-attainment areas in the United States must be powered by engines which meet a combined oxides of nitrogen plus non-methane hydrocarbon standard of 3.8 g/bhp-hr. Design and development activity aimed at meeting these standards are well underway.

Contained in the environmental regulations are several means for the EPA to ensure and verify compliance with emissions standards. Two of the principal means are tests of new engines as they come off the assembly line, referred to as selective enforcement audits ("SEA"), and tests of field engines, commonly called in-use compliance tests. The SEA provisions have been used by the EPA to verify the compliance of heavy-duty engines for several years. In 1995, two such audit tests were performed on Cummins engines, both of which were passed. The failure of an SEA could result in cessation of production of the noncompliant engines and the recall of engines produced prior to the audit. In the product development process, Cummins anticipates SEA requirements when it sets emissions design targets.

No Cummins engines were chosen for in-use compliance testing in 1995. It is anticipated that the EPA will increase the in-use test rate in future years, raising the probability that one or more of the Company's engines will be selected. As with SEA testing, if an in-use test is failed, an engine recall may be necessary.

In 1990, CARB redefined their medium-duty vehicle class in a way that affects the Company's products used in certain California vehicles from 8,500 to 14,000 pounds gross vehicle weight. CARB promulgated new standards for this category which began phasing-in during 1995. A new configuration of Cummins B Series engine has been developed and certified to meet the requirements for this regulatory category.

In 1988, CARB promulgated a rule that necessitates the reporting of failures of emissions-related components when the failure rate reaches a specified level (25 component failures or one percent of build, whichever is greater). At somewhat higher failure rates (50 components or four percent of build), a recall may be required. The Company continues to monitor such failures. In 1995, there were no emissions-related failures which reached a level that required a report.

In January 1992, CARB promulgated a regulation for engines rated at or above 175 horsepower used in mobile off-highway applications. In mid-1994, the EPA also promulgated regulations for this category. The EPA regulation covers engines rated at or above 50 horsepower. In all other material respects these two regulations are the same. The effective dates are staged according to rated horsepower and began phasing in on January 1, 1996. Cummins has successfully completed certification of the majority of its mobile off-highway products which are included in the first phase (those with ratings between 175 to 750 horsepower). The remainder will be certified in the first half of 1996. All of these products have undergone, or will undergo, extensive laboratory and field tests prior to their release.

Emissions standards in international markets, including Europe and Japan, are becoming more stringent. Given the Company's experience in meeting US emissions standards, it believes that it is well positioned to take advantage of opportunities in these markets as the need for emissions-control capability grows.

There are several federal and state regulations which encourage and, in some cases, mandate the use of alternate fueled heavy-duty engines. The Company currently offers natural gas fueled versions of its L10 and B5.9 engines and has several development programs underway to expand its alternate fueled product offering.

Vehicles and certain industrial equipment in which diesel engines are installed must meet federal noise standards. The Company believes that applications in which its engines are now installed meet those noise standards and that future installations also will be in compliance.

#### Other Environmental Statutes and Regulations

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Cummins believes it is in compliance in all material respects with laws and regulations applicable to the plants and operations of the Company and its subsidiaries. During the past five years, expenditures for environmental control activities and environmental remediation projects at the Company's operating facilities in the

United States have not been a major portion of annual capital outlays and are not expected to be material in 1996.

Pursuant to notices received from federal and state agencies and/or defendant parties in site environmental contribution actions, the Company and its subsidiaries have been identified as potentially responsible parties ("PRPs") under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or similar state laws, at a number of waste disposal sites. Under such laws, PRPs typically are jointly and severally liable for any investigation and remediation costs incurred with respect to the sites. Therefore, the Company's ultimate responsibility for such costs could be a percentage greater than the percentage of waste actually contributed to the site by the Company.

The sites at which the Company or its subsidiaries are currently named as a PRP are the following: Old City Landfill, Columbus, Indiana; Purity Oil Site, Fresno, California; Oak Grove Sanitary Landfill, Anoka County, Minnesota; Waste Disposal Engineering Landfill, Andover, Minnesota; White House Waste Oil Pits, Jacksonville, Florida; Seaboard Chemical, Jamestown, North Carolina; Double Eagle Refinery, Oklahoma City, Oklahoma; Wastex Research, East St. Louis, Illinois; North Hollywood Dump, Memphis, Tennessee; Commercial Oil, Oregon, Ohio; Berliner & Ferro, Swartz Creek, Michigan; Schnitzer Iron & Metal, St. Paul, Minnesota; Combustion Inc., Dedham Springs, Louisiana; Four County Landfill, Culver, Indiana; Schumann Site, South Bend, Indiana; Great Lakes Asphalt, Zionsville, Indiana; Third Site, Zionsville, Indiana; Auto-Ion, Kalamazoo, Michigan; PCB Treatment Inc., Kansas City, Kansas; ENRX, Buffalo, New York; Dubose, Contonement, Florida; Uniontown Landfill, Uniontown, Indiana; Sand Springs, Oklahoma; United Steel Drum, East St. Louis, Illinois; and Wayne Reclamation & Recycling, Ft. Wayne, Indiana. The Company presently is contesting its status as a PRP at several of these sites. At some of these sites, the Company will be released from liability at the site as a de minimis PRP for a nominal amount.

While the Company is unable at this time to determine the aggregate cost of remediation at these sites, it has attempted to analyze its proportionate and actual liability by analyzing the amounts of waste contributed to the sites by the Company, the estimated costs for total remediation at the sites, the number of identities of other PRPs and the level of insurance coverage. The results of that analysis are described below.

The Company and its subsidiaries have entered into administrative agreements at certain of these sites to perform remedial actions. At the Old City Landfill, the Company and two other PRPs have entered into a Consent Order with the Indiana Department of Environmental Management to implement the Record of Decision issued by EPA in 1992. The cost to implement the Consent Order is estimated to be approximately \$300,000, of which the Company will pay 50 percent.

At the Purity Oil Site, a subsidiary of the Company has been identified as a PRP and is one of several PRPs who have been issued an order by EPA to undertake remedial action at the site. The Company's subsidiary has contributed \$282,000 toward the first phase of the remedial action at the site. While the subsidiary's liability for future expenditures has not been determined, the Company estimates that its percentage contribution of hazardous waste to the site was less than one percent. Because all records relating to the site are unavailable, the PRPs at this site have implemented an Alternative Dispute Resolution procedure involving a neutral third party who will recommend an allocation scheme for the PRPs. While waste-in quantities will be important to this determination, ultimate resolution of the allocation may vary from the waste-in amount. The Company believes it has adequate reserves to cover its share of future expenses at the site.

Onan Corporation, a subsidiary of the Company, has entered into an administrative agreement to participate in remediation of the Waste Disposal Engineering Landfill. The cost of remediation at this site is estimated to range from \$10 million to \$15 million, of which Onan expects to contribute approximately \$600,000, which has been reserved fully. Construction of the major remedies at the site have been completed, leaving only treatment and periodic sampling to be accomplished. Onan also has entered into an administrative agreement for the Oak Grove Landfill. The estimated cost to remediate this site is approximately \$6 million. Onan has contributed \$127,000 to cover its share of the costs of remediation. Construction is complete at this site, and only treatment and periodic sampling remain. Onan has filed litigation against its insurer at Oak Grove and Waste Disposal in order to enforce its contract of insurance for both the remedial costs and all related defense costs at those sites. This litigation is in its early stages. In addition, the Steering Committees for both



sites have submitted each site for reimbursement under the Minnesota Landfill Cleanup Program, a legislative initiative that would reimburse parties for remediating hazardous waste landfills. Both sites have been qualified initially for the program by the Minnesota Pollution Control Agency. In the fourth quarter of 1995, Onan received reimbursement for approximately 15 percent of its contributions to the Waste Disposal site and expects to receive additional reimbursements for both sites in the first half of 1996.

With respect to other sites at which the Company or its subsidiaries have been named as PRPs, the Company cannot accurately estimate the future remediation costs. At several sites, the remedial action to be implemented has not been determined for the site. In other cases, the Company or its subsidiary has only recently been named as a PRP and is collecting information on the site. Finally, in some cases, the Company believes it has no liability at the site and is actively contesting designation as a PRP.

Based upon the Company's prior experiences at similar sites, however, the aggregate future cost to all PRPs to remediate these sites is not likely to be significant. In each of these cases, the Company believes that it has good defenses at several of the sites, that its percentage contribution at other sites is likely to be de minimis or that other PRPs will bear most of the future remediation costs. However, the environmental laws impose joint and several liability and, consequently, the Company's ultimate responsibility may be based on many factors outside the Company's control and could be material in the event that the Company becomes obligated to pay a significant portion of these expenses. Based upon information presently available, the Company believes that such an outcome is unlikely and that its actual and proportionate costs of participating in the remediation of these sites will not be material.

## ITEM 2. PROPERTIES

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Cummins' worldwide manufacturing facilities occupy approximately 15 million square feet, including approximately 5 million square feet outside the United States. Principal manufacturing facilities in the United States include the Company's plants in Southern Indiana; Jamestown, New York; Lake Mills, Iowa; Cookeville, Tennessee; and Fridley, Minnesota, as well as an engine plant in Rocky Mount, North Carolina, which is operated in partnership with Case Corporation.

Countries of manufacture outside of the United States include England, Scotland, Brazil, Mexico, France, Spain, Australia and Germany. In addition, engines and engine components are manufactured by joint ventures or independent licensees at plants in France, China, India, Japan, Pakistan, South Korea and Turkey.

Cummins believes that all of its plants have been maintained adequately, are in good operating condition and are suitable for its current needs through productive utilization of the facilities.

## ITEM 3. LEGAL PROCEEDINGS

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The information appearing in Note 16 to the Consolidated Financial Statements is incorporated herein by reference.

On April 5, 1990, Raphael Warkel and Alan J. Stransky filed a complaint in the US District Court for the Southern District of Indiana against the Company, all of its then current directors and one past director. The complaint purported to be brought as a class action on behalf of persons who purchased the Company's common stock between May 1, 1989 and September 21, 1989. The complaint alleged that the Company and the other defendants violated Section 10(b) and Section 20 of the Securities Exchange Act of 1934 by failing to disclose material financial information concerning the Company in an effort to "artificially inflate" the market price of the Company's common stock. The complaint sought compensatory damages of unspecified amount, costs and attorneys' fees. All defendants answered denying the substantive allegations of the complaint. The plaintiffs moved for class certification, which motion was opposed by the defendants. On November 30, 1992, the court granted defendants' motion for judgment on the pleadings and dismissed the complaint. The court held that the complaint failed to state a claim for relief under the federal securities laws. The court gave the plaintiffs 30 days to file an amended complaint. On December 29, 1992, plaintiffs filed an amended complaint against the same defendants. The amended complaint, which alleges the Company and other defendants violated Section 10(b) and Section 20 of the Securities Exchange Act by failing to disclose material financial information concerning the Company in an effort to "artificially inflate" the market price of the Company's common stock, is also brought as a class action and seeks compensatory damages of

unspecified amount, costs and attorneys' fees. On March 3, 1993, defendants moved to dismiss the amended complaint. On September 13, 1993, the court dismissed the claims of plaintiff Stransky with prejudice. The court also dismissed the claims of plaintiff Warkel except for a claim based on an allegedly false and misleading press release issued by the Company in July 1989. Plaintiff Stransky appealed the dismissal of his claim to the US Court of Appeals for the Seventh Circuit. On April 7, 1995, the US Court of Appeals for the Seventh Circuit affirmed in part, reversed in part and remanded in part the decision of the US District Court for the Southern District of Indiana to dismiss all the claims of plaintiff Stransky with prejudice. On July 18, 1995, the US District Court for the Southern District of Indiana granted plaintiffs' motion to certify Warkel, et al., v. Cummins Engine Company, Inc., et al., as a class action on behalf of persons who purchased the Company's common stock between May 1, 1989 and October 11, 1989. On November 29, 1995, plaintiffs filed a motion for leave to amend their amended complaint to include a claim under Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 enacted thereunder that certain statements made in a press release issued by the Company in April 1989 were false and were known by Cummins to be false at the time they were made. The motion to amend has been fully briefed but not yet decided. On February 15, 1996, defendants (including the Company and the other past and current director defendants) and the plaintiffs reached an agreement in principle to settle the class action suit. The details of the settlement remain to be negotiated, and any final agreement must be approved by the District Court. Defendants continue to believe that plaintiffs' claims under Section 10(b) and Section 20 of the Securities Exchange Act of 1934 are entirely meritless. However, in the interests of avoiding the significant burdens and costs, both financial and non-financial, involved in defending the case through a trial (scheduled for September 1996), and any appeals, the defendants have agreed in principle to settle the case for \$5.5 million. Defendants believe that the cost of defending this litigation through trial and appeals would approach or exceed \$2.5 million. Defendants will pay the entirety of the settlement amount upon approval by the District Court of the settlement. Pursuant to the provisions of its by-laws and of Indiana law, the Company is obligated to indemnify the defendants for the cost of any settlement, and the Company will do so. The Company will seek reimbursement of approximately \$3 million from the director defendants' indemnity insurer, an amount which represents the portion of the settlement amount that exceeds the deductible provided for in the policy, taking into account the amount that defendants will have expended in defense of the action. The insurer has indicated that it will deny a portion of this insurance claim when it is made. The Company believes the insurer's position is meritless. The Company continues to engage in discussions with the insurer with the intention of obtaining full reimbursement but ultimately may have to pursue litigation against the insurer to enforce the terms of the insurance policy in accordance with the Company's understanding of those terms. While the Company believes that its position is correct, there can be no assurance that the Company will achieve full reimbursement either through negotiations with the insurer or through litigation.

