

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant []

Check the appropriate box:

[] Preliminary Proxy Statement [] CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E)(2))

[X] Definitive Proxy Statement

[X] Definitive Additional Materials

[] Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

Cummins Engine Company, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required

[] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

[] Fee paid previously with preliminary materials.

[] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Notes:

CUMMINS ENGINE COMPANY, INC.
500 JACKSON STREET, BOX 3005, COLUMBUS, INDIANA 47202-3005

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of
Cummins Engine Company, Inc.

Notice is hereby given that the Annual Meeting of the Shareholders of Cummins Engine Company, Inc. will be held at the Columbus East High School Auditorium, 230 South Marr Road, Columbus, Indiana, on Tuesday, April 1, 1997, at 10:30 a.m., local time, for the following purposes:

1. to elect twelve directors of the Company for the ensuing year;
2. to ratify the appointment of Arthur Andersen LLP as auditors for the year 1997;
3. to transact any other business that may properly come before the meeting or any adjournment thereof.

Only shareholders of Common Stock of the Company of record at the close of business on February 14, 1997, are entitled to notice of and to vote at the meeting.

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

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

Mark R. Gerstle,
Secretary

March 1, 1997

CUMMINS ENGINE COMPANY, INC.
500 JACKSON STREET, BOX 3005, COLUMBUS, INDIANA 47202-3005
PROXY STATEMENT

This proxy statement is being furnished in connection with the solicitation by the Board of Directors of Cummins Engine Company, Inc. (the "Company" or "Cummins") of proxies to be voted at the Annual Meeting of Shareholders to be held on Tuesday, April 1, 1997, and at any adjournment thereof (the "Annual Meeting"). This proxy statement, together with the enclosed proxy, is first being mailed to the shareholders of the Company on or about March 1, 1997.

Holders of the Company's Common Stock of record at the close of business on February 14, 1997 are entitled to vote at the Annual Meeting. On that date there were issued and outstanding 41,907,422 shares of Common Stock, each of which is entitled to one vote.

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

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

PRINCIPAL SECURITY OWNERSHIP

The following table identifies those shareholders known to the Company to be the beneficial owners of more than five percent of the Common Stock of the Company and shows as to each such shareholder as of February 14, 1997 (i) the number of shares beneficially owned by such shareholder(s) and the nature of

such beneficial ownership and (ii) the percentage of the entire class of Common Stock so beneficially owned:

<TABLE>
<CAPTION>

	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
<S>	<C>	<C>
FMR Corporation 82 Devonshire Street Boston, MA 02109	5,959,786 (1)	14.22%
Miller Anderson & Sherrerd, LLP One Tower Bridge West Conshohocken, PA 19428	5,751,687 (2)	13.72%
Cummins Engine Company, Inc. Employee Benefits Trust c/o The Vanguard Fiduciary Trust Com- pany Post Office Box 2900 Valley Forge, PA 19482	3,750,000	8.95%
The Capital Group Companies, Inc. 333 South Hope Street Los Angeles, CA 90071	2,500,260 (3)	5.97%
Cummins Engine Company, Inc. and Affiliates Employee Stock Ownership Trust c/o The Vanguard Fiduciary Trust Com- pany Post Office Box 2900 Valley Forge, PA 19482	2,222,080	5.30%

</TABLE>

-
- (1) The source of this information is a Schedule 13G dated February 14, 1997 disclosing beneficial ownership by FMR. FMR states in its 13G that it has sole investment power for all of the shares, sole voting power for 117,776 shares and no shared investment or voting power.
 - (2) The source of this information is a Schedule 13G dated February 14, 1997 disclosing beneficial ownership by MAS, and information known to the Company regarding a purchase transaction that occurred on January 8, 1997. MAS states in its 13G that it has shared investment power for 3,851,687 shares, shared voting power for 3,255,287 shares and no sole voting or investment power.
 - (3) The source of this information is a Schedule 13G dated February 25, 1997 disclosing beneficial ownership by certain operating subsidiaries of the Capital Group Companies, Inc. These entities were reported to possess, in the aggregate, sole voting power for 260 shares, sole investment power for all of the shares and no shared voting or investment power.

2

ELECTION OF DIRECTORS

(ITEM 1)

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

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

The names of the nominees for directors, together with certain information regarding them, are set forth below. Biographical sketches of these nominees, which include their business experience during the past five years and directorships of other corporations, are provided on pages 21 through 26 of this proxy statement.

<TABLE>
<CAPTION>

	FIRST YEAR ELECTED A AGE DIRECTOR (1)	NATURE OF BENEFICIAL OWNERSHIP AS OF FEBRUARY 28, 1997 (2)	PERCENT OF CLASS
<S>	<C>	<C>	<C>
Harold Brown.....	69 1985	946 (3)	*

Counselor, Center for Strategic & International Studies; Partner, Warburg, Pincus & Co., venture banking firm				
Robert J. Darnall.....	58	1989	1,562	*
Chairman, President and Chief Executive Officer, Inland Steel Industries, Inc., steel manufacturing and materials distribution				
Walter Y. Elisha.....	64	1991	1,562	*
Chairman and Chief Executive Officer, Springs Industries, Inc., manufacturer of home furnishings, industrial and specialty fabrics				
Hanna H. Gray.....	66	1977	746	*
President Emeritus and Professor of History, University of Chicago				
James A. Henderson.....	62	1974	172,768 (4)	*
Chairman of the Board and Chief Executive Officer of Cummins				
William I. Miller.....	40	1989	37,324 (5)	*
Chairman, Irwin Financial Corporation, financial services company				
Donald S. Perkins.....	69	1974	4,562	*
Retired Chairman, Jewel Companies, Inc., diversified retailing				
William D. Ruckelshaus.....	64	1974	1,562	*
Principal, Madrona Investment Group, L.L.C.				
Henry B. Schacht.....	62	1969	118,086 (6)	*
Chairman and Chief Executive Officer, Lucent Technologies, Inc., communication industry products				

</TABLE>

3

<TABLE>
<CAPTION>

NAME AND OCCUPATION	AMOUNT AND			
	FIRST YEAR ELECTED A	NATURE OF BENEFICIAL OWNERSHIP AS OF	PERCENT OF	CLASS
-----	AGE DIRECTOR (1)	FEBRUARY 28, 1997 (2)		
<S>	<C>	<C>	<C>	<C>
Theodore M. Solso.....	49	1994	91,233 (7)	*
President and Chief Operating Officer of Cummins				
Franklin A. Thomas.....	62	1973	1,253	*
Consultant, TFF Study Group				
J. Lawrence Wilson.....	61	1990	2,554	*
Chairman and Chief Executive Officer, Rohm and Haas Company, chemicals and plastics manufacturing				

</TABLE>

*Less than 1%.

