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, 1997

CUMMINS ENGINE COMPANY, INC.

Commission File Number 1-4949
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 [x] 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. [x]

The aggregate market value of the voting stock held by non-affiliates was approximately $2.2 billion at January 30, 1998.

As of January 30, 1998, there were outstanding 42.1 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 and the largest producer of diesel engines over 200 horsepower. The Company also produces natural gas engines and engine components and subsystems. Cummins provides power and components for a wide variety of equipment in its key markets: automotive, power generation, industrial and filtration.

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 1997, approximately 56 percent of net sales were in the United States. Major international markets include Asia and Australia (16 percent of net sales); Europe and the CIS (14 percent of net sales); Mexico and Latin America (6 percent of net sales) and Canada (6 percent of net sales).

BUSINESS MARKETS

Automotive

Heavy-duty Truck

Cummins has a complete line of 8-, 10-, 11- and 14-liter diesel engines that range from 260 to 525 horsepower serving the heavy-duty truck market. The Company's 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 97 percent of the heavy-duty trucks sold in the United States and Canada in 1997. The Company's largest customer for heavy-duty truck engines in 1997 was Navistar International Corporation, which represented 5 percent of the Company's net sales.

In 1997, factory retail sales of North American heavy-duty trucks were 14 percent higher than the previous year's level. Factory retail sales were 201,000 units in 1997, compared to 176,000 units in 1996 and 227,000 units in 1995. The Company's share of the North American heavy-duty truck engine market was 32 percent in 1997 based on data published by the American Automotive Manufacturers Association. The Company's share of the North American heavy-duty truck engine market was 35 percent in 1996 and 1995.

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 12 percent in 1997 and 11 percent in 1996.

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, where the economy continued the recovery which began in 1996.

In 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 natural gas engines for urban special-purpose truck markets and regional haul operations. In 1998, the Company will begin production of a 600 horsepower engine with the first electronic dual cam in automotive history.

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 Vehicles 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.

Medium-duty Truck

The Company has a line of diesel engines ranging from 130 to 300 horsepower serving medium-duty and intercity delivery truck customers worldwide. The Company has begun introducing its next generation of midrange diesel engines, electronic four-valve-head versions which bring Interact technology to medium-duty trucks.

The Company entered the North American medium-duty 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 1997 was 25 percent, compared to 31 percent in 1996 and 35 percent in 1995. Ford Motor Company was the Company's largest customer for this market in 1997, representing 4 percent of the Company's net sales.

The Company sells its B and C Series engines and engine components outside North America to medium-duty truck markets in Asia, Europe, South America and India. In 1996, operations in China at Dong Feng were expanded from a license for B Series engines to include a joint venture for production of C Series engines.

In the medium-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. Primary engine competitors in the medium-duty 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 Vehicles 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.

Bus and Light Commercial Vehicles

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 8 percent of the Company's net sales in 1997. The Company's new 5.9 liter engine will be introduced first into the recreational vehicle market and, by early 1998, into the Dodge Ram pickup truck. This engine will increase horsepower from 215 to 235 in the manual transmission option.

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 1995, Cummins introduced its C Series natural gas engine for school buses in the United States.

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 vehicle 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.

Power Generation

In 1997, power generation sales represented 21 percent of the Company's net sales. Products include Cummins engines, Onan and Petbow branded generator sets and Newage alternators.

In stationary power, electrical power generation products and services are provided to major markets worldwide. The Company's joint venture with Wartsila Diesel of Finland to produce high-horsepower engines has been expanded to include customer engineering, marketing and service support worldwide. The CW 200 series engine family was introduced in 1996 with initial deliveries in Europe and Asia. The CW 170 series engine family will be introduced in 1998. 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 the mobile business, generator sets are produced for a variety of applications, with Onan a leading supplier of power generation sets for recreational vehicles in the United States.

Newage is a leading manufacturer of alternators in its product range. During 1996, plans were initiated to expand manufacturing capacity at Newage's joint venture in India. Production at a joint venture in China (WUXI Newage) began in 1997.

In Power Generation, Cummins competes on a global scale with a variety of engine manufacturers and generator set assemblers. Caterpillar, Inc. with an investment in FG Wilson and its recent purchase of Perkins Engines, provides the main competition. Detroit Diesel Corporation and AB Volvo are other 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.

Industral

During 1997, the Company's comprehensive product line, currently ranging from 76 to 2,000 horsepower, continued to make strong advances. Cummins' engines power more than 3,000 models of equipment for the construction, logging, mining, agricultural, petroleum, rail, marine and government markets throughout the world.