The material in Item 1 "Other Environmental Statutes and Regulations" is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange under the symbol "CUM". The following table sets forth, for the calendar quarters shown, the range of high and low composite prices of the common stock and the cash dividends declared on the common stock.

	High	Low	Dividends Declared
1995			
First quarter	\$46 7/8	\$41 1/2	\$.25
Second quarter	48 5/8	42 1/4	.25
Third quarter	47 1/4	36 5/8	.25
Fourth quarter	39 3/4	34	.25

1994

First quarter	\$57 5/8	\$44 1/2	\$.125
Second quarter	53 1/8	40 1/8	.125
Third quarter	45 7/8	35 7/8	.125
Fourth quarter	46 1/4	38 5/8	.25

At December 31, 1995, the approximate number of holders of record of the Company's common stock was 5,000.

The Board of Directors in the fourth quarter of 1994 authorized repurchase by the Company of up to 2.5 million shares of its common stock. During 1995, the Company repurchased on the open market 1.6 million shares at an aggregate price of \$69 million, or average price of \$43.57 per share. In 1994, the Company repurchased on the open market .1 million shares of common stock at an aggregate purchase price of \$5 million, or average price of \$42.47 per share. All of the acquired shares are held as common stock in treasury.

In the fourth quarter of 1994, the Board of Directors increased the Company's quarterly common stock dividend from 12.5 cents per share to 25 cents per share. The declaration and payment of future dividends by the Board of Directors of the Company will be dependent upon the Company's earnings and financial condition, economic and market conditions and other factors deemed relevant by the Board of Directors.

Certain of the Company's loan indentures and agreements contain provisions which permit the holders to require the Company to repurchase the obligations upon a change of control of the Company, as defined in the applicable debt instruments.

As more fully described in Note 14 to the Consolidated Financial Statements, which information is incorporated herein by reference, the Company has a Shareholders' Rights Plan.

The Company's bylaws provide that Cummins is not subject to the provisions of the Indiana Control Share Act. However, Cummins is governed by certain other laws of the State of Indiana applicable to transactions involving a potential change of control of the Company.

ITEM 6. SELECTED FINANCIAL DATA  
(Dollars in Millions, Except Per Share Amounts)

	1995	1994	1993	1992	1991
Net sales	\$5,245	\$4,737	\$4,248	\$3,749	\$3,406
Net earnings (loss)	224	253	177	(190)	(14)
Net earnings (loss) per share:					
Primary	5.52	6.11	4.79	(6.01)	(.75)
Fully diluted	5.52	6.11	4.63	(6.01)	(.75)
Cash dividends per share	1.00	.625	.20	.10	.35
Total assets	3,056	2,706	2,390	2,230	2,041
Long-term debt	117	155	190	412	443

In 1995, the Company's results included restructuring charges of \$118 million (\$77 million after taxes) to reduce the worldwide work force and to close or restructure selected operations in Europe, Brazil and North America. Net earnings in 1995 also included release of the tax valuation allowance of \$68 million.

In December 1993, the Company sold 2.6 million shares of its common stock in a public offering and used a portion of the proceeds to redeem \$77 million in principal amount of the Company's outstanding 9-3/4 percent sinking fund debentures. This early extinguishment of debt resulted in an extraordinary charge of \$6 million.

In 1992, the Company's results included a charge of \$251 million for the cumulative effect of changes in accounting as prescribed by SFAS Nos. 106, 109 and 112 related to accounting for retirees' health care and life insurance benefits, income taxes and postemployment benefits. In 1992, the Company sold 4.6 million shares of its common stock in a public offering and used a portion of the proceeds to extinguish \$71 million of debt of Consolidated Diesel Company, an unconsolidated, 50-percent owned partnership, \$8 million of the Company's 8-7/8 percent sinking fund debentures and \$11 million of a 15-percent note payable to an insurance company. These early extinguishments of debt resulted in an extraordinary charge of \$6 million.

The Company's results for 1991 included a credit of \$52 million for

the cumulative effect of changes in accounting to include in inventory certain production-related costs previously charged directly to expense and to adopt a modified units-of-production depreciation method for substantially all engine production equipment.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

OVERVIEW

Cummins' record net sales of \$5.2 billion in 1995 were 11 percent higher than 1994's record sales and 23 percent higher than 1993 sales. The Company shipped 338,900 engines in 1995, an 11-percent increase above 1994 and 29 percent higher than 1993. Shipments by engine family for the comparative periods were:

Engine Shipments	1995	1994	1993
Midrange engines	222,100	195,600	167,900
Heavy-duty engines	107,300	99,900	86,500
High-horsepower engines	9,500	8,800	8,600
Total engine shipments	338,900	304,300	263,000

Excluding the restructuring charges, earnings before taxes were a record \$295 million in 1995, slightly higher than earnings before taxes of \$294 million in 1994 and \$90 million higher than in 1993. In the fourth quarter of 1995, the Company announced that it was evaluating the consolidation and disposal of certain assets and planned to reduce its worldwide work force by approximately 2,000. Restructuring charges related to these actions were \$118 million, or \$77 million after taxes, in 1995. In addition, the Company recorded a credit of \$68 million in 1995 for the release of its tax valuation allowance.

Net earnings in 1995 were \$224 million, or \$5.52 per share. Excluding the effects of the restructuring charges and tax credit, net earnings would have been \$233 million, or \$5.73 per share, compared to \$253 million, or \$6.11 per share, in 1994. Net earnings of \$177 million, or \$4.79 per share, in 1993 included a charge of \$6 million for early extinguishment of debt.

RESULTS OF OPERATIONS

The percentage relationship between net sales and other elements of the Company's Consolidated Statement of Earnings for each of the last three years was:

Percent of Net Sales	1995	1994	1993
Net sales	100.0	100.0	100.0
Cost of goods sold	75.8	75.0	75.6
Gross profit	24.2	25.0	24.4
Selling & administrative expenses	13.2	13.5	13.6
Research & engineering expenses	5.0	5.0	4.9
Interest expense	.2	.4	.9
Other, net	.2	(.1)	.2
Restructuring charges	2.2	-	-
Earnings before income taxes	3.4	6.2	4.8
Provision (credit) for income taxes	(.9)	.9	.5
Earnings before extraordinary item	4.3	5.3	4.3
Early extinguishment of debt	-	-	(.1)
Net earnings	4.3	5.3	4.2

Sales by Market

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

\$ Millions	1995		1994		1993	
	Dollars	Percent	Dollars	Percent	Dollars	Percent

Heavy-duty truck	1,506	29	1,410	30	1,230	29
Midrange truck	581	11	513	11	482	11
Power generation	1,130	21	1,039	22	963	23
Bus & light commercial vehicles	687	13	592	12	498	12
Industrial products	680	13	593	12	547	13
Marine	93	2	78	2	68	1
Fleetguard and Holset	568	11	512	11	460	11
Net sales	<u>5,245</u>	<u>100</u>	<u>4,737</u>	<u>100</u>	<u>4,248</u>	<u>100</u>

Sales to the heavy-duty truck market in 1995 were 7 percent higher than in 1994 and 22 percent higher than the 1993 level. The increase in sales during the last three years has been due to a high level of demand for engines for the North American heavy-duty truck market. In 1995, the Company's engine shipments for this market were 15 percent higher than in 1994 and 31 percent higher than in 1993. In 1995, factory retail sales of heavy-duty trucks in North America were 10 percent higher than the previous year's level. However, with the high level of cancellation rates in the second half of 1995 and lower truck production levels at OEMs, this market is expected to decline in 1996. Cummins continued to lead this market and its share exceeded 35 percent in 1995. The Company's market share was 34 percent in 1994 and 35 percent in 1993.

International engine shipments for heavy-duty trucks were 41 percent lower than in 1994 and 25 percent below 1993. The decline in engine shipments in 1995 was primarily in Mexico where heavy-duty engine shipments have been at very low levels due to economic conditions in that country. The Company's operations in Mexico were near break-even in 1995, with the outlook uncertain for 1996. Engine shipments in Mexico are not expected to improve in 1996.

Sales of engines for the midrange truck market in 1995 were 13 percent higher than in 1994 and 21 percent higher than in 1993. Engine shipments for the North American market were 16 percent higher than 1994 and 18 percent higher than 1993. Midrange truck engines for international markets were 8 percent higher than in 1994 and 33 percent higher than 1993, primarily in Europe and Brazil. In Mexico, engine sales for this market were at very low levels in 1995. Economic conditions in Brazil and Mexico are likely to result in a low level of demand in those countries in 1996.

Sales of \$1.1 billion to the power generation market in 1995 were 9 percent higher than in 1994 and 17 percent higher than 1993. The increase in 1995 was due to a 14-percent increase in shipments in the United States. International markets, which were affected in 1995 by economic conditions in Mexico and China, were 9 percent lower than 1994 and essentially level with 1993.

In the bus and light commercial vehicles market, sales in 1995 were 16 percent higher than 1994 and 38 percent higher than 1993. The increase in 1995 was due primarily to record demand for the Company's midrange engines for the Chrysler Dodge Ram pickup truck. Engine shipments for bus markets were 23 percent higher than 1994, due primarily to engine demand for school buses in North America. International engine shipments were 12 percent higher than 1994.

In 1995, sales to industrial markets were 15 percent higher than 1994 and 24 percent higher than 1993. The increase in sales in 1995 was for construction and agricultural markets in the United States and construction markets in North Asia and Europe.

Sales of \$93 million for marine applications in 1995 were 19 percent higher than 1994 and 37 percent higher than 1993. The increase in sales in 1995 was due to higher engine shipments in both North American and international markets.

Sales of filters and turbochargers continued to represent approximately 11 percent of the Company's net sales in 1995. Sales of these products in 1995 were 11 percent higher, compared to 1994, and 23 percent higher than in 1993. The increase in sales in 1995 was due primarily to international markets.

#### Gross Profit

The Company's gross profit percentage was 24.2 percent of net sales in 1995, compared to 25.0 percent in 1994 and 24.4 percent in 1993.

The Company's gross profit was affected by several factors in 1995, including increased product costs and a lower level of parts sales in North America. The most significant factor affecting product costs was the slowdown in the North American truck market late in the third

quarter, which resulted in lower overhead absorption in the second half of 1995. Product costs also were affected by higher technical spending and material pricing pressures. As disclosed in Note 16 to the Consolidated Financial Statements, the Company has entered into commodity swap contracts that have the effect of fixing the cost of certain material purchases.

The cost of product coverage programs was 2.4 percent of net sales in 1995, compared to 2.3 percent of net sales in 1994 and 2.1 percent in 1993. In 1993, and to a lesser extent in 1994, the cost of product coverage programs included adjustments to reduce the product coverage liability for engines previously placed in service.

#### Operating Expenses

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Selling and administrative expenses were \$692 million (13.2 percent of net sales) in 1995, compared to \$641 million (13.5 percent of net sales) in 1994 and \$579 million (13.6 percent of net sales) in 1993. Research and engineering expenses were \$263 million in 1995, compared to \$238 million in 1994 and \$210 million in 1993. The 25-percent increase in research and engineering expenses since 1993 has been related to expenditures for the development of fuel systems and future products.

#### Other Income and Expense

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Interest expense of \$13 million was \$4 million lower than in 1994 and \$23 million lower than 1993 as a result of the Company's early retirement of debt obligations during 1993. Other income and expense includes a variety of items such as foreign exchange gains and losses, interest income, earnings and losses of unconsolidated companies and royalty income. The increase in other expense of \$12 million in 1995, compared to 1994, was due to start-up expenses of the Company's joint ventures.

As disclosed in Note 16 to the Consolidated Financial Statements, the Company enters into forward exchange contracts that serve to hedge the effects of fluctuating currency rates on certain assets and liabilities that are denominated in other than the functional currencies of international entities.

#### Restructuring Charges

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As disclosed more fully in Note 2 to the Consolidated Financial Statements, results of operations in 1995 included restructuring charges of \$118 million (\$77 million after taxes) for costs to consolidate operations and reduce the worldwide work force. In addition to the restructuring charges, the Company expects to incur approximately \$25 million in 1996, primarily for continuity payments and employee and equipment relocations associated with the facility consolidations and closings.

#### Provision for Income Taxes

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As described in Note 9 to the Consolidated Financial Statements, the Company reduced its valuation allowance for tax benefit carryforwards \$68 million in 1995, \$32 million in 1994 and \$34 million in 1993. The tax provision for 1995 also included a credit of \$35 million for additional tax benefits related to the amendment of prior years' returns.

#### Early Extinguishment of Debt

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As disclosed in Note 6 to the Consolidated Financial Statements, the Company extinguished certain indebtedness in 1993 that resulted in an extraordinary charge of \$6 million.

#### CASH FLOW AND FINANCIAL CONDITION

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Key elements of the Consolidated Statement of Cash Flows were:

\$ Millions	1995	1994	1993
Net cash provided by operating activities	\$406	\$376	\$286
Net cash used for investing activities	(373)	(261)	(149)
Net cash flows from operating and investing activities	33	115	137
Net cash used for financing activities	(121)	( 50)	(114)
Effect of exchange rate changes on cash	1	5	-

Net change in cash & cash equivalents	\$ (87)	\$ 70	\$ 23
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Net cash flows from operating and investing activities totaled \$33 million in 1995. Capital expenditures during 1995 were \$223 million, compared to \$238 million in 1994 and \$174 million in 1993. The expenditures in 1995 were related to continued investments for new products and fuel systems. The Company expects a significant increase in these expenditures in 1996, some of which may be funded externally.