- (1) Except for Mr. Ruckelshaus, each Director has served continuously since the year indicated. Mr. Ruckelshaus served on the Board of Directors from 1974 until 1983 when he returned to Federal Government service and was reelected to the Board of Directors in 1985.
- (2) Except as indicated, the voting and investment powers of the shares listed are held solely by the reported owner.
- (3) These shares are held by a trust, of which Dr. Brown is a co-trustee, settlor and beneficiary.
- (4) Includes 56,200 shares which Mr. Henderson has the right to acquire within the next 60 days through the exercise of stock options. Also included are 400 shares held by Mr. Henderson's wife who has sole voting and investment powers thereof.
- (5) Includes 15,003 shares held by Mr. Miller for the benefit of his children.
- (6) Includes 66,900 shares which Mr. Schacht has the right to acquire within the next 60 days through the exercise of stock options granted to him prior to his retirement as an employee of the Company.
- (7) Includes 29,000 shares which Mr. Solso has the right to acquire within the next 60 days through the exercise of stock options. Also included are 15,919 shares held by a family trust and 14,604 shares held by a family limited partnership of which Mr. Solso is a general partner.

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

THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors held six meetings during 1996. All of the directors attended 75% or more meetings of the Board and Committees on which they served.

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

Audit Committee. The members of the Audit Committee are D. S. Perkins (Chairman), H. H. Gray and W. D. Ruckelshaus. The Committee reviews the accounting and auditing principles and

4

procedures of the Company. The Audit Committee reviews the scope, timing, and fees for the annual audit and the results of audit examinations performed by the internal auditors and independent public accountants, including their recommendations to improve the system of accounting and internal controls. The Audit Committee met four times during 1996.

Compensation Committee. The members of the Compensation Committee are H. H. Gray (Chairman), H. Brown, D. S. Perkins, W. D. Ruckelshaus and F. A. Thomas. The Compensation Committee administers and determines eligibility for and makes awards under the Company's stock option and other stock incentive plans. The Committee also reviews and evaluates the Company's executive compensation standards and practices, including salaries, bonus distributions, deferred compensation practices and participation in stock purchase plans. The Compensation Committee met four times during 1996.

Nominating and Organization Committee. The members of the Nominating and Organization Committee are F. A. Thomas (Chairman), H. Brown, R. J. Darnall, W. Y. Elisha, H. H. Gray, W. I. Miller, D. S. Perkins, W. D. Ruckelshaus, H. B. Schacht and J. L. Wilson. The Nominating and Organization Committee reviews and makes recommendations to the Board with respect to membership, size, composition, procedures and organization of the Board of Directors. The Committee also evaluates the Chief Executive Officer's performance and monitors meeting attendance of Board members. This Committee will consider shareholders' recommendations of nominees for election to the Board of Directors. Shareholder recommendations, including biographical information as to the proposed candidate and a statement from the shareholder as to the qualifications and willingness of such person to serve on the Company's Board of Directors, must be submitted in writing to the Secretary of the Company in accordance with the procedures established in the Company's By-Laws. The Nominating and Organization Committee replaced the former Nominating Committee and met three times during 1996.

Executive Committee. The members of the Executive Committee are J. A. Henderson (Chairman), W. I. Miller and T. M. Solso. The Executive Committee is authorized to exercise the powers of the Board of Directors in the management and direction of the business and affairs of the Company during the intervals between meetings of the Board of Directors. The Executive Committee met one time during 1996.

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

Each director who is not an officer of the Company receives an annual fee of \$45,000, \$27,000 of which is paid in cash and \$18,000 of which is paid in the form of restricted stock. Each non-officer director also receives \$1,000 for each special meeting of the Board of Directors attended. Committee chairmen (other than the Executive or Proxy Committee) receive an additional annual fee of \$9,000. Non-chair members of the Audit, Business Development and Finance, Executive, Compensation, Employee Development and Benefits, Nominating and Organization and Technology Committees receive an additional \$6,000 fee for each such Committee membership. Committee members also receive \$1,000 for attending a Committee meeting (other than a meeting of the Executive Committee) that is not held in connection with a regular or special meeting of the Board of Directors.

5

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

Nominee Harold Brown has a consulting arrangement with the Company pursuant to which he provides consulting services in connection with the Company's research and development activities and related technology issues. During 1996, the Company paid Dr. Brown \$50,000 for these services. In addition, the Company has established a Science and Technology Advisory Council on which Dr. Brown serves as Chairman. The Council advises senior management and the Board of Directors on the direction and implication of developments in science, technology and environmental issues that may have applicability to the Company's current and future business goals and objectives. For his services on the Council, Dr. Brown is paid an annual retainer of \$17,000, including \$7,000 for serving as Chairman, and an additional fee of \$3,000 for each day of meetings attended during the year.

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

During 1996, the Company maintained a retirement plan for non-employee directors who had no vested rights under any other pension plan sponsored by the Company and who had served as a director for 5 or more years. Under the plan, annual payments equal to the amount of fees (excluding Committee fees) paid or payable for the final year of service were to be made to a former director each year for the lesser of 20 years or the number of years served as a director. Upon a change of control of the Company (as defined in the plan), the actuarial present value of accrued but unpaid benefits was to be distributed to the director in one lump sum.