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-liter engine in the United States. Production at both joint venture sites began on schedule. In 1997, a third joint venture with Komatsu to design next generation industrial engines was announced. During 1997, Cummins and Case jointly launched a financing program for manufacturers, dealers, and customers of Cummins powered industrial equipment. Cummins relationships with Komatsu and Case provide a strong base in the Company's construction and agriculture markets.

The Company's first high-horsepower QUANTUM engine was introduced in 1995. Additional high-horsepower QUANTUM engines will be introduced through 1999 increasing the Company's offering and competitiveness in the mining and related markets.

Marine product applications include recreational and commercial markets. The Company's joint venture with Wartsila will expand commercial product offerings to 6,000 horsepower for the marine market, significantly higher than the 1,800 horsepower currently available.

Filtration and Other

Fleetguard, Cummins' filtration subsidiary, is a leading designer and manufacturer of filtration products for the North American heavy-duty industry. Its products are also produced and sold in international markets, including Europe, South America, India, China, Australia, and the Far East. Fleetguard produces products for the specialty filtration market with its Kuss subsidiary located in Findley, Ohio. The Company purchased the stock of Nelson Industries, Inc., in January 1998. Nelson designs and manufactures air filtration products and exhaust systems in North America and Europe.

The Company owns 14 distributorships, most of them outside of the United States. Distributors sell loose engines and service parts as well as perform service and repair activities on Cummins products.

Holset's turbochargers are sold worldwide. In 1994, Holset introduced a variable geometry turbocharger design for truck powertrains. Holset's joint venture with TELCO assembled and shipped its first turbochargers in 1996. A joint venture with Wuxi in China also began production in 1996. During 1997, the vibration attenuation business was sold to Simpson Industries. An alliance with Mitsubishi Heavy

Industries of Japan has begun limited production of jointly developed turbochargers, with full production beginning in 1998.

BUSINESS OPERATIONS

International

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, Indonesia and other countries.

The Company has entered into alliances with business partners in various areas of the world.

In 1997, the Company acquired an additional 1% of the outstanding shares of Kirloskar Cummins Limited, becoming the majority owner, and changed the name to Cummins India Limited. Also, it was announced that the joint venture with Wartsila will be expanded to include worldwide marketing and service activities in addition to design, development and manufacturing. The Company entered this joint venture in 1995 to manufacture both diesel and natural gas engines above 2,500 horsepower.

In 1996, a joint venture was formed with two of the Fiat Group companies - Iveco (trucks and buses) and New Holland (agricultural equipment) - to design and manufacture the next generation of 4-,5-, and 6-liter engines based on Cummins 4- and 6-liter B series engines. Operations on Dong Feng in China were expanded to form a joint venture for production of a C series engine in addition to the license for B Series engines.

In 1995, the Company formed a joint venture with China National Heavy Duty Truck Corporation in Chongqing, previously a Cummins' licensee, to manufacture a broad line of diesel engines in China.

Cummins and Scania of Sweden have a joint venture to develop a fuel system for heavy-duty diesel engines. Cummins also has a joint venture with TELCO to manufacture the Cummins B Series engines in India for TELCO trucks. Cummins and Komatsu have formed joint ventures to manufacture the B Series engines in Japan and high-horsepower Komatsu designed engines in the United States. In 1997, a third joint venture to design next generation industrial engines was announced.

Several of the Company's subsidiaries have operations throughout the world.

Because of the Company's global business activities, its operations are subject to risks, such as currency controls and fluctuations, import restrictions and changes in national governments and policies.

Research and Development

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. Cummins has introduced a variety of concepts in the diesel industry that combine electronic controls, computing capability and information technology. The Company also offers alternate fueled engines for certain of its markets. As disclosed in Note 1 to the Consolidated Financial Statements, research and development expenditures approximated $250 million in 1997, $235 million in 1996, and $230 million in 1995.

Sales and Distribution

While the Company has supply agreements with some customers 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.

While individual product lines may experience modest seasonal declines in production, there is no material effect on the demand for Cummins' products on a quarterly basis.

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, extensive technical investment, 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 7,800 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, 1997, the aggregate cost would have been approximately $255 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

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

At December 31, 1997, Cummins employed 26,300 persons worldwide, approximately 10,200 of whom are represented by various unions. The Company has labor agreements covering employees in North America, South America, the United Kingdom, and India. 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 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 extends 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 extends for five years.

ENVIRONMENTAL COMPLIANCE

Product Environmental Compliance

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 and gas engines and off-highway engines produced through 1998. Cummins' ability to comply with these and future emissions standards is an essential element in maintaining its leadership position in the North American regulated 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 1998 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.