Investments in and advances to unconsolidated companies of \$155 million in 1995 included temporary advances to Consolidated Diesel Company. The outstanding balance of \$50 million at December 31, 1995 will be repaid in 1996. Investments also included capital contributions of \$67 million for previously announced joint ventures, including the joint ventures with Wartsila to manufacture diesel and natural gas engines above 2,500 horsepower; in China to manufacture a broad line of diesel engines and related products; with TELCO to produce midrange engines in India for TELCO vehicles; and with Komatsu to produce midrange engines in Japan and high-horsepower engines in the United States. The Company expects to continue to make investments in certain of these joint ventures during 1996.

At December 31, 1995, the Company had no borrowings outstanding on its \$300 million revolving credit agreement. The Company's debt-to-capital ratio was 16 percent at December 31, 1995 and 18 percent at December 31, 1994. The ratio is expected to be higher in 1996 due to funding capital expenditures.

As disclosed in Note 11 to the Consolidated Financial Statements, the Company called for redemption of its preference stock in 1994. In lieu of accepting the cash redemption price, most holders elected to convert their shares of preference stock into common stock of the Company.

As disclosed in Note 12 to the Consolidated Financial Statements, the Board of Directors in the fourth quarter of 1994 authorized repurchase by the Company of up to 2.5 million shares of common stock. Concurrently, the Board of Directors increased the Company's quarterly common stock dividend from 12.5 cents per share to 25 cents per share. In 1993, the Board of Directors of the Company increased the quarterly common stock dividend from 2.5 cents per share to 12.5 cents per share.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

See Index to Financial Statements on page 27.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information appearing under the caption "Election of Directors" of the Company's definitive Proxy Statement for the Annual Meeting of the Shareholders to be held on April 9, 1996 ("the Proxy Statement") is incorporated by reference in partial answer to this item. Except as otherwise specifically incorporated by reference, the Proxy Statement is not to be deemed filed as part of this report.

The executive officers of the Company at December 31, 1995 are set forth below. The Chairman of the Board and President are elected annually by the Board of Directors at the Board's first meeting following the Annual Meeting of the Shareholders. Other officers are appointed by the Chairman and ratified by the Board of Directors and hold office for such period as the Board of Directors or Chairman of the Board may prescribe.

Name	Age	Present Position & Business Experience During Last 5 Years
Mark E. Chesnut	48	Vice President - Corporate Responsibility & Public Affairs (1995 to present), Vice President - Quality & Organizational Effectiveness (1992 to 1995), Vice President - Human Resources & Organizational Effectiveness (1989-1992)

C. Roberto Cordaro	45	Group Vice President - Marketing (1990 to present)
John K. Edwards	51	Vice President - International (1989 to present)
Robert L. Fealy	44	Vice President - Business Strategy and Treasurer (1996 to present), Vice President - Treasurer (1988 to 1996)
Mark R. Gerstle	40	Vice President - General Counsel and Secretary (1995 to present), Assistant General Counsel (1991 to 1995)
James A. Henderson	61	Chairman and Chief Executive Officer (1995 to present), President & Chief Executive Officer (1994 to 1995), President and Chief Operating Officer (1977-1994)
M. David Jones	48	Vice President - Aftermarket Group (1989 to present)
F. Joseph Loughrey	46	Group Vice President - Worldwide Operations & Technology (1995 to present), Group Vice President - Worldwide Operations (1990 to 1995)
John McLachlan	63	Vice President - Corporate Controller (1991 to present)
Theodore M. Solso	48	President and Chief Operating Officer (1995 to present), Executive Vice President and Chief Operating Officer (1994 to 1995), Executive Vice President - Operations (1992 to 1994), Vice President & General Manager Engine Business (1988 to 1992)
Richard B. Stoner-Jr.	49	Vice President - Cummins Power Generation Group and President - Onan Corporation (1993 to present), Managing Director - Holset (1986-1993)

ITEM 11. EXECUTIVE COMPENSATION

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The information appearing under the following captions in the Company's Proxy Statement is hereby incorporated by reference: "The Board of Directors and Its Committees", "Executive Compensation -- Compensation Tables and Other Information", "Executive Compensation -- Change of Control Arrangements" and "Executive Compensation -- Compensation Committee Interlocks and Insider Participation".

The Company has adopted various benefit and compensation plans covering officers and other key employees under which certain benefits become payable upon a change of control of the Company. Cummins also has adopted an employee retention program covering approximately 500 employees of the Company and its subsidiaries, which provides for the payment of severance benefits in the event of termination of employment following a change of control of Cummins. The Company and its subsidiaries also have severance programs for other exempt employees of the Company whose employment is terminated following a change of control of the Company. Certain of the pension plans covering employees of the Company provide, upon a change of control of Cummins, that excess plan assets become dedicated solely to fund benefits for plan participants.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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A discussion of the security ownership of certain beneficial owners and management appearing under the captions "Principal Security Ownership", "Election of Directors" and "Executive Compensation -- Security Ownership of Management" in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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The information appearing under the captions "The Board of Directors and Its Committees", "Executive Compensation - Compensation Committee Interlocks and Insider Participation" and "Other Transactions and Agreements with Directors, Officers and Certain Shareholders" in the Proxy Statement is incorporated herein by reference.

PART IV

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ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K



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Documents filed as a part of this report:

1. See Index to Financial Statements on page 27 for a list of the financial statements filed as a part of this report.
2. See Exhibit Index on page 49 for a list of the exhibits filed or incorporated herein as a part of this report.

No reports on Form 8-K were filed during the fourth quarter of 1995.

INDEX TO FINANCIAL STATEMENTS

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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Management is responsible for the preparation of the Company's consolidated financial statements and all related information appearing in this Form 10-K. 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 page 29.

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 met four times in 1995 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

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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, 1995 and 1994, and the related consolidated statements of earnings, cash flows and shareholders' investment for each of the three years in the period ended December 31, 1995. 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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Chicago, Illinois,  
January 22, 1996.

CUMMINS ENGINE COMPANY, INC.  
CONSOLIDATED STATEMENT OF EARNINGS  
(Millions, Except Per Share Amounts)

	1995	1994	1993
Net sales	\$5,245	\$4,737	\$4,248
Cost of goods sold	3,974	3,551	3,211
Gross profit	1,271	1,186	1,037
Selling & administrative expenses	692	641	579
Research & engineering expenses	263	238	210
Interest expense	13	17	36
Other, net	8	(4)	7
Restructuring charges	118	-	-
Earnings before income taxes	177	294	205
Provision (credit) for income taxes	(47)	41	22
Earnings before extraordinary item	224	253	183
Early extinguishment of debt	-	-	(6)
Net earnings	224	253	177
Preference stock dividends	-	-	8
Earnings available for common shares	\$ 224	\$ 253	\$ 169
Primary earnings per share:			
Before extraordinary item	\$ 5.52	\$ 6.11	\$ 4.95
Net	5.52	6.11	4.79
Fully diluted earnings per share:			
Before extraordinary item	\$ 5.52	\$ 6.11	\$ 4.77
Net	5.52	6.11	4.63

The accompanying notes are an integral part of this statement.

CUMMINS ENGINE COMPANY, INC.  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(Millions, Except Per Share Amounts)

	December 31, 1995	1994
Assets		
Current assets:		
Cash and cash equivalents	\$ 60	\$ 147
Receivables	597	504
Inventories	513	514
Other current assets	218	133
	1,388	1,298
Investments and other assets:		
Investments in and advances to unconsolidated companies	234	100
Other assets	92	90
	326	190
Property, plant and equipment:		
Land and buildings	436	386
Machinery, equipment and fixtures	1,875	1,779
Construction in progress	164	204
	2,475	2,369

Less accumulated depreciation	1,327	1,279
	<u>1,148</u>	<u>1,090</u>
Intangibles, deferred taxes & deferred charges	194	128
Total assets	<u>\$3,056</u>	<u>\$2,706</u>
Liabilities and shareholders' investment		
Current liabilities:		
Loans payable	\$ 60	\$ 41
Current maturities of long-term debt	42	37
Accounts payable	376	322
Accrued salaries and wages	85	87
Accrued product coverage & marketing expenses	152	131
Income taxes payable	30	27
Other accrued expenses	308	195
	<u>1,053</u>	<u>840</u>
Long-term debt	<u>117</u>	<u>155</u>
Other liabilities	<u>703</u>	<u>639</u>
Shareholders' investment:		
Common stock, \$2.50 par value, 43.9 and 43.8 shares issued	110	109
Additional contributed capital	926	927
Retained earnings	406	232
Common stock in treasury, at cost, 3.7 & 2.2 shares	(135)	(72)
Unearned compensation	( 51)	(55)
Cumulative translation adjustments	( 73)	(69)
	<u>1,183</u>	<u>1,072</u>
Total liabilities & shareholders' investment	<u>\$3,056</u>	<u>\$2,706</u>

The accompanying notes are an integral part of this statement.

CUMMINS ENGINE COMPANY, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Millions)

	1995	1994	1993
Cash flows from operating activities:			
Net earnings	\$ 224	\$ 253	\$ 177
Adjustments to reconcile net earnings to net cash from operating activities:			
Restructuring charges	114	-	-
Depreciation and amortization	143	128	125
Early extinguishment of debt	-	-	6
Accounts receivable	( 91)	( 37)	( 59)
Inventories	3	( 46)	1
Accounts payable and accrued expenses	99	69	8
Deferred income taxes	(100)	( 7)	( 2)
Other	14	16	30
Total adjustments	<u>182</u>	<u>123</u>	<u>109</u>
Net cash provided by operating activities	<u>406</u>	<u>376</u>	<u>286</u>
Cash flows from investing activities:			
Property, plant and equipment:			
Additions	(223)	(238)	(174)
Disposals	6	5	12
Investments in and advances to unconsolidated companies	(155)	( 8)	10
Acquisition of new businesses, net of cash acquired	( 1)	( 20)	3
Net cash used for investing activities	<u>(373)</u>	<u>(261)</u>	<u>(149)</u>
Net cash flows from operating and investing activities	<u>33</u>	<u>115</u>	<u>137</u>
Cash flows from financing activities:			
Proceeds from borrowings	2	-	57

Payments on borrowings	( 37)	( 34)	(248)
Net borrowings under credit agreements	19	17	( 26)
Net proceeds from common stock issuances	-	-	125
Repurchase of common stock	( 69)	( 5)	-
Dividend payments	( 40)	( 26)	( 15)
Other	4	( 2)	( 7)
Net cash used for financing activities	<u>(121)</u>	<u>( 50)</u>	<u>(114)</u>
Effect of exchange rate changes on cash	1	5	-
Net change in cash and cash equivalents	<u>( 87)</u>	<u>70</u>	<u>23</u>
Cash & cash equivalents at beginning of year	147	77	54
Cash & cash equivalents at end of year	<u>\$ 60</u>	<u>\$147</u>	<u>\$ 77</u>
Cash payments during the year for:			
Interest	\$ 13	\$ 19	\$ 40
Income taxes	59	43	18

The accompanying notes are an integral part of this statement.

CUMMINS ENGINE COMPANY, INC.  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' INVESTMENT  
(Millions, Except Per Share Amounts)

	1995	1994	1993
	<u>          </u>	<u>          </u>	<u>          </u>
Convertible preference stock, no par value, 1.0 shares authorized:			
Beginning balance (.2 shares)	\$ -	\$ 112	\$ 115
Converted to common stock or redeemed (.2 shares)	-	(112)	( 3)
Ending balance	<u>-</u>	<u>-</u>	<u>112</u>
Common stock, \$2.50 par value, 150.0 shares authorized:			
Beginning balance (43.8, 40.6 & 36.5 shares)	109	101	92
Issued in public offerings (2.6 shares)	-	-	7
Conversion of preference stock & LYONs (2.9 & 1.1 shares)	-	7	1
Other (.1, .3 and .4 shares)	1	1	1
Ending balance (43.9, 43.8 & 40.6 shares)	<u>110</u>	<u>109</u>	<u>101</u>
Additional contributed capital:			
Beginning balance	927	823	654
Issued in public offerings	-	-	118
Conversion of preference stock and LYONs	-	104	48
Other	( 1)	-	3
Ending balance	<u>926</u>	<u>927</u>	<u>823</u>
Retained earnings (deficit):			
Beginning balance	232	4	(146)
Net earnings for the year	224	253	177
Cash dividends declared:			
Convertible preference stock	-	-	( 8)
Common stock	( 40)	(26)	( 7)
Additional minimum liability for pensions	( 10)	1	( 12)
Ending balance	<u>406</u>	<u>232</u>	<u>4</u>
Common stock in treasury:			
Beginning balance (2.2, 2.1 & 2.1 shares)	( 72)	(67)	( 67)
Stock repurchased (1.6 and .1 shares)	( 69)	( 5)	-
Stock issued (.1 shares)	6	-	-
Ending balance (3.7, 2.2 & 2.1 shares)	<u>(135)</u>	<u>(72)</u>	<u>( 67)</u>
Unearned compensation:			
Beginning balance	( 55)	(59)	( 64)
Shares allocated to participants	4	4	5
Ending balance	<u>( 51)</u>	<u>(55)</u>	<u>( 59)</u>
Cumulative translation adjustments:			
Beginning balance	( 69)	(93)	(83)

Adjustments	( 4)	24	(10)
Ending balance	<u>( 73)</u>	<u>(69)</u>	<u>(93)</u>
Shareholders' investment	<u>\$1,183</u>	<u>\$1,072</u>	<u>\$ 821</u>

The accompanying notes are an integral part of this statement.