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

6

EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE REPORT

The Compensation Committee Report is organized as follows:

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

ROLE OF COMPENSATION COMMITTEE

The Compensation Committee is made up of five members of the Board of Directors of the Company, who are not current or former employees of the corporation. The Committee has oversight responsibility for the Company's

executive compensation programs. The Committee sets the general compensation philosophy of the Company. It reviews the elements of the compensation program, the specifics of each element, the goals and measurements used in the program, and the results of the compensation program compared to the philosophy to determine if the compensation program is performing as expected.

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

OBJECTIVES AND PRINCIPLES OF EXECUTIVE COMPENSATION

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

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

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

- . Programs should provide competitive compensation opportunity, the concept of opportunity is important in our program. We believe the executive should have the opportunity to do well if the Company does well, but that total compensation should vary in relation to the Company's performance.

7

- . An individual's compensation should be at the median of the range when compared to the compensation of individuals in U.S. industrial companies with sales volumes similar to Cummins, when Cummins' financial performance is at the median of those companies.
- . There should be a balance between short-term and long-term elements of compensation.
- . The more senior a person's position, the more the compensation should be "at risk", i.e., dependent on the performance of the Company.
- . Stock should be an important part of the program in order to link the management's compensation with shareholders' expectations; the greater the level of responsibility of the person, the more the compensation should be stock-based.
- . The system should be as simple and as easily understood as possible.
- . Payouts should not accumulate, causing large one-time payments.

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

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

Section 162(m) of the Internal Revenue Code ("Section 162(m)") limits the corporate tax deduction to one million dollars for compensation paid annually to any one of the named executive officers in the proxy, unless the compensation meets certain requirements. The Committee adopted changes to the compensation program, approved by shareholders in 1995, that qualify payments under the Senior Executive Bonus Plan and Senior Executive Three Year Performance Plan for tax deductibility under Section 162(m). These changes were designed to maximize tax deductibility, while retaining the ability to attract, retain and motivate executives to achieve our business objectives. Payments under these plans were certified by the Compensation Committee for each payment period in 1996.

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

COMPENSATION PROGRAM ELEMENTS

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

We use survey data provided by our compensation consultants to determine competitive levels of pay. These surveys include over 300 U.S. industrial corporations (including the eleven companies

8

that comprise the "Peer Group" companies used in the Shareholder Return Performance Presentation on page 12 of this Proxy Statement). Each element of pay described below is intended to provide compensation for each position at the median of the amounts companies of similar size in the survey would pay the same position.

1. Base Salary

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

2. Short-Term Bonus

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

(Short-Term Bonus) equals (Annual Base Salary) times (participation percentage assigned to each job) times (Payout Factor) times (1/4).

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

The Payout Factor for the quarterly bonus is set to yield a 1.0 Payout Factor for Company financial performance that is at the median of U.S. industrial companies measured over recent history. In 1996, return on equity was the measure used to compare performance. Return on equity levels are converted to equivalent return on sales levels for use in the Payout Factor formula. In determining the return on sales level equivalent to the market median return on equity to establish the 1.0 Payout Factor point for the Short-Term Bonus Plan for 1996, we used a full corporate tax rate, not taking credit for tax loss carryforwards.

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

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

In order to comply with the requirements of Section 162(m), designated officers (the Chief Executive Officer and the Chief Operating Officer in 1996) were compensated under a modified version of the Short-Term Bonus Plan, called the Senior Executive Bonus Plan. The Senior Executive Bonus Plan differs from the Short-Term Bonus Plan in which many employees at all levels of the Company, including all officers, participate, only in that the Compensation Committee has no discretion to increase the payouts once it establishes the performance measures each year.

3. Medium-Term: Three Year Performance Plan

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

The Committee establishes performance guidelines to determine the portion of the granted amount to be paid for each three-year Award Cycle. A new Award Cycle begins each year, hence payout opportunity is annual. The first payout under this program was in 1995. The performance measure for Award Cycles ending before 1999 is return on equity. The Committee establishes a scale of multiples of the Target Award to be paid for various levels of Company performance over each Award Cycle. The plan pays the full granted amount if Cummins' performance (based on the applicable performance measure) is equal to the median of the Peer Group companies over the three-year cycle. A portion or multiple of the granted amount is paid if three-year performance is less or greater than the median of these companies, based on a scale established by the Committee. The maximum that can be paid is two times the Target Award for performance that is twice the median of the Peer Companies.

As with the Short-Term Bonus Plan, to comply with the requirements of Section 162(m), designated officers (the Chief Executive Officer and Chief Operating Officer in 1996) were compensated under a modified version of the Three Year Performance Plan, called the Senior Executive Three Year Performance Plan. The plans are identical except that the Committee's discretion to adjust payments upward is eliminated in the Senior Executive Three Year Performance Plan.

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

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

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

COMPENSATION OF THE CHIEF EXECUTIVE OFFICER

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

10

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

In 1994 and 1995, the Company exceeded market median financial performance and the Short-Term Bonus payouts reflected this performance. However, Company performance in 1996 lagged the market median, and this is reflected in lower bonus payouts for the CEO in 1996. While the Company's Profit Before Tax was 27% less, the CEO's Short-Term Bonus was 48.7% less, from \$646,500 in 1995 to \$333,675 in 1996.

In July, 1996 the CEO received grants of restricted stock and stock options under the Long-Term 1992 Stock Incentive Plan, as well as a Target Award (payable in 2000) under the Medium-Term Three Year Performance Plan. This was the fifth set of grants under these Plans. The Committee intends to continue making grants annually.

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

The CEO, on a yearly basis, discusses in detail his priorities and objectives with the Nominating and Organization Committee (the members and responsibilities of the Nominating and Organization Committee are shown on page 5 of this proxy). The Nominating and Organization Committee formally reviews the CEO's performance against his stated objectives, especially the progress made by the Company in implementing its business strategy and achieving its business objectives, both short-term and long-term. This review considers both quantitative and qualitative performance matters, and is a key factor in setting the CEO's compensation.