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

Emissions Averaging, Banking and Trading regulations were promulgated by the EPA in July 1990. By selling 1995, 1996 and 1997 model year engines with emissions levels below applicable standards, Cummins generated oxides of nitrogen and particulate matter credits. Those credits generated in 1995 expire on December 31, 1998 if not used before this date. While a portion of the Company's 1998 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.

Model year 1998 marked the latest major change in emissions requirements for heavy-duty on-highway diesel engines when the oxides of nitrogen standard was lowered from 5.0 to 4.0 g/bhp-hr.

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 1997, one such audit test was performed on Cummins engines; it was 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 1997. 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 1996, EPA raised an issue with the Company relating to the definition of rated speed, a parameter in engine emissions certification testing. For years, the Company has been operating under a long-standing interpretation of this area of the regulations. EPA questioned the Company's interpretation and requested further information. If the EPA maintains, and ultimately prevails in, its more stringent position, a small number of the Company's 1996 and earlier model year on-highway engines would be affected. The Company believes it has a strong legal basis for its regulatory interpretation; nevertheless, no 1998 model year engines have been released using the questioned interpretation.

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 1997, 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 although 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 its mobile off-highway products which are included in the first, second, and third phases (those with ratings between 50 to 750 horsepower). All of these products have undergone 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, C8.3 and B5.9 engines, ranging from 150 to 300 horsepower.

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

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 1998.

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; 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; Uniontown Landfill, Uniontown, Indiana; Sand Springs, Oklahoma; United Steel Drum, East St. Louis, Illinois; Putnam County Landfill, Cookeville, Tennessee; Enterprise Oil, Detroit, Michigan; 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 and identities of other PRPs and the level of insurance coverage. 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 upon 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

Cummins' worldwide manufacturing facilities occupy approximately 15 million square feet, including approximately 6 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, Brazil, Mexico, France and Australia. In addition, engines and engine components are manufactured by joint ventures or independent licensees at plants in England, France, China, India, Japan, Pakistan, South Korea, Turkey and Indonesia.

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

The information appearing in Note 13 to the Consolidated Financial Statements is incorporated herein by reference. The material in Item 1 "Other Environmental Statutes and Regulations" also 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
1997			
First quarter	$55 5/8	$44 1/4	$.25
Second quarter	72 3/4	47 3/4	.275
Third quarter	83	67 7/8	.275
Fourth quarter	82 1/2	55 5/16	.275
1996			
First quarter	$42 7/8	$34 1/2	$.25

Second quarter	47 3/4	40 1/4	.25
Third quarter	41 7/8	36 7/8	.25
Fourth quarter	47 3/4	39	.25

At December 31, 1997, the approximate number of holders of record of the Company's common stock was 4,700.

The Company has repurchased 3.9 million shares of its common stock since 1994. In 1997, the Company repurchased 1.3 million shares from Ford Motor Company and another .3 million shares on the open market at an aggregate purchase price of $75 million. The Company repurchased .8 million shares of stock in the open market at an aggregate purchase price of $34 million in 1996 and 1.6 million shares at an aggregate purchase price of $69 million in 1995. All of the acquired shares are held as common stock in treasury.

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

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.

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.

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

$ Millions, except per share amounts	1997	1996	1995	1994	1993
Net sales	$5,625	$5,257	$5,245	$4,737	$4,248
Net earnings	212	160	224	253	177
Earnings per share:					
Basic	5.55	4.02	5.53	6.14	4.85
Diluted	5.48	4.01	5.52	6.11	4.63
Cash dividends per share	1.075	1.00	1.00	.625	.20
Total assets	3,765	3,369	3,056	2,706	2,391
Long-term debt	522	283	117	155	190

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

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 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.

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

OVERVIEW

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

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

RESULTS OF OPERATIONS

Net Sales:

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

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

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

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

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

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

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

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

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

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

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

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

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

Gross Margin:

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

Operating Expenses:

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

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

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

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

Other:

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

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

Provision for Income Taxes:

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

CASH FLOW AND FINANCIAL CONDITION

Key elements of cash flows were:

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

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

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

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

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

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

Forward-looking Statements

This Management's Discussion and Analysis of Results of Operations and Financial Condition and other sections of this Form 10-K contain forward-looking statements that are based on current expectations, estimates and projections about the industries in which Cummins operates, management's beliefs and assumptions made by management. Words, such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Future Factors") which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Cummins undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

See Index to Financial Statements on page 20.