CUMMINS ENGINE COMPANY, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Millions, Unless Otherwise Stated)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

**Principles of Consolidation:** The consolidated financial statements include the accounts of Cummins Engine Company, Inc., and its majority-owned subsidiaries. Affiliated companies in which Cummins does not have a controlling interest or in which control is expected to be temporary are accounted for using the equity method.

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.

**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.

**Product Coverage Programs:** Estimated costs of product coverage programs are charged to earnings at the time the Company sells its products.

**Foreign Currency:** The Company uses the local currency as the functional currency for its manufacturing operations outside the United States, except those in Brazil and Mexico for which it uses the US dollar. At operations which use the local currency as the functional currency, results are translated into US dollars using average exchange rates for the year, while assets and liabilities are translated into US dollars using year-end exchange rates. The resulting translation adjustments are recorded as a separate component of shareholders' investment. Gains and losses from foreign currency transactions are included in net earnings. At the Company's operations in Brazil and Mexico, cash and certain other monetary assets and liabilities, such as receivables and payables, and revenues and expenses are translated into US dollars using current exchange rates. Inventories and nonmonetary assets, such as fixed assets, are translated into US dollars using historical exchange rates. The resulting translation adjustments and gains and losses from foreign currency transactions are reflected in net earnings.

**Technical Investment:** Expenditures for research and development of new products, as well as engineering expenditures during early production and ongoing efforts to improve existing products, are charged to earnings as incurred, net of contract reimbursements:

Technical Investment	1995	1994	1993
Research & engineering	<u>\$263</u>	<u>\$238</u>	<u>\$210</u>
Reimbursements	46	31	29
Other	52	43	38
Total	<u>\$361</u>	<u>\$312</u>	<u>\$277</u>

Included above in research and engineering were research and development costs approximating \$230 in 1995, \$200 in 1994 and \$160 in 1993.

**Cash Equivalents:** Cash equivalents are investments that are readily convertible to known amounts of cash and have original maturities of three months or less.

**Inventories:** The Company accounts for approximately 30 percent of its inventories using the last-in, first-out (LIFO) cost method. These LIFO inventories include substantially all of the Company's US heavy-duty and high-horsepower engine and engine parts inventories. All other inventories are valued at the lower of first-in, first-out (FIFO) cost or net realizable value.

	December 31,	
Inventories	1995	1994
	<u>          </u>	<u>          </u>

Finished products	\$283	\$291
Work-in-process & raw materials	292	277
	<u>575</u>	<u>568</u>
Inventories at FIFO cost		
Excess of FIFO over LIFO	(62)	(54)
	<u>\$513</u>	<u>\$514</u>
Inventories		

Property, Plant and Equipment: Property, plant and equipment are recorded at cost. The Company depreciates substantially all engine production equipment using a modified units-of-production method, which is based upon units produced subject to a minimum level. Depreciation of all other equipment is computed using the straight-line method for financial reporting purposes. The estimated service lives to compute depreciation range from 20 to 40 years for buildings and 3 to 20 years for machinery, equipment and fixtures. Where appropriate, the Company uses accelerated depreciation methods for tax purposes. Maintenance and repair costs are charged to earnings as incurred.

Earnings Per Common Share: Primary earnings per share of common stock are computed by subtracting preference stock dividend requirements from net earnings and dividing that amount by the weighted-average number of common shares outstanding during each year. Fully diluted earnings per share are computed by dividing net earnings by the weighted-average number of shares outstanding, assuming the exercise of stock options and the conversion of debt and preference stock to common stock.

NOTE 2. RESTRUCTURING CHARGES: Results of operations in 1995 included restructuring charges of \$118 (\$77 after taxes) for costs to reduce the worldwide work force by approximately 2,000 people through a series of actions, including voluntary and involuntary separations, retirements and plant consolidations. Facility consolidations include closing or restructuring selected operations in Europe, Brazil and North America.

The components of the restructuring charges are as follows:

Work force reductions .....	\$ 82
Asset write downs.....	32
Other	4
Total	<u>\$118</u>

Estimated costs for work force reductions were based on amounts pursuant to benefit programs and contractual provisions or statutory requirements at the affected operations. At December 31, 1995, approximately 1,300 employees had separated from the Company as a result of the restructuring actions. In addition to the restructuring charges, the Company expects to incur approximately \$25 in 1996, primarily for continuity payments and equipment and employee relocations associated with the facility consolidations and closings.

NOTE 3. OPERATING LEASES: Certain of the Company's manufacturing plants, warehouses and offices are leased facilities. The Company also leases manufacturing and office equipment. Most of these leases require fixed rental payments, expire over the next ten years and can be renewed or replaced with similar leases. Rental expense under these leases in 1995, 1994 and 1993 was \$54, \$52 and \$51, respectively. Future minimum payments for operating leases with original terms of more than one year are \$31 in 1996, \$26 in 1997, \$20 in 1998, \$20 in 1999, \$22 in 2000 and \$84 thereafter.

NOTE 4. SALE OF RECEIVABLES: The Company has an agreement to sell, without recourse, up to \$110 of eligible trade receivables. The amount of receivables outstanding was \$110 under this agreement at both December 31, 1995 and 1994. As collections reduce previously sold receivables, new receivables customarily are sold up to the \$110 level.

NOTE 5. INVESTMENTS IN UNCONSOLIDATED COMPANIES:

	December 31,	
	1995	1994
Consolidated Diesel Company	\$ 96	\$ 33
Kirloskar Cummins Limited	27	22
Cummins Wartsila	31	-
Chongqing Cummins	15	-
Tata Cummins Ltd.	13	8
Other	52	37

Carrying value	\$234	\$100
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Included above in the Company's carrying value of Consolidated Diesel Company is temporary financing of \$50 that will be repaid to Cummins in 1996. Other investments at December 31, 1995 and 1994 included \$23 and \$19, respectively, for temporarily owned distributorships. Cummins' sales to these distributorships approximated \$20 in 1995, \$40 in 1994 and \$50 in 1993.

Summary financial information for 50-percent or less owned companies:

Earnings Data	1995	1994	1993
Net sales	\$1,091	\$ 914	\$ 746
Earnings	6	15	3
Cummins' share	1	6	1

  

Balance Sheet Data	December 31,	
	1995	1994
Current assets	\$330	\$199
Noncurrent assets	340	186
Current liabilities	(231)	(146)
Noncurrent liabilities	( 63)	( 42)
Net assets	\$376	\$197
Cummins' share	\$211	\$ 81

NOTE 6. EARLY EXTINGUISHMENT OF DEBT:

In December 1993, the Company sold 2.6 million shares of its common stock in a public offering and used a portion of the proceeds to redeem \$77 in principal amount of outstanding 9-3/4 percent sinking fund debentures. This early extinguishment of debt resulted in an extraordinary charge of \$6.

NOTE 7. LONG-TERM DEBT:

Long-term Debt	December 31,	
	1995	1994
9.74%-10.65% medium-term notes, through 1998	\$ 73	\$102
8.76% guaranteed notes of ESOP Trust, due 1998	68	70
Other	18	20
Total indebtedness	159	192
Less current maturities	42	37
Long-term debt	\$117	\$155

Aggregate maturities of long-term debt for the five years subsequent to December 31, 1995 are \$42, \$25, \$81, \$3 and \$1. At December 31, 1995 and 1994, the weighted-average interest rate on loans payable and current maturities of long-term debt was 8 percent and 7 percent, respectively.

The Company maintains a \$300 revolving credit agreement, under which there were no outstanding borrowings at December 31, 1995 or 1994. The Company also maintains other domestic and international credit lines with approximately \$110 available at December 31, 1995.

The Company has guaranteed the outstanding borrowings of its ESOP Trust. The ESOP was established for certain of the Company's salaried employees who participate in the qualified benefit savings plans. Cash contributions to the ESOP Trust, together with the dividends accumulated on the common stock held by the Trust, are used to pay interest and principal due on the notes. Cash contributions and dividends to the ESOP Trust to fund principal and interest payments approximated \$10 in both 1995 and 1994. The Company's compensation expense was \$8 in 1995, \$9 in 1994 and \$10 in 1993. The unearned compensation, which is reflected as a reduction to shareholders' investment, represents the historical cost of the ESOP Trust's shares of common stock that have not yet been allocated to participants.

NOTE 8. OTHER LIABILITIES:

Other Liabilities	December 31,	
	1995	1994
Accrued retirement & post-employment benefits	\$533	\$475
Accrued product coverage & marketing expenses	86	91
Deferred taxes	21	21
Accrued compensation	21	12

Other	42	40
Other liabilities	<u>\$703</u>	<u>\$639</u>

NOTE 9. INCOME TAXES:

Tax Provision	1995	1994	1993
Current:			
US federal and state	\$ 30	\$ 29	\$ 5
Foreign	23	19	19
	<u>53</u>	<u>48</u>	<u>24</u>
Deferred:			
US federal and state	(93)	(9)	(12)
Foreign	( 7)	2	10
	<u>(100)</u>	<u>(7)</u>	<u>( 2)</u>
Tax provision (credit)	<u>\$ (47)</u>	<u>\$ 41</u>	<u>\$ 22</u>

Significant components of the Company's net deferred tax assets relate to the following tax effects of differences between financial and tax reporting:

	December 31,	
Net Deferred Tax Assets	1995	1994
US accrued employee benefits	\$236	\$219
US accrued product coverage & marketing expenses	73	66
Restructuring charges	25	-
US plant & equipment	(124)	(111)
Other net US differences	7	10
UK taxable differences, primarily plant & equipment	( 5)	( 13)
Other net foreign taxable differences	( 2)	( 1)
US federal carryforward benefits:		
General business tax credits, expiring 2000 to 2010	58	62
Minimum tax credits, no expiration	11	6
Less valuation allowance	-	( 68)
Net deferred tax assets	<u>\$279</u>	<u>\$170</u>
Balance Sheet Classification		
Current assets	\$164	\$ 90
Noncurrent assets	136	101
Noncurrent liabilities	(21)	(21)
Net deferred tax assets	<u>\$279</u>	<u>\$170</u>

During 1995, the valuation allowance maintained against the tax carryforward benefits was released to earnings as a reduction of income tax expense. Assessments of the likelihood of realizing net deferred tax assets take into consideration historical information, expected future income and tax planning strategies. Based upon the most recent assessment, the Company now expects to realize all of its tax assets, including the use of all carryforwards before any expiration. The Company previously had released the valuation allowance to earnings as carryforwards were actually used, leaving unused carryforward benefits offset by the allowance. The reduction in income tax expense resulting from reducing the beginning-of-the-year valuation allowance amounted to \$68 in 1995, \$32 in 1994 and \$34 in 1993.

The Company determined during 1995 that its levels and character of taxable income were sufficient to allow changes to its tax treatment of foreign tax credits and foreign sales corporation benefits for prior years. As a consequence, \$35 of foreign taxes paid and previously used as deductions were used as full credits against US federal taxes, increasing their value \$23. In addition, foreign sales corporation benefits for prior years were maximized, producing a net tax benefit of \$12. These additional tax benefits of \$35 related to prior years have been recorded as a reduction to 1995 income tax expense.

Earnings before income taxes and differences between the effective tax rate and US federal income tax rates were:

	1995	1994	1993
Earnings before income taxes:	<u>          </u>	<u>          </u>	<u>          </u>



US	\$135	\$181	\$111
International	42	113	94
	<u>\$177</u>	<u>\$294</u>	<u>\$205</u>
Tax at 35 percent US statutory rate	\$ 62	\$103	\$ 72
Change in US tax rate	-	-	(4)
Adjustment to beginning-of-year valuation allowance	(68)	(32)	(34)
Modification of foreign tax credit and foreign sales corporation benefits of prior years	(35)	-	-
Research tax credits	( 6)	( 9)	( 8)
Current-year foreign sales corporation benefits	( 5)	-	-
Differences in rates and taxability of foreign subsidiaries	-	(18)	1
All other, net	5	( 3)	( 5)
Tax provision (credit)	<u>\$ (47)</u>	<u>\$ 41</u>	<u>\$ 22</u>

NOTE 10. RETIREMENT PLANS: The Company has several contributory and noncontributory pension plans covering substantially all employees. Benefits for salaried plans generally are based upon compensation during the three to five years preceding retirement. Under the hourly plans, benefits 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 US tax law. In addition, the Company has a supplementary life insurance plan that provides officers and other key employees with term life protection during their active employment and supplemental benefits upon retirement.

Funded Status	December 31, 1995			December 31, 1994		
	Over-funded	Under-funded	Combined	Over-funded	Under-funded	Combined
Benefit obligation:						
Vested	\$ (600)	\$ (539)	\$ (1,139)	\$ (397)	\$ (544)	\$ ( 941)
Accumulated	\$ (674)	\$ (658)	\$ (1,332)	\$ (459)	\$ (642)	\$ (1,101)
Projected	\$ (779)	\$ (688)	\$ (1,467)	\$ (533)	\$ (693)	\$ (1,226)
Plan assets	863	504	1,367	623	562	1,185
Funded status	84	(184)	( 100)	90	(131)	( 41)
Unrecognized:						
Experience (gain) loss	( 30)	4	( 26)	( 33)	( 35)	( 68)
Prior service cost	21	85	106	12	105	117
Transition asset	( 19)	( 10)	( 29)	( 21)	( 18)	( 39)
Additional liability	-	( 63)	( 63)	-	( 32)	( 32)
Accrued asset (liability)	\$ 56	\$ (168)	\$ ( 112)	\$ 48	\$ (111)	\$ ( 63)

In 1995, the projected benefit obligation was determined using weighted-average discount rates of 7 percent for the US plans and 8.5 percent for the international plans and, in 1994, rates of 8.25 percent and 8.5 percent, respectively. The assumed long-term rates of compensation increase for salaried plans approximated expected inflation. The long-term rates of return on assets were assumed to be 10 percent in 1995 and 8.5 percent in 1994 for US plans and 9.25 percent in 1995 and 8.75 percent in 1994 for the international plans.