The Committee commends the CEO for the objectives he has very clearly articulated and for excellent progress in their attainment. During 1996, an especially noteworthy and significant accomplishment has been the reorganization of the Company into a business unit structure that places substantial and appropriate focus on the priorities of customer service and shareholder value.

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

Hanna H. Gray, Chairman
 Harold Brown
 Donald S. Perkins
 William D. Ruckelshaus
 Franklin A. Thomas

11

SHAREHOLDER RETURN PERFORMANCE PRESENTATION

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

[GRAPH APPEARS HERE]

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN
 AMONG [COMPANY NAME HERE], S&P 500 INDEX AND PEER GROUP

<TABLE>
 <CAPTION>

Measurement Period (Fiscal Year Covered)	CUMMINS ENGINE	S&P 500 INDEX	PEER GROUP
12/31/91	\$100.00	\$100.00	\$100.00
FYE 12/31/92	\$144.20	\$107.64	\$126.40
FYE 12/31/93	\$199.62	\$118.50	\$199.56
FYE 12/31/94	\$170.47	\$120.06	\$174.85
FYE 12/31/95	\$142.73	\$165.18	\$209.60
FYE 12/31/96	\$181.69	\$203.11	\$246.24

</TABLE>

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

COMPENSATION TABLES AND OTHER INFORMATION

The summary compensation table and accompanying notes and other information on the following pages include individual compensation information for the last three fiscal years on the Company's Chairman and Chief Executive Officer and the four other most highly compensated executive officers during 1996. The dollar value of perquisites and other personal benefits for each of the named executive officers was less than the established reporting threshold and is not included in the table.

12

SUMMARY COMPENSATION TABLE

<TABLE>
 <CAPTION>

	ANNUAL COMPENSATION	LONG TERM COMPENSATION		
		AWARDS	PAYOUTS	
	(1)	(3)	(4)	(5)

NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	RESTRICTED	(2)	MEDIUM-	LTIP	ALL OTHER
				STOCK	STOCK	TERM		
				AWARDS	OPTIONS/ SARS (#)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
J. A. Henderson								
Chairman of the Board	1996	\$772,500	\$333,675	\$575,000	37,500	\$375,000	\$ 0	\$13,524
and Chief Executive	1995	\$727,500	\$646,500	\$418,500	28,100	\$382,500	\$ 0	\$52,700
Officer	1994	\$654,000	\$767,940	\$346,000	22,600	\$203,680	\$1,081,250	\$39,520
T. M. Solso								
President and Chief	1996	\$517,500	\$204,187	\$391,000	22,100	\$200,000	\$ 0	\$47,896
Operating Officer	1995	\$480,000	\$390,500	\$267,375	17,900	\$225,000	\$ 0	\$38,024
	1994	\$405,417	\$439,381	\$177,325	11,500	\$ 91,706	\$ 378,438	\$28,203
F. J. Loughrey								
Executive Vice Presi-								
dent	1996	\$376,250	\$134,750	\$211,600	11,900	\$ 93,750	\$ 0	\$15,951
Group President--	1995	\$347,292	\$259,792	\$162,750	10,800	\$112,500	\$ 0	\$20,720
Industrial	1994	\$275,000	\$222,131	\$129,750	8,000	\$ 57,704	\$ 173,000	\$19,230
C. R. Cordaro								
Executive Vice Presi-								
dent	1996	\$293,750	\$101,531	\$170,200	9,600	\$ 68,750	\$ 0	\$23,887
Group President--	1995	\$270,000	\$181,125	\$131,750	8,800	\$ 82,500	\$ 0	\$23,552
Automotive	1994	\$257,500	\$226,294	\$ 75,688	4,900	\$ 54,438	\$ 173,043	\$18,246
J. K. Edwards								
Executive Vice Presi-								
dent	1996	\$293,750	\$101,531	\$170,200	9,600	\$ 68,750	\$ 0	\$ 1,957
Group President--	1995	\$252,500	\$168,750	\$131,750	8,800	\$ 82,500	\$ 0	\$17,458
Power Generation	1994	\$235,000	\$206,663	\$ 86,500	6,000	\$ 37,688	\$ 86,414	\$18,276

</TABLE>

- (1) Pursuant to the Company's 1992 Stock Incentive Plan, a total of 93,700 shares of Restricted Stock were granted in 1996, having a total value at date of grant of \$3,841,700. Shares are restricted for two years and one month subsequent to grant, then are vested in 1/3 annual increments, if the participant remains an employee of the Company. Dividends will be paid on these shares. As of year-end 1996, the total number of shares of Restricted Stock and the value thereof held by each executive officer was as follows: J. A. Henderson, 37,167 shares, \$1,709,682; T. M. Solso, 23,001 shares, \$1,058,046; F. J. Loughrey, 13,201 shares, \$607,246; J. K. Edwards, 10,500 shares, \$483,000; C. R. Cordaro, 10,084 shares, \$463,864.
- (2) Stock options awarded pursuant to the Company's 1992 Stock Incentive Plan and 1986 Stock Option Plan.
- (3) The payout for 1996 represents payout for the 1992 Award Cycle under the Three Year Performance Plan. This was the second payout under the Three Year Performance Plan. The payout is calculated as the individual's Target Award times Payout Factor for the Award Cycle. The Payout Factor was based on the Company's Return on Equity compared to the median ROE of a panel of eleven comparator companies over the Three Year Award Cycle. The payout in 1994 represents payout for the 1989-1993 Award Cycle under the Five Year Performance Plan. This was the final payout under that plan. The payout was calculated as Base Salary times the individual's Participation Percentage times Payout Factor for the Award Cycle. The Payout Factor was based on the Company's Return on Equity compared to the median ROE of a panel of eleven comparator companies over the Five Year Award Cycle.
- (4) Represents shares distributed under the Company's Performance Share Plan. The Performance Share Plan was adopted in 1987 under which executive officers and other key employees were awarded Share Rights to be converted into shares of the Company's Common Stock by December 31, 2006, or earlier as financial performance goals established by the Compensation Committee were achieved. The Plan was intended to cover the seven-year period 1988 through 1994. There were no distributions of Share Rights for Plan Year 1988, Plan Year 1989, or Plan Year 1990. The distribution for Plan Year 1991 was made in February 1992; the 1992 distribution was made in February 1993; the 1993 distribution was made in February 1994; the final distribution was made in January 1995.
- (5) Amounts reported as "All Other Compensation" for 1996 include, respectively, matching contributions by the Company under the Retirement and Savings Plan and "above market" earnings on previously deferred compensation as follows: J. A. Henderson (\$449 and \$13,075); T. M. Solso (\$2,014 and \$45,882); F. J. Loughrey (\$1,993 and \$13,958); C. R. Cordaro (\$1,979 and \$21,908); J. K. Edwards (\$1,957 and \$0).

13

SECURITY OWNERSHIP OF MANAGEMENT

Set forth below is information as of February 28, 1997, regarding the beneficial ownership of Common Stock of the Company by the Chief Executive Officer, each of the other named executive officers during 1996 and the directors and executive officers of the Company as a group.

<TABLE>

<CAPTION>

AMOUNT AND NATURE

	OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
<S>	<C>	<C>
James A. Henderson Chairman of the Board and Chief Executive Officer.....	172,768 (1)	*
Theodore M. Solso President and Chief Operating Officer.....	91,233 (2)	*
F. Joseph Loughrey Executive Vice President Group President--Industrial.....	43,777 (3)	*
C. Roberto Cordaro Executive Vice President Group President--Automotive.....	36,490 (4)	*
John K. Edwards Executive Vice President Group President--Power Generation.....	32,886 (5)	*
All directors and executive officers as a group, a total of 21 persons.....	668,610 (6)	1.6%

</TABLE>

*Less than 1%

- (1) See footnote 4 to the director nominee listing on page 4.
- (2) See footnote 7 to the director nominee listing on page 4.
- (3) Includes 15,750 shares which Mr. Loughrey has the right to acquire within the next 60 days through the exercise of stock options.
- (4) Includes 13,150 shares which Mr. Cordaro has the right to acquire within the next 60 days through the exercise of stock options.
- (5) Includes 14,950 shares which Mr. Edwards has the right to acquire within the next 60 days through the exercise of stock options.
- (6) Includes 246,450 shares which the officers and directors have the right to acquire within the next 60 days through the exercise of stock options.

14

The following table discloses, for each of the named executive officers, information regarding individual grants of stock options and stock appreciation rights made during 1996, and their potential realizable values.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

<TABLE>
<CAPTION>

NAME	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERMS	
	(1) OPTIONS/SARS GRANTED (#)	% OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE (\$/SHARE)	EXPIRATION DATE	5% (\$)	10% (\$)
					<C>	<C>
J. A. Henderson.....	32,500	8.2%	\$40.625	7/8/06	\$831,797	\$2,099,297
T. M. Solso.....	5,000	1.3%	\$37.688	9/3/06	\$118,716	\$ 299,616
F. J. Loughrey.....	22,100	5.6%	\$40.625	7/8/06	\$565,622	\$1,427,522
J. K. Edwards.....	11,900	3.0%	\$40.625	7/8/06	\$304,566	\$ 768,666
C. R. Cordaro.....	9,600	2.4%	\$40.625	7/8/06	\$245,700	\$ 620,100
	9,600	2.4%	\$40.625	7/8/06	\$245,700	\$ 620,100

</TABLE>

Stock option and stock appreciation right exercise activity during 1996, on an aggregated basis for each of the named executives, is contained in the following table. Also disclosed are the number and value of options and appreciation rights, on an aggregated basis, held by each named executive as of December 31, 1996.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR, AND FY-END OPTION/SAR VALUE

<TABLE>
<CAPTION>

NUMBER OF SECURITIES	NUMBER OF UNEXERCISED OPTIONS/SARS AT	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT
----------------------	---------------------------------------	---------------------------------------------------

NAME	UNDERLYING OPTIONS/SARS EXERCISED	VALUE REALIZED (\$)	FY-END (#)		FY-END (\$)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
J. A. Henderson.....	0	\$ 0	56,200	60,600	\$220,390	\$371,225
T. M. Solso.....	0	\$ 0	29,000	40,000	\$117,555	\$243,977
F. J. Loughrey.....	0	\$ 0	15,750	22,700	\$ 53,880	\$139,503
J. K. Edwards.....	0	\$ 0	14,950	18,400	\$114,010	\$113,152
C. R. Cordaro.....	0	\$ 0	13,150	18,400	\$ 43,026	\$113,152

15

Estimated benefits payable to each named executive pursuant to long-term incentive plan rights awarded during 1996 are disclosed in the following table.

LONG-TERM INCENTIVE PLAN AWARDS IN LAST FISCAL YEAR/SAR VALUE

<TABLE>
<CAPTION>

NAME	NUMBER OF SHARES, UNITS OR OTHER RIGHTS(1)	PERIOD UNTIL PAYOUT	ESTIMATED FUTURE PAYOUTS UNDER NON-STOCK BASED PLANS		
			THRESHOLD	TARGET	MAXIMUM
<S>	<C>	<C>	<C>	<C>	<C>
J. A. Henderson.....	0		\$105,000	\$420,000	\$840,000
T. M. Solso.....	0		\$ 71,250	\$285,000	\$570,000
F. J. Loughrey.....	0		\$ 38,750	\$155,000	\$310,000
C. R. Cordaro.....	0		\$ 25,000	\$100,000	\$200,000
J. K. Edwards.....	0		\$ 25,000	\$100,000	\$200,000

(1) No shares, units or other rights were awarded in the last fiscal year. The Company has made targeted dollar awards under its Three Year Performance Plan and Senior Executive Three Year Performance Plan, with payouts tied to Company performance over a rolling three-year cycle, as determined by the Compensation Committee of the Board of Directors. The Committee establishes performance measures as guidelines. For the 1996-1998 Award Cycle under the Three Year Performance Plan (payable in 1999), and the 1997-1999 Award Cycle under the Senior Executive Three Year Performance Plan (payable in 2000), the performance guidelines are tied to achieving certain levels of return on equity (ROE) compared to the Peer Group companies. The Target Award will be earned if the Company's ROE is equal to the median ROE of the Peer Group companies. The Threshold Payment will be earned if the Company's ROE is 50% of the Peer Group companies' median ROE. The Maximum Payment is earned if the Company's ROE is 200% of the Peer Group companies' ROE.