It is the Company's policy to make contributions to these plans sufficient to meet the funding requirements of applicable laws and regulations, plus such additional amounts as deemed to be appropriate. Plan assets consist principally of equity securities and corporate and fixed-income Government obligations.

Pension Cost	1995	1994	1993
Service cost	\$ 40	\$ 42	\$ 32
Interest cost	99	89	83
Asset return:			
Actual	(214)	(26)	(203)
Deferred	110	(79)	100
Transition asset amortization	( 9)	( 9)	( 9)
Other	14	12	3
Pension cost	<u>\$ 40</u>	<u>\$ 29</u>	<u>\$ 6</u>

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

Health Care Cost	1995	1994	1993
Service cost	\$ 8	\$ 10	\$ 6
Interest cost	38	33	30
Other	7	10	(1)
Total	\$ 53	\$ 53	\$ 35

Accrued Liability	December 31,	
	1995	1994
Accumulated benefit obligation for:		
Retirees	\$238	\$226
Employees eligible to retire	125	92
Others	163	148
Unrecognized:		
Prior service cost	(10)	(17)
Net experience loss	(40)	( 6)
Accrued liability	\$476	\$443

The weighted-average discount rate used to determine the accumulated benefit obligation was 7 percent in 1995 and 8.25 percent in 1994. The trend rate for medical benefits provided prior to Medicare eligibility is 11 percent, grading down to an ultimate rate of 4.75 percent by 2008. For benefits provided after Medicare eligibility, the trend rate is 6.25 percent, grading down to an ultimate rate of 4.75 percent by 1999. The health care cost trend rate assumption could have a significant effect on the determination of the obligation. For example, increasing the rate by one percent would increase the accumulated benefit obligation by \$31 and net cost by \$3.

NOTE 11. PREFERENCE STOCK REDEMPTION: In 1994, the Company called for redemption, at a price of \$51.05 per depository share, plus accrued dividends, of all its outstanding Convertible Exchangeable Preference Stock, which had a face value of \$112. Holders of the stock elected to convert their shares into 2.9 million shares of common stock.

NOTE 12. COMMON STOCK REPURCHASE PROGRAM: In 1994, the Board of Directors authorized repurchase by the Company of up to 2.5 million shares of its common stock. During 1995, the Company repurchased on the open market 1.6 million shares at an aggregate purchase price of \$69, or average price of \$43.57 per share. In 1994, the Company repurchased on the open market .1 million shares at an aggregate purchase price of \$5, or average price of \$42.47 per share. All of the acquired shares are held as common stock in treasury.

NOTE 13. 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, 1995, there were 408,109 shares of common stock available for grant and 451,500 options exercisable under the plans.

Options	Number of Shares	Option Price per Share
December 31, 1993	525,070	\$15.94 to \$52.56
Granted	349,927	\$36.81 to \$53.25
Exercised	( 10,200)	\$20.72 to \$37.41
December 31, 1994	864,797	\$15.94 to \$53.25
Granted	360,625	\$34.94 to \$46.13
Exercised	(22,520)	\$15.94 to \$42.06
Cancelled	(19,627)	\$21.94 to \$52.56
December 31, 1995	1,183,275	\$15.94 to \$53.25

In 1995, the Financial Accounting Standards Board issued Statement No. 123, "Accounting for Stock-based Compensation", which is effective in 1996. This statement encourages, but does not require, a fair-value based method of accounting for stock options. The Company does not expect to change its method of accounting for stock options.

NOTE 14. 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. In the event a person or entity acquires 15 percent of the Company's common stock, each right, except for the acquiring person's rights, can be exercised to purchase \$400 worth of common stock for \$200. In addition, for a period of 10 days after such acquisition, the Board of Directors can exchange such right for a new right which permits the holders to purchase one share of the Company's common stock for \$1 per share. If a person or entity commences a tender offer to purchase 20 percent or more of the Company's common stock, unless the Board of Directors redeems the rights within 10 days of the event, each right can be exercised to purchase one share for \$200. The plan also allows holders of the rights to purchase shares of the acquiring person's stock at a discount if the Company is acquired or 50 percent of the assets or earnings power of the Company is transferred to an acquiring person.

NOTE 15. 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 diesel engines are heavy-duty and midrange trucks, power generation, bus and light commercial vehicles, industrial products and marine. Manufacturing, marketing and technical operations are maintained in major areas of the world. Summary financial information is listed below for each geographic area. Earnings (loss) 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.

	US	Europe	All Other	Corporate Items	Combined
1995					
Net sales:					
To customers in the area	\$3010	\$ 772	\$524	\$ -	\$4306
To customers outside the area	587	342	10	-	939
Intergeographic transfers	367	186	126	(679)	-
Total	\$3964	\$1300	\$660	\$(679)	\$5245
Earnings (loss) before income taxes	\$ 178	\$ 113	\$ 24	\$(138)	\$ 177
Identifiable assets	\$1853	\$ 598	\$483	\$ 122	\$3056
1994					
Net sales:					
To customers in the area	\$2708	\$ 657	\$538	\$ -	\$3903
To customers outside the area	594	234	6	-	834
Intergeographic transfers	410	159	114	(683)	-
Total	\$3712	\$1050	\$658	\$(683)	\$4737
Earnings (loss) before income taxes	\$ 177	\$ 87	\$ 44	\$( 14)	\$ 294
Identifiable assets	\$1618	\$ 499	\$412	\$ 177	\$2706
1993					
Net sales:					
To customers in the area	\$2374	\$ 590	\$439	\$ -	\$3403
To customers outside the area	589	251	5	-	845
Intergeographic transfers	317	149	84	(550)	-
Total	\$3280	\$ 990	\$528	\$(550)	\$4248
Earnings (loss) before income taxes	\$ 140	\$ 89	\$ 19	\$( 43)	\$ 205
Identifiable assets	\$1487	\$ 407	\$340	\$ 157	\$2391

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.

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.

Net sales by marketing territory:

Net Sales	1995	1994	1993
United States	\$3,018	\$2,712	\$2,389
Europe	783	671	600
Asia, Far East & Australia	723	626	559
Canada	384	330	257
Mexico & South America	233	318	330
Africa & Middle East	104	80	113
Net sales	\$5,245	\$4,737	\$4,248

NOTE 16. GUARANTEES, COMMITMENTS AND OTHER CONTINGENCIES: At December 31, 1995, loans, leases and accounts receivable that have been sold with recourse amounted to \$25. Commitments under outstanding letters of credit, guarantees and contingencies approximated \$170. 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 \$219 at December 31, 1995 approximated \$240. The carrying values of all other receivables and liabilities approximated fair values at December 31, 1995.

The Company enters into forward exchange contracts to hedge the effects of fluctuating currency rates on certain assets and liabilities, such as 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 offsets in whole or in part the loss or gain on the assets or liabilities being hedged. The Company had \$84 of contracts outstanding at December 31, 1995, which mature in 1996 and are denominated in a variety of foreign currencies where the Company does business.

Commodity swap contracts at December 31, 1995 amounted to \$39 and have the effect of fixing the Company's cost of certain future material purchases. These contracts mature through 1998. Gains or losses on the contracts are reflected in earnings concurrently with the hedged items. No significant concentration of credit or market risk exists for the Company.

Cummins and its subsidiaries are defendants in a number of pending legal actions, including actions relating 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 such 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 US 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 which 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 17. QUARTERLY FINANCIAL DATA (unaudited):

1995	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Net sales	\$1,334	\$1,361	\$1,219	\$1,331	\$5,245
Gross profit	343	340	277	311	1,271
Net earnings	67	69	46	42	224
Primary and fully diluted earnings per share	\$ 1.63	\$ 1.69	\$ 1.14	\$ 1.05	\$ 5.52

1994

Net sales	\$1,099	\$1,205	\$1,156	\$1,277	\$4,737
Gross profit	271	297	295	323	1,186
Net earnings	55	66	62	70	253
Primary and fully diluted earnings per share	\$ 1.35	\$ 1.58	\$ 1.48	\$ 1.68	\$ 6.11

Included in net earnings in the fourth quarter of 1995 was a restructuring charge of \$116 (\$76 after taxes). There also was a tax credit of \$68. Net earnings for 1995 included restructuring charges of \$118 (\$77 after taxes.)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CUMMINS ENGINE COMPANY, INC.

By	/s/Kiran M. Patel	By	/s/John McLachlan
	_____ Kiran M. Patel Vice President and Chief Financial Officer (Principal Financial Officer)		_____ John McLachlan Vice President - Corporate Controller (Principal Accounting Officer)

Date: March 4, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
_____	_____	_____
* _____ (James A. Henderson)	Director & Chairman of the Board of Directors & Chief Executive Officer (Principal Executive Officer)	3/2/96
* _____ (Theodore M. Solso)	Director and President & Chief Operating Officer	3/2/96
* _____ (Harold Brown)	Director	3/2/96
* _____ (K. R. Dabrowski)	Director	3/2/96
* _____ (Robert J. Darnall)	Director	3/2/96
* _____ (W. Y. Elisha)	Director	3/2/96
* _____ (Hanna H. Gray)	Director	3/2/96
* _____ (D. G. Mead)	Director	3/2/96
* _____ (J. Irwin Miller)	Director	3/2/96
* _____	Director	3/2/96

(William I. Miller)

*	Director	3/2/96
<hr/>		
(Donald S. Perkins)		
*	Director	3/2/96
<hr/>		
(William D. Ruckelshaus)		
*	Director	3/2/96
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(H. B. Schacht)		
*	Director	3/2/96
<hr/>		
(F. A. Thomas)		
*	Director	3/2/96
<hr/>		
(J. Lawrence Wilson)		

By /s/Mark R. Gerstle

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Mark R. Gerstle  
Attorney-in-fact

CUMMINS ENGINE COMPANY, INC.  
EXHIBIT INDEX

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- 3(a) Restated Articles of Incorporation of Cummins Engine Company, Inc., as amended (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended April 3, 1994, by reference to Quarterly Report on Form 10-Q for the quarter ended October 1, 1989 and by reference to Form 8-K, dated July 26, 1990).
- 3(b) By-laws of Cummins Engine Company, Inc., as amended and restated effective as of August 12, 1994 (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended October 2, 1994).
- 4(a) Amended and Restated Credit Agreement (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended October 2, 1994).
- 4(b) Rights Agreement, as amended (incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1989, by reference to Form 8-K, dated July 26, 1990, by reference to Form 8, dated November 6, 1990, by reference to Form 8-A12B/A, dated November 1, 1993, and by reference to Form 8-A12B/A, dated January 12, 1994).
- 10(a) Target Bonus Plan (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended July 3, 1994).
- 10(b) Deferred Compensation Plan (incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1994).
- 10(c) Key Employee Stock Investment Plan, as amended (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended July 3, 1994).
- 10(d) Supplemental Life Insurance and Deferred Income Plan (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended October 2, 1994).
- 10(e) Financial Counseling Program, (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended July 3, 1994).
- 10(f) 1986 Stock Option Plan (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended March 30, 1986).
- 10(g) Deferred Compensation Plan for Non-Employee Directors, as amended, effective as of April 15, 1994 (incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1994).

- 10(h) Key Executive Compensation Protection Plan (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended October 2, 1994).
- 10(i) Excess Benefit Retirement Plan, (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended October 2, 1994).
- 10(j) Restated Sponsors Agreement between Case Corporation and Cummins Engine Company, Inc., dated December 7, 1990, together with the Restated Partnership Agreement between Case Engine Holding Company, Inc., and Cummins Engine Holding Company, Inc., dated December 7, 1990 (incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1990).
- 10(k) Retirement Plan for Non-Employee Directors of Cummins Engine Company, Inc., effective September 1989 (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended April 2, 1995).
- 10(l) Stock Unit Appreciation Plan effective October 1990 (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended April 2, 1995).
- 10(m) Investment Agreement between Ford Motor Company and Cummins Engine Company, Inc., dated July 16, 1990 (incorporated by reference to Form 8-K, dated July 26, 1990).
- 10(n) Investment Agreement between Tenneco Inc., and Cummins Engine Company, Inc., dated July 16, 1990 (incorporated by reference to Form 8-K, dated July 26, 1990).
- 10(o) Investment Agreement between Kubota Corporation and Cummins Engine Company, Inc., dated July 16, 1990 (incorporated by reference to Form 8-K, dated July 26, 1990).
- 10(p) Three Year Performance Plan effective December 1992 (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended April 2, 1995).
- 10(q) Consulting arrangement with Harold Brown (incorporated by reference to the description thereof provided in the Company's definitive Proxy Statement).
- 10(r) Consulting arrangement with Henry B. Schacht (incorporated by reference to the description thereof provided in the Company's definitive Proxy Statement).
- 10(s) 1992 Stock Incentive Plan (filed herewith).
- 10(t) Restricted Stock Plan for Non-Employee Directors (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended April 3, 1994).
- 10(u) Executive Retention Plan (filed herewith).
- 10(v) Performance Share Plan, as amended January 1989 (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended April 2, 1995).
- 10(w) Senior Executive Bonus Plan (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended April 2, 1995).
- 10(x) Senior Executive Three Year Performance Plan (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended April 2, 1995).
- 11 Schedule of Computation of Per Share Earnings for each of the Three Years Ended December 31, 1995 (filed herewith).
- 21 Subsidiaries of the Registrant (filed herewith).
- 23 Consent of Arthur Andersen LLP (filed herewith).
- 24 Powers of Attorney (filed herewith).
- 27 Financial Data Schedule (filed herewith).