16

PENSION PLAN TABLE

The Company maintains retirement pension programs for its employees, including the executive officers named in the Summary Compensation Table on page 13. Elements of the program for the executive officers include the Company's Cash Balance Pension Plan, the Excess Benefit Plan which provides pension benefits in excess of limitations imposed by the Internal Revenue Code, and the Supplemental Life Insurance and Deferred Income Program. The following table sets forth the estimated maximum annual pension benefits payable on a straight life annuity basis under the program to the officers in various compensation and years of service classifications upon retirement at age 65. An officer who is among the Company's two highest paid executive officers at the time of retirement will receive an annual benefit greater than amounts reflected in the table by an amount equal to 10% of the officer's covered compensation.

<TABLE>
<CAPTION>

AVERAGE TOTAL CASH COMPENSATION (BASE SALARY PLUS SHORT- TERM BONUS)	ESTIMATED ANNUAL BENEFIT UPON RETIREMENT				
	10 YEARS	15 YEARS	20 YEARS	25 YEARS	30+ YEARS
<S>	<C>	<C>	<C>	<C>	<C>
\$ 200,000	\$ 40,000	\$ 60,000	\$ 80,000	\$ 90,000	\$100,000
\$ 275,000	\$ 55,000	\$ 82,500	\$110,000	\$123,750	\$137,500
\$ 350,000	\$ 70,000	\$105,000	\$140,000	\$157,500	\$175,000
\$ 425,000	\$ 85,000	\$127,500	\$170,000	\$191,250	\$212,500
\$ 500,000	\$100,000	\$150,000	\$200,000	\$225,000	\$250,000
\$ 575,000	\$115,000	\$172,500	\$230,000	\$258,750	\$287,500

\$ 650,000	\$130,000	\$195,000	\$260,000	\$292,500	\$325,000
\$ 725,000	\$145,000	\$217,500	\$290,000	\$326,250	\$362,500
\$ 800,000	\$160,000	\$240,000	\$320,000	\$360,000	\$400,000
\$ 875,000	\$175,000	\$262,500	\$350,000	\$393,750	\$437,500
\$ 950,000	\$190,000	\$285,000	\$380,000	\$427,500	\$475,000
\$1,025,000	\$205,000	\$307,500	\$410,000	\$461,250	\$512,500
\$1,100,000	\$220,000	\$330,000	\$440,000	\$495,000	\$550,000
\$1,175,000	\$235,000	\$352,500	\$470,000	\$528,750	\$587,500
\$1,250,000	\$250,000	\$375,000	\$500,000	\$562,500	\$625,000
\$1,325,000	\$265,000	\$397,500	\$530,000	\$596,250	\$662,500
\$1,400,000	\$280,000	\$420,000	\$560,000	\$630,000	\$700,000
\$1,475,000	\$295,000	\$442,500	\$590,000	\$663,750	\$737,500

</TABLE>

Compensation for purposes of the pension program is the highest average total cash compensation, including base salary and short-term bonus payments, for any consecutive five-year period prior to retirement. Covered compensation is disclosed under the "Salary" and "Bonus" columns of the Summary Compensation Table. Covered compensation and full years of service as of December 31, 1996 for the Company's Chief Executive Officer and the other named executive officers are as follows: J. A. Henderson, \$1,126,433, 32 years; T. M. Solso, \$700,973, 25 years; F. J. Loughrey, \$463,558, 23 years; C. R. Cordaro, \$398,052, 18 years; J. K. Edwards, \$368,055, 24 years.

CHANGE OF CONTROL ARRANGEMENTS

In the event of a change of control of the Company, the Company will provide benefits to certain executives including the Chief Executive Officer and other executive officers named in the Summary Compensation Table on page 13. Each of the named executive officers would be entitled to three year's salary plus twelve quarterly bonus payments. The Company will also provide for the full

17

vesting of certain insurance and retirement benefits and the continuation in effect for a three-year severance period of certain other employee benefits. In addition, the Company's retirement plans will allocate any actuarial surplus assets to fund increased pension benefits, stock options previously granted will become fully exercisable, and certain long-term incentive plan awards will be paid in cash. The value of supplemental and excess retirement annuity benefits will also be paid in cash. A change of control for these purposes is defined in each of the various plans and programs providing these benefits.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

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

Member Harold Brown has a consulting arrangement with the Company pursuant to which he provides consulting services in connection with the Company's research and development activities and related technology issues. During 1996, the Company paid Dr. Brown \$50,000 for these services. In addition, the Company has established a Science and Technology Advisory Council on which Dr. Brown serves as Chairman. The Council advises senior management and the Board of Directors on the direction and implication of developments in science, technology and environmental issues that may have applicability to the Company's current and future business goals and objectives. For his services on the Council, Dr. Brown is paid an annual retainer of \$17,000, including \$7,000 for serving as Chairman, and an additional fee of \$3,000 for each day of meetings attended during the year.

OTHER TRANSACTIONS AND AGREEMENTS WITH DIRECTORS AND OFFICERS

As an employee of the Company, nominee James A. Henderson has deferred receipt of certain amounts of his salary and bonus pursuant to the Company's Deferred Compensation Plan. Amounts deferred have been included in the respective Summary Compensation Tables of the Company's proxy statements for the years in which earned. On March 26, 1996 the Company and Mr. Henderson agreed that he would forego receipt of \$1,215,119 of his Deferred Compensation Plan account balance and future earnings thereon in exchange for entering into a split-dollar life insurance arrangement with the Company. Under the terms of the Deferred Compensation Plan, Mr. Henderson's unpaid balance would have continued to accrue interest and would have been payable beginning one year following the year of his retirement. Discounted at 7%, the present value cost to the Company of the Deferred Compensation Plan liability, assuming the Plan's expected rate of return on the unpaid balance, would have been \$970,706. Under the split-dollar arrangement, the Company will pay premiums of \$249,489 per year for ten years to a life insurance trust in connection with an insurance policy or policies on the lives of Mr. Henderson and his wife and will be refunded all of such premiums at the end of the 10th year, resulting in an equal present value cost to the Company of \$970,706.

Prior to his retirement from the Company, nominee Henry B. Schacht also

deferred receipt of certain amounts of compensation pursuant to the Deferred Compensation Plan, which amounts had been included in the Summary Compensation Tables. As of July 19, 1996, the total amounts deferred including accrued interest thereon payable by the Company to Mr. Schacht was \$2,116,723.

18

On that date, the Company and Mr. Schacht agreed that he would forego receipt of his Deferred Compensation Plan account balance and future earnings thereon in exchange for a split-dollar life insurance arrangement similar to Mr. Henderson's. Mr. Schacht's unpaid balance would have continued to accrue interest and would have been payable in a lump sum in 2004. Discounted at 7%, the present value cost to the Company of the Deferred Compensation liability, under the same assumptions as for Mr. Henderson, would have been \$1,767,127. Under the split-dollar arrangement, the Company will pay premiums of \$454,184 per year for ten years in connection with an insurance policy or policies on the lives of Mr. Schacht and his wife and will be refunded all of such premiums at the end of the 10th year, resulting in an equal present value cost to the Company of \$1,767,127.

Pursuant to the Company's 1986 Stock Option Plan, 1992 Stock Incentive Plan and its Key Employee Stock Investment Plan, certain officers have exercised options and purchased shares of Common Stock of the Company on an installment basis. The interest rate on these loans is the minimum annual rate permitted under the Internal Revenue Code without imputation of income. The following table shows, as to those executive officers and directors of the Company who were indebted to the Company in excess of \$60,000 since January 1, 1996, the largest aggregate amount owed for such purchases and loans at any time since January 1, 1996, and the amount owed as of January 31, 1997:

<TABLE>
<CAPTION>

	LARGEST AMOUNT OF INDEBTEDNESS	AMOUNT OF INDEBTEDNESS AS OF JANUARY 31, 1997
<S>	<C>	<C>
M. E. Chesnut.....	\$ 80,750.00	\$ 80,750.00
C. R. Cordaro.....	\$220,000.00	\$ 0
M. R. Gerstle.....	\$ 70,162.50	\$ 13,800.00
J. A. Henderson.....	\$667,933.72	\$667,933.72
M. D. Jones.....	\$196,125.00	\$ 0
K. M. Patel.....	\$155,500.00	\$155,500.00
B. S. Pitts.....	\$ 84,250.00	\$ 84,250.00
T. M. Solso.....	\$182,500.00	\$182,500.00

</TABLE>

The Company has a policy of purchasing from employees of the Company shares of Common Stock of the Company that have been acquired under the Key Employee Stock Investment Plan, 1986 Stock Option Plan and 1992 Stock Incentive Plan. The purchase price for such shares is the closing price quoted on the New York Stock Exchange Composite Tape on the date of purchase. During 1996, three executive officers sold shares to the Company pursuant to this policy.

SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS

(ITEM 2)

The Board of Directors has voted to appoint Arthur Andersen LLP as the firm of independent public accountants to audit the accounts of the Company for the year 1997. Arthur Andersen LLP has acted as independent public accountants for the Company since 1952. Although the selection and appointment of independent public accountants is not required to be submitted to a vote of the shareholders, the Board of Directors has decided, as in the past, to ask the Company's shareholders to ratify the appointment. A representative of Arthur Andersen LLP will be present, will have the opportunity to make a statement and will be available to answer appropriate questions at the Annual Meeting of Shareholders.

19

The proposal to ratify the appointment of Arthur Andersen LLP as the firm of independent public accountants to audit the accounts of the Company for the year 1997 will be adopted if the number of votes cast in favor of ratification exceeds the number of votes cast against ratification. Votes cast against and abstentions on the Item will be counted as votes against the Item. Broker non-votes will not change the number of votes cast for or against the Item. If the shareholders do not ratify the selection of Arthur Andersen LLP, the selection of independent public accountants will be determined by the Audit Committee and the Board of Directors after careful consideration of all information submitted by shareholders.

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

OTHER BUSINESS

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

OTHER INFORMATION

1997 SHAREHOLDER PROPOSALS

Proposals intended to be presented by shareholders of the Company at the 1998 Annual Meeting of Shareholders must be submitted to and received by the Secretary of the Company for inclusion in the Company's proxy statement and form of proxy for that Meeting not later than November 1, 1997.

EXPENSES OF SOLICITATION

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

March 1, 1997

20

NOMINEES FOR BOARD OF DIRECTORS

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

JAMES A.
HENDERSON

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

THEODORE M. SOLSO

21

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

HAROLD BROWN

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

ROBERT J.
DARNALL

22

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

Directors of the Associates of the Harvard Business School.

WALTER Y. ELISHA

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

HANNA H. GRAY

23

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

WILLIAM I. MILLER

Mr. Perkins is the former Chairman of Jewel Companies, Inc. Mr. Perkins graduated from Yale University and the Harvard Business School. He served in the U.S. Merchant Marines in the mid 1940s and the Air Force in the early 1950s. Starting as a trainee with the then Jewel Tea Company in 1953, he was elected Vice President in 1960, Executive Vice President three years later, President in 1965 and Chairman and Chief Executive Officer in 1970. He retired from Jewel Companies, Inc. in 1983. Mr. Perkins also serves as a Director of the AON Corporation, Current Assets, Illinova and Illinois Power Company, Inland Steel Industries, Inc., LaSalle Street Fund, LaSalle U.S. Realty Income and Growth Fund Inc., Lucent Technologies Inc., The Putnam Funds, Ryerson Tull, Inc., Springs Industries, Inc. and Time Warner Incorporated. He is an Honorary trustee of The Brookings Institution, trustee and Vice Chairman of Northwestern University, trustee of the Hospital Research and Educational Trust, Honorary Chairman of The Illinois Coalition and Protector of the Thyssen-Bornemisza Continuity Trust. He is also a

member of The Business Council, the Civic Committee of The Commercial Club of Chicago, a Director of the Golden Apple Foundation, Leadership for Quality Education and a member of the Spencer Stuart Advisory Board.