CUMMINS ENGINE COMPANY, INC.  
EXECUTIVE RETENTION PLAN

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(Effective as of October 10, 1995)

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The Board of Directors of Cummins Engine Company, Inc. ("the Company") has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication of its executives, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) on the Company. The Board of Directors ("the Board") believes it is imperative to diminish the inevitable distraction of the executives by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the executives' full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control and to provide the executives with updated compensation and benefits arrangements upon a Change of Control which ensure that the compensation and benefits expectations of the executives will be satisfied and which are competitive with those of other major U.S. industrial corporations. In order to accomplish these objectives, the Board has caused the Company to adopt this Cummins Engine Company, Inc. Executive Retention Plan ("the Plan").

This Plan is in addition to but separate and distinct from and does not supersede or amend the Company's Key Employee Compensation Protection Plan, effective as of April 3, 1984 ("the 1984 Plan"). Therefore, in the event of a Change of Control, amounts are payable under the terms of the 1984 Plan and this Plan. This Plan does, however, supersede any other severance pay or salary continuance plan or program adopted by the Company to retain and protect its employees in the event of a Change of Control.

1. Definitions. In addition to other terms defined elsewhere herein, the following terms shall have the following meanings, such meanings to be equally applicable to both the singular and plural forms of the terms defined.

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

(i) any person becomes the beneficial owner, directly or indirectly, of securities of the Company having at least 25 percent of the voting power of the Company's then outstanding securities;

(ii) the shareholders of the Company shall approve any merger or other business combination of the Company or a subsidiary of the Company, sale of the Company's assets or combination of the foregoing transactions (a "Transaction") other than a Transaction immediately following which the shareholders of the Company immediately prior to the Transaction and any trustee or fiduciary of any Company employee benefit plan own at least 50 percent of the voting securities of the surviving company (or its parent) immediately following the Transaction;

(iii) within any 24 month period, the persons who were directors immediately before the beginning of such period (the "Incumbent Directors") shall cease (for any reason other than death) to constitute at least a majority of the Board or the board of directors of a successor to the Company. For this purpose, any director who was not a director at the beginning of such period shall be deemed to be an Incumbent Director if such director was elected to the Board by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors (so long as such director was not nominated by a person who has entered into an agreement to affect a Change of Control).

(b) "Designated Officers" means certain officers of the Company designated by the Board from time-to-time to receive payments and benefits as described in paragraph 2(a) of the Plan.

(c) "Key Employee" means an employee of the Company or any of its subsidiaries whose salary grade classification is 10 or higher (or equivalent subsidiary salary grade classification) and who is not an officer.

(d) "Officer" means an officer of the Company who is not a



Designated Officer.

(e) "Participant" means a Designated Officer, Officer or Key Employee, as the context requires.

(f) "Termination for Cause" means a termination of a Participant's employment by the Company due to (i) the willful and continued failure of the Participant to perform substantially the Participant's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Participant by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Participant has not substantially performed the Participant's duties or (ii) the willful engaging by the Participant in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this definition, no act or failure to act on the part of the Participant shall be considered "willful" unless it is done, or omitted to be done, by the Participant in bad faith or without reasonable belief that the Participant's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Participant shall not be deemed to be a termination for Cause unless and until there shall have been delivered to the Participant a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Participant and the Participant is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Participant is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(g) "Termination for Good Reason" means a termination of a Participant's employment by the Participant within 90 days following (i) the assignment to the Participant of any duties inconsistent in any respect with the Participant's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Participant, (ii) the Company's requiring the Participant, to be based at any office or location other than the location at which the Participant is based on the effective date of the Change of Control or the Company's requiring the Participant to travel on Company business to a substantially greater extent than required immediately prior to the effective date of the Change of Control, (iii) a reduction in Participant's annual base salary or participation level or opportunity in any bonus or other incentive compensation plan or program of the Company, (iv) a material reduction in the aggregate value of the pension and welfare benefits provided to Participant from those in effect on the effective date of the Change of Control (other than a reduction which is proportionate to the reductions applicable to other senior participants pursuant to a cost-saving plan that includes all senior participants) or (v) a material breach of any provision of this Plan by the Company.

For purposes of this definition, any good faith determination of "Good Reason" made by the Participant shall be conclusive. Anything in this Plan to the contrary notwithstanding, a termination by the Participant for any reason during the 30-day period immediately following the first anniversary of the effective date of the Change of Control shall be deemed to be a Termination for Good Reason for all purposes of this Plan.

(h) "Termination Without Cause" means any termination of the Participant's employment by the Company other than a Termination for Cause.

2. Termination Payments. In the event of a Termination Without Cause or a Termination for Good Reason (in either such case a "Termination") before a second anniversary of the effective date of any Change of Control, and in addition to amounts payable and the periods of time during which benefits continue to be provided under the 1984 Plan, the Company shall pay to the Participant and provide him or her with the

following:

(a) In the case of a Designated Officer, for a period of twenty-four (24) months following the date of Termination, the Company shall continue to pay such Participant's base salary on a monthly basis at the annual rate in effect immediately prior to the date of Termination or the effective date of the Change of Control, whichever is higher, plus eight (8) quarterly bonus payments in the amount of the Participant's Target Bonus payments as calculated under, and payable at the times contemplated in, the Company's Senior Executive Bonus Plan or Target Bonus Plan (each a "Bonus Plan") in effect prior to the Change of Control and adjusted as provided in the next two sentences. In making the calculations under the Bonus Plan, the Participant's "Base Salary" (as defined therein) shall be the annual rate in effect immediately prior to the date of Termination or the effective date of the Change of Control, whichever is higher, and the applicable "Bonus Factor" (as defined therein) in each case shall be 1.0 without regard to the Company's actual performance under the performance measures during the measurement period.

(b) In the case of an Officer or a Key Employee, for a period of twelve (12) months following the date of Termination, the Company shall continue to pay such Participant's base salary on a monthly basis at the annual rate in effect immediately prior to the date of Termination or the effective date of the Change of Control, whichever is higher, plus four (4) quarterly bonus payments in the amount of the Participant's Target Bonus payments as calculated under, and payable at the times contemplated in, the Company's Target Bonus Plan ("Bonus Plan") in effect prior to the Change of Control and adjusted as provided in the next two sentences. In making the calculations under the Bonus Plan, the Participant's "Base Salary" (as defined therein) shall be the annual rate in effect immediately prior to the date of Termination or the effective date of the Change of Control, whichever is higher, and the applicable "Bonus Factor" (as defined therein) in each case shall be 1.0 without regard to the Company's actual performance under the performance measures during the measurement period.

(c) In addition to the payments described in (a) and (b) above, the Participant shall continue to be entitled to all benefits and service credits for benefits under all pension, life insurance, medical, dental, disability, financial advisory and any other employee benefit plans, policies, programs and arrangements of the Company applicable to the Participant as if the Participant were still employed during an additional two (2) year period in the case of a Designated Officer and one (1) year period in the case of an Officer or Key Employee.

(d) If, despite the provisions of paragraph 2(c), benefits or service credits under any such employee benefit plan may not be payable or provided under the plan to such Participant or his or her dependents, beneficiaries and estate because he or she is no longer an active employee of the Company, the Company itself shall, to the extent not payable or provided by such plan, pay or provide for payment of the lump-sum present cash value of such benefits to such Participant, dependents, beneficiaries and estate (on an after-tax basis where such benefits if provided through the employee benefit plan would not be taxable to the Participant).

3. Lump Sum Payment. The Participant may elect, within 60 days following the date of a Termination, to be paid a lump sum in cash, in lieu of all termination payments provided in paragraph 2, in any amount equal to the sum of the following:

(a) an amount equal to salary payments for the number of months applicable to the Participant as specified in paragraph 2 ("the Applicable Period") at the monthly rate in effect immediately prior to the date of Termination or the effective date of the Change of Control, whichever is higher, and

(b) an amount equal to quarterly bonus payments for the Applicable Period in the amount of the Participant's Bonus Plan payments calculated in accordance with the provisions of paragraph 2(a) or 2(b), as applicable.

In the event that a Participant makes an election pursuant to this paragraph 3 to receive a lump-sum cash payment of the aggregate amount determined pursuant to paragraph (a) and (b), then, in addition to such amount, the Participant shall receive (i) in addition to the benefits to be provided under any pension benefit plan and supplemental pension plan maintained by the Company, the pension benefits that would have accrued under such pension benefit plan and supplemental pension plan if the Participant had remained in the employ of the Company for the Applicable Period after the date of Termination, which benefits will be paid concurrently with, and in

addition to, the benefits provided under such pension benefit plan and supplemental pension plan and (ii) the employee benefits (including, but not limited to, coverage under any life insurance, medical, dental, disability and financial advisory arrangements or programs) to which the Participant would have been entitled under all employee benefit plans, programs, policies or arrangements maintained by the Company if the Participant had remained in its employ for the Applicable Period after the date of Termination, or if elected by the Participant, the lump-sum present cash value of the amounts described in such clauses (i) and (ii) (on an after-tax basis where such benefits if provided through the employee benefit plan would not be taxable to the Participant). The amounts of any lump-sum payments described in the preceding sentence shall be determined and such payments shall be made as soon as possible following the Participant's election.

4. Nonexclusivity of Right. Nothing in this Plan shall prevent or limit any Participant's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Participant may qualify, nor shall anything herein limit or otherwise affect such rights as a Participant may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which a Participant is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to a Change of Control or Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Plan.

5. Full Settlement. The Company's obligation to make the payments provided for in this Plan and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against a Participant or others. In no event shall a Participant be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Participant under any of the provisions of this Plan and such amounts shall not be reduced whether or not the Participant obtains other employment. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which the Participant may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Participant or others of the validity or enforceability of, or liability under, any provision of this Plan or any guarantee of performance hereof (including as a result of any contest by the Participant about the amount of any payment pursuant to this Plan), plus in each case interest on any delayed payment at the applicable federal rate provided for in Section 1274(d) of the Internal Revenue Code of 1986, as amended ("the Code").

6. Certain Additional Payments. If any payments or benefits paid by the Company pursuant to this Plan ("Plan Payments") causes such payments and any other payments (including those under the 1984 Plan) made in connection with a Change of Control (collectively, the "Total Payments") to be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code, the Company shall pay the Participant an additional amount (the "Gross-Up Payment") such that the net amount retained by the Participant, after deduction of any Excise Tax paid or payable (and not grossed-up under a similar provision of another plan or program sponsored by the Company) on the Plan Payments and such other Total Payments and any federal, state and local income tax and Excise Tax upon the payment provided for by this paragraph 6, shall be equal to the Plan Payments and such other Total Payments. If any of such other Total Payments are subject to the Excise Tax without regard to Plan Payments, a Gross-Up Payment shall be made, but shall only be equal to the increase in the Excise Tax (plus any federal, state and local income tax and Excise Tax on such Gross-Up Payment) arising solely as a result of Plan Payments, payments from the 1984 Plan and any other plan or program of the Company not providing for Gross-Up Payments.

For purpose of determining whether any of the payments described above will be subject to the Excise Tax and the amount of such Excise Tax, (i) any other payments or benefits received or to be received by the Executive in connection with a Change of Control of the Company, whether payable pursuant to the terms of this Plan or any other plan, arrangement or agreement with the Company, its successors, any person whose actions result in a Change of Control of the Company or any corporation affiliated (or which, as a result of the completion of a transaction causing a Change of Control, will become affiliated) with the Company within the meaning of Section 1504 of the Code shall be treated as "parachute payments" within the meaning of Section 280G(b) (2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b) (1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the

Company's auditors and acceptable to the Participant, the payments (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b) (4) of the Code and are in excess of the base amount within the meaning of Section 280G(b) (3) of the Code, or are otherwise not subject to the Excise Tax, (ii) the amount of the payments that shall be treated as subject to the Excise Tax shall be equal to the amount of excess parachute payments within the meaning of Section 280G(b) (1) (after applying clause (i), above), and (iii) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's auditors in accordance with the principles of Section 280G(d) (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the relevant calendar year and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Participant's residence for the relevant calendar year, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of payment, the Participant shall repay to the Company at the time that the amount of such reduction in Excise Tax is finally determined the portion of the Gross-Up Payment attributable to such reduction (plus the portion of the Gross-Up Payment attributable to the Excise Tax and federal and state and local income tax imposed on the Gross-up Payment being repaid by the Participant if such repayment results in a reduction in Excise Tax and/or a federal and state and local income tax deduction) plus interest on the amount of such repayment at the rate provided in Section 1274(d) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the Gross-Up Payment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Company shall make an additional Gross-Up Payment in respect to such excess at the time that the amount of such excess is finally determined.

7. Successors. (a) Benefits under this Plan are personal to the Participant and without the prior written consent of the Company shall not be assignable by the Participant otherwise than by will or the laws of descent and distribution. This Plan shall inure to the benefit of and be enforceable by the Participant's legal representatives.

(b) This Plan shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Plan in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Plan, "Company" shall mean the Company as herein before defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Plan by operation of law, or otherwise.