DONALD S. PERKINS

24

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

WILLIAM D.
RUCKELSHAUS

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

HENRY B. SCHACHT

25

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

FRANKLIN A.
THOMAS

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

J. LAWRENCE
WILSON

26

CUMMINS ANNUAL SHAREHOLDER MEETING
APRIL 1, 1997--10:30 A.M. (E.S.T.)
COLUMBUS EAST HIGH SCHOOL AUDITORIUM

[MAP APPEARS HERE]

CUMMINS ENGINE COMPANY, INC.

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF
THE COMPANY FOR ANNUAL MEETING APRIL 9, 1996

P
R
O
X
Y

The undersigned hereby constitutes and appoints J. Irwin Miller, Henry B. Schacht and Franklin A. Thomas, and each of them, true and lawful agents with full power of substitution in each, to vote as proxy of the undersigned at the Annual Meeting of the shareholders of Cummins Engine Company, Inc. to be held at the Columbus East High School Auditorium, 230 South Marr Road, Columbus, Indiana on April 9, 1996, and at any adjournments thereof, on all matters coming before said meeting.

BENEFIT TRUST PARTICIPANTS ONLY: By marking this box, the undersigned hereby instructs the respective Trustees of the Company's Employee Stock Ownership Trust and Cummins Stock Fund portion of the Company's Retirement and Savings Plan to vote at said meeting the number of shares of common stock of the Company held on the undersigned's behalf in said Benefit Trusts ("Plan Shares") in the manner designated on this Proxy.

Election of Directors, Nominees:

Harold Brown, Kenneth R. Dabrowski, Robert J. Darnall, Walter Y. Elisha, Hanna H. Gray, James A. Henderson, Dana G. Mead, J. Irwin Miller, William I. Miller, Donald S. Perkins, William D. Ruckelshaus, Henry B. Schacht, Theodore M. Solso, Franklin A. Thomas, J. Lawrence Wilson.

YOU ARE ENCOURAGED TO SPECIFY YOUR CHOICES BY MARKING THE APPROPRIATE BOXES ON THE REVERSE SIDE. EXCEPT FOR PLAN SHARES, YOU NEED NOT MARK ANY ITEM BOXES IF YOU WISH TO VOTE SHARES IN ACCORDANCE WITH THE BOARD OF DIRECTORS' RECOMMENDATIONS. THE PROXY COMMITTEE CANNOT VOTE YOUR SHARES UNLESS YOU SIGN AND RETURN THIS CARD.

SEE REVERSE
SIDE

[X] PLEASE
MARK YOUR VOTES AS
IN THIS EXAMPLE.

3111

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN.
IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ITEMS 1, AND 2, BUT
PLAN SHARES WILL BE VOTED IN ACCORDANCE WITH THE PROVISIONS OF THE BENEFIT
TRUSTS.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ITEMS 1 AND 2.

1. Election of Directors. (see reverse)
FOR WITHHELD

For, except vote withheld from the following nominee(s):

2. Proposal to ratify Arthur Andersen LLP as independent accountants.
FOR AGAINST ABSTAIN

TO WITHHOLD AUTHORITY TO VOTE FOR AN INDIVIDUAL DIRECTOR NOMINEE, MARK ITEM 1
BOX "FOR" AND LIST NOMINEE'S NAME FOR WHICH AUTHORITY IS WITHHELD; OTHERWISE,
MARK "FOR" TO VOTE FOR ALL NOMINEES OR "WITHHELD" TO WITHHOLD AUTHORITY TO VOTE
FOR ALL NOMINEES.

The signer hereby revokes all proxies heretofore given by the signer to vote
at said meeting or any adjournments thereof.

NOTE: Please sign exactly as name appears hereon. Joint owners should each
sign. When signing as attorney, executor, administrator, trustee or
guardian, please give full title as such.

SIGNATURE DATE

SIGNATURE DATE

March 1, 1997

Dear Fellow Employee:

As a shareholder of Cummins stock, you are receiving today the Annual
Report to Shareholders, Proxy Statement and Proxy Card. In addition to other
Cummins shares you may own, you are a shareholder of Cummins stock through your
participation in the Cummins Employee Stock Ownership Plan ("ESOP") or Cummins
Stock Fund ("CSF") portions of the Cummins Retirement and Savings Plan, or both.

Each year, shareholders have an opportunity to elect Cummins' Board of
Directors and to vote on other business matters described in the Proxy
Statement. The ESOP and CSF Trustees are the only shareholders of record for
your benefit plan shares and will vote on the proposals in the Proxy based on
your Proxy Card vote. All shares held in the ESOP that are not voted or have
not been credited to employee accounts will be voted by the Trustee on each
proposal in the same proportion as all shares voted on that proposal by ESOP
participants. Please complete and return your Proxy Card in the enclosed
envelope as soon as possible. Be sure to mark the box on the face of the Proxy
Card to designate it as a Trustee instruction.

If you own additional shares of Cummins Stock, you should not receive a
separate packet of materials for those shares unless they are held in a
brokerage or custodial account on your behalf. With that exception, voting of
all your shares is intended to be accommodated on one Proxy Card.

ESOP participants who retired or otherwise ceased employment during the
fourth quarter of 1996 will be receiving a distribution of shares of stock and
cash for partial shares or cash in lieu of all shares if so elected, in the next
several weeks. Until such distribution, all former employees are considered plan
participants and should complete and return the enclosed Proxy Card if they
desire to vote their plan shares.

Should you have questions about the shareholder materials, please contact
Mark Gerstle (812-377-3520).

Sincerely,

B.S.Pitts/jdm

Vice President - Human Resources