8. Miscellaneous.

(a) This Plan shall be governed by and construed in accordance with the laws of the State of Indiana, without reference to principles of conflict of laws. The captions of this Plan are not part of the provisions hereof and shall have no force or effect. This Plan may not be amended or modified to reduce any Participant's benefits otherwise than with the written consent of the Participant or the Participant's successor or legal representative.

(b) The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision of this Plan.

(c) The Company may withhold from any amounts payable under this Plan such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(d) The Participant's failure to insist upon strict compliance with any provision of this Plan or the failure to assert any right the Participant may have hereunder, including, without limitation, the right of the Participant to terminate employment for Good Reason as defined in paragraph 1(g) of this Plan, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Plan.

(e) All the foregoing severance and benefit arrangements shall be

communicated to each Participant in this Plan and shall be generally described in filings with the Securities and Exchange Commission and to the shareholders of the Company, all to the extent deemed necessary or desirable by the Company, in order that each Participant shall be deemed to have continued his employment with the Company hereafter in good faith reliance upon this Plan.

CUMMINS ENGINE COMPANY, INC.  
EXECUTIVE RETENTION PLAN

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(Effective as of October 10, 1995)

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The Board of Directors of Cummins Engine Company, Inc. ("the Company") has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication of its executives, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) on the Company. The Board of Directors ("the Board") believes it is imperative to diminish the inevitable distraction of the executives by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the executives' full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control and to provide the executives with updated compensation and benefits arrangements upon a Change of Control which ensure that the compensation and benefits expectations of the executives will be satisfied and which are competitive with those of other major U.S. industrial corporations. In order to accomplish these objectives, the Board has caused the Company to adopt this Cummins Engine Company, Inc. Executive Retention Plan ("the Plan").

This Plan is in addition to but separate and distinct from and does not supersede or amend the Company's Key Employee Compensation Protection Plan, effective as of April 3, 1984 ("the 1984 Plan"). Therefore, in the event of a Change of Control, amounts are payable under the terms of the 1984 Plan and this Plan. This Plan does, however, supersede any other severance pay or salary continuance plan or program adopted by the Company to retain and protect its employees in the event of a Change of Control.

1. Definitions. In addition to other terms defined elsewhere herein, the following terms shall have the following meanings, such meanings to be equally applicable to both the singular and plural forms of the terms defined.

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

(i) any person becomes the beneficial owner, directly or indirectly, of securities of the Company having at least 25 percent of the voting power of the Company's then outstanding securities;

(ii) the shareholders of the Company shall approve any merger or other business combination of the Company or a subsidiary of the Company, sale of the Company's assets or combination of the foregoing transactions (a "Transaction") other than a Transaction immediately following which the shareholders of the Company immediately prior to the Transaction and any trustee or fiduciary of any Company employee benefit plan own at least 50 percent of the voting securities of the surviving company (or its parent) immediately following the Transaction;

(iii) within any 24 month period, the persons who were directors immediately before the beginning of such period (the "Incumbent Directors") shall cease (for any reason other than death) to constitute at least a majority of the Board or the board of directors of a successor to the Company. For this purpose, any director who was not a director at the beginning of such period shall be deemed to be an Incumbent Director if such director was elected to the Board by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors (so long as such director was not nominated by a person who has entered into an agreement to affect a Change of Control).

(b) "Designated Officers" means certain officers of the Company designated by the Board from time-to-time to receive payments and benefits as described in paragraph 2(a) of the Plan.

(c) "Key Employee" means an employee of the Company or any of its subsidiaries whose salary grade classification is 10 or higher (or equivalent subsidiary salary grade classification) and who is not an officer.

(d) "Officer" means an officer of the Company who is not a

Designated Officer.

(e) "Participant" means a Designated Officer, Officer or Key Employee, as the context requires.

(f) "Termination for Cause" means a termination of a Participant's employment by the Company due to (i) the willful and continued failure of the Participant to perform substantially the Participant's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Participant by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Participant has not substantially performed the Participant's duties or (ii) the willful engaging by the Participant in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this definition, no act or failure to act on the part of the Participant shall be considered "willful" unless it is done, or omitted to be done, by the Participant in bad faith or without reasonable belief that the Participant's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Participant shall not be deemed to be a termination for Cause unless and until there shall have been delivered to the Participant a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Participant and the Participant is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Participant is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(g) "Termination for Good Reason" means a termination of a Participant's employment by the Participant within 90 days following (i) the assignment to the Participant of any duties inconsistent in any respect with the Participant's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Participant, (ii) the Company's requiring the Participant, to be based at any office or location other than the location at which the Participant is based on the effective date of the Change of Control or the Company's requiring the Participant to travel on Company business to a substantially greater extent than required immediately prior to the effective date of the Change of Control, (iii) a reduction in Participant's annual base salary or participation level or opportunity in any bonus or other incentive compensation plan or program of the Company, (iv) a material reduction in the aggregate value of the pension and welfare benefits provided to Participant from those in effect on the effective date of the Change of Control (other than a reduction which is proportionate to the reductions applicable to other senior participants pursuant to a cost-saving plan that includes all senior participants) or (v) a material breach of any provision of this Plan by the Company.

For purposes of this definition, any good faith determination of "Good Reason" made by the Participant shall be conclusive. Anything in this Plan to the contrary notwithstanding, a termination by the Participant for any reason during the 30-day period immediately following the first anniversary of the effective date of the Change of Control shall be deemed to be a Termination for Good Reason for all purposes of this Plan.

(h) "Termination Without Cause" means any termination of the Participant's employment by the Company other than a Termination for Cause.

2. Termination Payments. In the event of a Termination Without Cause or a Termination for Good Reason (in either such case a "Termination") before a second anniversary of the effective date of any Change of Control, and in addition to amounts payable and the periods of time during which benefits continue to be provided under the 1984 Plan, the Company shall pay to the Participant and provide him or her with the

following:

(a) In the case of a Designated Officer, for a period of twenty-four (24) months following the date of Termination, the Company shall continue to pay such Participant's base salary on a monthly basis at the annual rate in effect immediately prior to the date of Termination or the effective date of the Change of Control, whichever is higher, plus eight (8) quarterly bonus payments in the amount of the Participant's Target Bonus payments as calculated under, and payable at the times contemplated in, the Company's Senior Executive Bonus Plan or Target Bonus Plan (each a "Bonus Plan") in effect prior to the Change of Control and adjusted as provided in the next two sentences. In making the calculations under the Bonus Plan, the Participant's "Base Salary" (as defined therein) shall be the annual rate in effect immediately prior to the date of Termination or the effective date of the Change of Control, whichever is higher, and the applicable "Bonus Factor" (as defined therein) in each case shall be 1.0 without regard to the Company's actual performance under the performance measures during the measurement period.

(b) In the case of an Officer or a Key Employee, for a period of twelve (12) months following the date of Termination, the Company shall continue to pay such Participant's base salary on a monthly basis at the annual rate in effect immediately prior to the date of Termination or the effective date of the Change of Control, whichever is higher, plus four (4) quarterly bonus payments in the amount of the Participant's Target Bonus payments as calculated under, and payable at the times contemplated in, the Company's Target Bonus Plan ("Bonus Plan") in effect prior to the Change of Control and adjusted as provided in the next two sentences. In making the calculations under the Bonus Plan, the Participant's "Base Salary" (as defined therein) shall be the annual rate in effect immediately prior to the date of Termination or the effective date of the Change of Control, whichever is higher, and the applicable "Bonus Factor" (as defined therein) in each case shall be 1.0 without regard to the Company's actual performance under the performance measures during the measurement period.

(c) In addition to the payments described in (a) and (b) above, the Participant shall continue to be entitled to all benefits and service credits for benefits under all pension, life insurance, medical, dental, disability, financial advisory and any other employee benefit plans, policies, programs and arrangements of the Company applicable to the Participant as if the Participant were still employed during an additional two (2) year period in the case of a Designated Officer and one (1) year period in the case of an Officer or Key Employee.

(d) If, despite the provisions of paragraph 2(c), benefits or service credits under any such employee benefit plan may not be payable or provided under the plan to such Participant or his or her dependents, beneficiaries and estate because he or she is no longer an active employee of the Company, the Company itself shall, to the extent not payable or provided by such plan, pay or provide for payment of the lump-sum present cash value of such benefits to such Participant, dependents, beneficiaries and estate (on an after-tax basis where such benefits if provided through the employee benefit plan would not be taxable to the Participant).

3. Lump Sum Payment. The Participant may elect, within 60 days following the date of a Termination, to be paid a lump sum in cash, in lieu of all termination payments provided in paragraph 2, in any amount equal to the sum of the following:

(a) an amount equal to salary payments for the number of months applicable to the Participant as specified in paragraph 2 ("the Applicable Period") at the monthly rate in effect immediately prior to the date of Termination or the effective date of the Change of Control, whichever is higher, and

(b) an amount equal to quarterly bonus payments for the Applicable Period in the amount of the Participant's Bonus Plan payments calculated in accordance with the provisions of paragraph 2(a) or 2(b), as applicable.

In the event that a Participant makes an election pursuant to this paragraph 3 to receive a lump-sum cash payment of the aggregate amount determined pursuant to paragraph (a) and (b), then, in addition to such amount, the Participant shall receive (i) in addition to the benefits to be provided under any pension benefit plan and supplemental pension plan maintained by the Company, the pension benefits that would have accrued under such pension benefit plan and supplemental pension plan if the Participant had remained in the employ of the Company for the Applicable Period after the date of Termination, which benefits will be paid concurrently with, and in



addition to, the benefits provided under such pension benefit plan and supplemental pension plan and (ii) the employee benefits (including, but not limited to, coverage under any life insurance, medical, dental, disability and financial advisory arrangements or programs) to which the Participant would have been entitled under all employee benefit plans, programs, policies or arrangements maintained by the Company if the Participant had remained in its employ for the Applicable Period after the date of Termination, or if elected by the Participant, the lump-sum present cash value of the amounts described in such clauses (i) and (ii) (on an after-tax basis where such benefits if provided through the employee benefit plan would not be taxable to the Participant). The amounts of any lump-sum payments described in the preceding sentence shall be determined and such payments shall be made as soon as possible following the Participant's election.

4. Nonexclusivity of Right. Nothing in this Plan shall prevent or limit any Participant's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Participant may qualify, nor shall anything herein limit or otherwise affect such rights as a Participant may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which a Participant is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to a Change of Control or Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Plan.

5. Full Settlement. The Company's obligation to make the payments provided for in this Plan and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against a Participant or others. In no event shall a Participant be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Participant under any of the provisions of this Plan and such amounts shall not be reduced whether or not the Participant obtains other employment. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which the Participant may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Participant or others of the validity or enforceability of, or liability under, any provision of this Plan or any guarantee of performance hereof (including as a result of any contest by the Participant about the amount of any payment pursuant to this Plan), plus in each case interest on any delayed payment at the applicable federal rate provided for in Section 1274(d) of the Internal Revenue Code of 1986, as amended ("the Code").

6. Certain Additional Payments. If any payments or benefits paid by the Company pursuant to this Plan ("Plan Payments") causes such payments and any other payments (including those under the 1984 Plan) made in connection with a Change of Control (collectively, the "Total Payments") to be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code, the Company shall pay the Participant an additional amount (the "Gross-Up Payment") such that the net amount retained by the Participant, after deduction of any Excise Tax paid or payable (and not grossed-up under a similar provision of another plan or program sponsored by the Company) on the Plan Payments and such other Total Payments and any federal, state and local income tax and Excise Tax upon the payment provided for by this paragraph 6, shall be equal to the Plan Payments and such other Total Payments. If any of such other Total Payments are subject to the Excise Tax without regard to Plan Payments, a Gross-Up Payment shall be made, but shall only be equal to the increase in the Excise Tax (plus any federal, state and local income tax and Excise Tax on such Gross-Up Payment) arising solely as a result of Plan Payments, payments from the 1984 Plan and any other plan or program of the Company not providing for Gross-Up Payments.

For purpose of determining whether any of the payments described above will be subject to the Excise Tax and the amount of such Excise Tax, (i) any other payments or benefits received or to be received by the Executive in connection with a Change of Control of the Company, whether payable pursuant to the terms of this Plan or any other plan, arrangement or agreement with the Company, its successors, any person whose actions result in a Change of Control of the Company or any corporation affiliated (or which, as a result of the completion of a transaction causing a Change of Control, will become affiliated) with the Company within the meaning of Section 1504 of the Code shall be treated as "parachute payments" within the meaning of Section 280G(b) (2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b) (1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the

Company's auditors and acceptable to the Participant, the payments (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b) (4) of the Code and are in excess of the base amount within the meaning of Section 280G(b) (3) of the Code, or are otherwise not subject to the Excise Tax, (ii) the amount of the payments that shall be treated as subject to the Excise Tax shall be equal to the amount of excess parachute payments within the meaning of Section 280G(b) (1) (after applying clause (i), above), and (iii) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's auditors in accordance with the principles of Section 280G(d) (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the relevant calendar year and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Participant's residence for the relevant calendar year, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of payment, the Participant shall repay to the Company at the time that the amount of such reduction in Excise Tax is finally determined the portion of the Gross-Up Payment attributable to such reduction (plus the portion of the Gross-Up Payment attributable to the Excise Tax and federal and state and local income tax imposed on the Gross-up Payment being repaid by the Participant if such repayment results in a reduction in Excise Tax and/or a federal and state and local income tax deduction) plus interest on the amount of such repayment at the rate provided in Section 1274(d) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the Gross-Up Payment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Company shall make an additional Gross-Up Payment in respect to such excess at the time that the amount of such excess is finally determined.

7. Successors. (a) Benefits under this Plan are personal to the Participant and without the prior written consent of the Company shall not be assignable by the Participant otherwise than by will or the laws of descent and distribution. This Plan shall inure to the benefit of and be enforceable by the Participant's legal representatives.

(b) This Plan shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Plan in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Plan, "Company" shall mean the Company as herein before defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Plan by operation of law, or otherwise.

8. Miscellaneous.

(a) This Plan shall be governed by and construed in accordance with the laws of the State of Indiana, without reference to principles of conflict of laws. The captions of this Plan are not part of the provisions hereof and shall have no force or effect. This Plan may not be amended or modified to reduce any Participant's benefits otherwise than with the written consent of the Participant or the Participant's successor or legal representative.

(b) The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision of this Plan.

(c) The Company may withhold from any amounts payable under this Plan such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(d) The Participant's failure to insist upon strict compliance with any provision of this Plan or the failure to assert any right the Participant may have hereunder, including, without limitation, the right of the Participant to terminate employment for Good Reason as defined in paragraph 1(g) of this Plan, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Plan.

(e) All the foregoing severance and benefit arrangements shall be

communicated to each Participant in this Plan and shall be generally described in filings with the Securities and Exchange Commission and to the shareholders of the Company, all to the extent deemed necessary or desirable by the Company, in order that each Participant shall be deemed to have continued his employment with the Company hereafter in good faith reliance upon this Plan.

## EXHIBIT 11

CUMMINS ENGINE COMPANY, INC.  
 SCHEDULE OF COMPUTATION OF PER SHARE EARNINGS  
 FOR EACH OF THE THREE YEARS ENDED DECEMBER 31, 1995

(Millions, Except Per Share Data)

	Weighted Average Shares	Net Earnings	Calculated Per Share
<hr/>			
1995			
<hr/>			
Earnings available for common stock shareholders	40.6	\$224	\$5.53
Options	.1	-	
	<hr/>	<hr/>	
Primary and fully diluted earnings per share	40.7	\$224	\$5.52
	<hr/>	<hr/>	
1994			
<hr/>			
Earnings available for common stock shareholders	41.2	\$253	\$6.14
Options	.2	-	
	<hr/>	<hr/>	
Primary and fully diluted earnings per share	41.4	\$253	\$6.11
	<hr/>	<hr/>	
1993			
<hr/>			
Earnings available for common stock shareholders	34.9	\$169	\$4.85
Options	.4	-	
	<hr/>	<hr/>	
Primary earnings per share	35.3	169	\$4.79
Convertible preference stock	3.0	8	
	<hr/>	<hr/>	
Fully diluted earnings per share	38.3	\$177	\$4.63
	<hr/>	<hr/>	

## CUMMINS ENGINE COMPANY, INC.

## SUBSIDIARIES OF THE REGISTRANT

Subsidiary/Joint Venture	State or Country of Incorporation
A. F. Shane Company	Pennsylvania
Aggregatebau GmbH	Germany
Agreba Aggregatebau GmbH & Co. KG	Germany
Agreba Beteiligungs GmbH	Germany
Atlas Crankshaft Corporation d/b/a Atlas Inc.	Ohio
Autofield Engineers Private Limited	India
Auto Diesels Power Plant Limited	United Kingdom
Behr America, Inc.	Delaware
Behr Climate Systems, Inc.	New Jersey
Behr Heat Transfer Systems, Inc.	Delaware
Cadec Systems, Inc.	Indiana
Cal Disposition, Inc.	California
C. E. Sonora S.A. de C.V.	Mexico
C. G. Newage Electrical, Ltd.	India
Chongqing Cummins Engine Company, Ltd.	China
CNE S/A Industrial	Brazil
Combustion Technologies, Inc.	Indiana
Consolidated Diesel Company	North Carolina
Consolidated Diesel, Inc.	Delaware
Consolidated Diesel of North Carolina, Inc.	North Carolina
Cummins Americas, Inc.	Indiana
Cummins Australia Pty. Limited	Australia
Cummins Brasil Ltda.	Brazil
Cummins British Columbia	Canada
Cummins Corporation	Indiana
Cummins de Colombia S.A.	Colombia
Cummins Diesel Deutschland GmbH	Germany
Cummins Diesel Export Limited	Barbados
Cummins Diesel of Canada Limited	Canada
Cummins Diesel International Limited	Barbados
Cummins Diesel Italia S.P.A.	Italy
Cummins Diesel (Japan) Ltd.	Japan
Cummins Diesel Limited	Canada
Cummins Diesel N.V.	Belgium
Cummins Diesel Sales Corporation	Indiana
Cummins Diesel Sales & Service (India) Limited	India
Cummins Engine (Beijing) Co., Ltd.	China
Cummins Engine Company Limited	New Zealand
Cummins Engine Company Limited	United Kingdom
Cummins Engine H.K. Limited	Hong Kong
Cummins Engine Holding Company, Inc.	Indiana
Cummins Engine (Singapore) PTE LTD.	Singapore
Cummins Engine Venture Corporation	Indiana
Cummins Financial, Inc.	Delaware
Cummins Funding Corporation	Delaware
Cummins Great Lakes, Inc.	Indiana
Cummins India Holdings Limited	India
Cummins International Finance Corporation	Delaware
Cummins France EURL	France
Cummins KH-12, Inc.	Delaware
Cummins Komatsu Engine Company	Indiana
Cummins Korea, Ltd.	South Korea
Cummins Mexicana, S.A. de C.V.	Mexico
Cummins Military Systems Company	Indiana
Cummins Natural Gas Engines, Inc.	Delaware
Cummins Nordeste, S.A.	Brazil
Cummins Power Generation, Inc.	Indiana
Cummins Professional Training Center, Inc.	Delaware
Cummins Research Limited Partnership	United States
Cummins S.A. de C.V.	Mexico
Cummins U.K. Limited	United Kingdom
Cummins Venture Corporation	Delaware
Cummins Wartsila Engine Company, S.A.S.	France
Cummins Wartsila Engine Company, G.E.I.E.	France
Cummins Zimbabwe Pvt. Ltd.	Zimbabwe
Dampers Iberica, S.A.	Spain
Dampers, S.A.	France
Diesel ReCon Industria e Comercio Ltda.	Brazil
Diesel ReCon de Mexico, S.A. de C.V.	Mexico
Empresas Cummins S.A. de C.V.	Mexico
Enceratec, Inc.	Maryland

Engine Systems Limited	Pakistan
Fleetguard Commercial S.A. de C.V.	Mexico
Fleetguard Filtration Systems, India Private Limited	India
Fleetguard GmbH	Germany
Fleetguard, Inc.	Indiana
Fleetguard International Corporation	Indiana
Fleetguard Korea Ltd.	South Korea
Fleetguard Mexico S.A. de C.V.	Mexico
Fleetguard SNC	France
Getrag Precision Gear Company	Delaware
Hodek Engineering Ltd.	India
Holset Brasil Equipamentos Automotores Ltda.	Brazil
Holset Engineering Company, Inc.	Indiana
Holset Engineering Company Limited	United Kingdom
Holset Korea Ltd.	Korea
Holset SNC	France
HPI Company	Indiana
Hyperbar USA, Inc.	Indiana
Industria e Comercio Cummins Ltda.	Brazil
Integrated Distribution Systems, Inc.	Delaware
KamDizel	Russia
Kirloskar Cummins Limited	India
Komatsu Cummins Engine Co., Ltd.	Japan
Kompressorenban Bannewitz GmbH	Germany
Kuss Corporation	Ohio
Kuss SNC	France
Logstrup Modular Systems PTE, Limited	Singapore
Lubricant Consultants, Inc.	New Jersey
Markon Engineering Company Limited	United Kingdom
MHTC Corporation	Delaware
Motores Cummins Diesel do Brazil, Ltda.	Brazil
Muench Works Ltd.	Canada
NAP Accoustics South East Asia PTE, Limited	Singapore
Newage Engineers Pty Ltd.	Australia
Newage Equipment Ltd.	Canada
Newage (Far East) Pte Ltd.	Singapore
Newage GmbH	Germany
Newage International Limited	United Kingdom
Newage Italia S.R.L.	Italy
Newage Ltd.	United Kingdom
Newage Ltd.	Pennsylvania
Newage Machine Tools Limited	United Kingdom
Newage Norge	Norway
No. 379 Taurus Ventures Ltd.	Canada
Northwest Dieselguard Limited	Canada
Nu-Plant Service Limited	United Kingdom
Ona Corporation	Alabama
Onan Australia Pty. Ltd.	Australia
Onan Canada Limited	Canada
Onan Corporation	Delaware
Onan Foreign Holdings, Ltd.	Delaware
Onan FSC Ltd.	Jamaica
Onan International B.V.	The Netherlands
Onan International Limited	United Kingdom
Pacific World Trade, Inc.	Indiana
Park Avenue Limited Partnership	United States
Petbow Custom Generators Limited	United Kingdom
Petbow Far East PTE, Limited	Singapore
Petbow Limited	United Kingdom
Petbow Pacific Limited	Hong Kong
Petbow Power Projects Limited	United Kingdom
Petbow S.A.	France
Petbow Welding Products Limited	United Kingdom
PGI Manufacturing Limited	United Kingdom
PGI (UK Holdings) Limited	United Kingdom
PGI (Overseas Holdings) B.V.	The Netherlands
Poona Couplings, Ltd.	India
Power Generation International Limited	United Kingdom
Power Group International (Overseas Holdings) Limited	United Kingdom
PT Newage Engineers Indonesia	Indonesia
Shanghai Fleetguard Filter Co., Ltd.	China
Stamford Iberica	Spain
Tata Cummins Ltd.	India
TATA Holset Private Limited	India
Techniparts S.A.	France
Turbo Europa, B.V.	Holland
124747 Canada Limited	Canada
14-15 Corporation	Nevada

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

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As independent public accountants, we hereby consent to the incorporation of our report, included in this Form 10-K, into the Company's previously filed Registration Statement File Nos. 2-32091, 2-53247, 2-58696, 33-2161, 33-8842, 33-31095, 33-37690, 33-46096, 33-46097, 33-46098, 33-50665 and 33-56115.

ARTHUR ANDERSEN LLP

Chicago, Illinois  
March 4, 1996.

CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY

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KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Mark R. Gerstle with full power to act without the other as his true and lawful attorney-in-fact and agent, with full and several powers of substitution and resubstitution for him in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Cummins Engine Company, Inc. ("the Company") for the Company's fiscal year ended December 31, 1995 and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Dated: March 2, 1996

/s/James A. Henderson

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James A. Henderson  
Director & Chairman of the  
Board and Chief Executive  
Officer

CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY

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KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Mark R. Gerstle with full power to act without the other as his true and lawful attorney-in-fact and agent, with full and several powers of substitution and resubstitution for him in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Cummins Engine Company, Inc. ("the Company") for the Company's fiscal year ended December 31, 1995 and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Dated: March 2, 1996

/s/Theodore M. Solso

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Theodore M. Solso  
Director & President and  
Chief Operating Officer

CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY

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KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Mark R. Gerstle with full power to act without the other as his true and lawful attorney-in-fact and agent, with full and several powers of substitution and resubstitution for him in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Cummins Engine Company, Inc. ("the



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Dated: March 2, 1996

/s/Harold Brown

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Harold Brown  
Director

CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY

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KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Mark R. Gerstle with full power to act without the other as his true and lawful attorney-in-fact and agent, with full and several powers of substitution and resubstitution for him in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Cummins Engine Company, Inc. ("the Company") for the Company's fiscal year ended December 31, 1995 and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Dated: March 2, 1996

/s/K. R. Dabrowski

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K. R. Dabrowski  
Director

CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY

---

KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Mark R. Gerstle with full power to act without the other as his true and lawful attorney-in-fact and agent, with full and several powers of substitution and resubstitution for him in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Cummins Engine Company, Inc. ("the Company") for the Company's fiscal year ended December 31, 1995 and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Dated: March 2, 1996

/s/Robert J. Darnall

Robert J. Darnall  
Director  
CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY

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Dated: March 2, 1996

/s/W. Y. Elisha  
\_\_\_\_\_  
W. Y. Elisha  
Director  
CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY

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Dated: March 2, 1996

/s/Hanna H. Gray  
\_\_\_\_\_  
Hanna H. Gray  
Director  
CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY

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Dated: March 2, 1996

/s/D. G. Mead

\_\_\_\_\_  
D. G. Mead  
Director

CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY

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Dated: March 2, 1996

/s/J. Irwin Miller

\_\_\_\_\_  
J. Irwin Miller  
Director

CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY

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Dated: March 2, 1996

/s/William I. Miller

\_\_\_\_\_  
William I. Miller  
Director

CUMMINS ENGINE COMPANY, INC.

POWER OF ATTORNEY

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Dated: March 2, 1996

/s/Donald S. Perkins

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Donald S. Perkins  
Director

CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY

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Dated: March 2, 1996

/s/William D. Ruckelshaus

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William D. Ruckelshaus  
Director

CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY

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agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Dated: March 2, 1996

/s/H. B. Schacht

\_\_\_\_\_  
H. B. Schacht  
Director

CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY  
\_\_\_\_\_

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Dated: March 2, 1996

/s/F. A. Thomas

\_\_\_\_\_  
F. A. Thomas  
Director

CUMMINS ENGINE COMPANY, INC.  
POWER OF ATTORNEY  
\_\_\_\_\_

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Dated: March 2, 1996

/s/J. Lawrence Wilson

\_\_\_\_\_  
J. Lawrence Wilson  
Director

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