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 7, 1998 ("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, 1997 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 and Business Experience During Last 5 Years
Jean S. Blackwell	43	Vice President - Human Resources (1997 to present), Vice President - General Counsel (1997)
C. Roberto Cordaro	47	Executive Vice President, Group President - Automotive (1996 to present), Group Vice President - Marketing (1990 to 1996)
John K. Edwards	53	Executive Vice President, Group President - Power Generation and International (1996 to present), Vice President - International (1989 to 1996)
Mark R. Gerstle	42	Vice President - Cummins Business Services and Secretary (1998 to present), Vice President - Law and Corporate Affairs and Secretary (1997 to 1998), Vice President - General Counsel and Secretary (1995 to 1997), Assistant General Counsel (1991 to 1995)
James A. Henderson	63	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	50	Vice President - Filtration Group and President, Fleetguard, Inc. (1996 to present), Vice President - Aftermarket Group (1989 to 1996)
F. Joseph Loughrey	48	Executive Vice President, Group President - Industrial and Chief Technical Officer (1996 to present), Group Vice President - Worldwide Operations & Technology (1995 to 1996), Group Vice President - Worldwide Operations (1990 to 1995)
Rick J. Mills	50	Vice President - Corporate Controller (1996 to present), Vice President Pacific Rim and Latin America - Fleetguard, Inc. (1993 to 1996), President - Atlas, Inc. (1990-1993)
Kiran M. Patel	49	Vice President and Chief Financial Officer (1996 to present), President - Fleetguard, Inc. (1993 to 1996), President - CUMBRASIL (1990 to 1993)
Theodore M. Solso	50	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)

ITEM 11. EXECUTIVE COMPENSATION

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 600 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

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

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

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

Documents filed as a part of this report:

1. See Index to Financial Statements on page 20 for a list of the financial statements filed as a part of this report.

2. See Exhibit Index on page 37 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 1997.

INDEX TO FINANCIAL STATEMENTS

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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 this page.

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

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

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

Arthur Andersen LLP

Chicago, Illinois,
January 26, 1998.

CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF EARNINGS

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

The accompanying notes are an integral part of this statement.

CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Millions, except per share amounts	December 31, 1997	1996
Assets		
Current assets:		
Cash and cash equivalents	$ 49	$ 108
Receivables	771	669
Inventories	677	587
Other current assets	213	189

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

The accompanying notes are an integral part of this statement.

CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

Millions	1997	1996	1995
Cash flows from operating activities:			
Net earnings	$ 212	$ 160	$ 224
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation and amortization	158	149	143
Restructuring actions	(24)	(42)	114
Receivables	(80)	(56)	(91)
Inventories	(65)	(62)	3
Accounts payable and accrued expenses	(18)	28	99
Deferred income taxes	22	17	(100)
Other	(5)	(1)	14

Total adjustments	(12)	33	182
	200	193	406
Cash flows from investing activities:			
Property, plant and equipment:			
Additions	(405)	(304)	(223)
Disposals	21	26	6
Investments in joint ventures and alliances	(47)	(5)	(147)
Acquisitions and dispositions of business activities	76	10	(1)
Other	1	14	(8)
	(354)	(259)	(373)
Net cash (used in) provided by operating and investing activities	(154)	(66)	33
Cash flows from financing activities:			
Proceeds from borrowings	281	200	2
Payments on borrowings	(50)	(47)	(37)
Net (payments) borrowings under credit agreements	(12)	32	19
Repurchases of common stock	(75)	(34)	(69)
Dividend payments	(45)	(40)	(40)
Other	(3)	(1)	4
	96	110	(121)
Effect of exchange rate changes on cash	(1)	4	1
Net change in cash and cash equivalents	(59)	48	(87)
Cash & cash equivalents at beginning of year	108	60	147
Cash & cash equivalents at end of year	$ 49	$108	$ 60
Cash payments during the year for:			
Interest	$ 21	$ 16	$ 13
Income taxes	42	40	59

The accompanying notes are an integral part of this statement.

CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' INVESTMENT

Millions, except per share amounts	1997	1996	1995
Common stock:			
Balance at beginning of year	$ 110	$ 110	$ 109
Issued to trust for employee benefit plans	9	-	-
Other	1	-	1
Balance at end of year	120	110	110
Additional contributed capital:			
Balance at beginning of year	929	926	927
Issued to trust for employee benefit plans	171	-	-
Other	19	3	(1)
Balance at end of year	1,119	929	926
Retained earnings:			
Balance at beginning of year	535	406	232
Net earnings	212	160	224
Cash dividends	(45)	(40)	(40)
Additional minimum liability for pensions	12	9	(10)
Other	(1)	-	-
Balance at end of year	713	535	406
Common stock in treasury:			
Balance at beginning of year	(169)	(135)	(72)
Repurchased	(76)	(34)	(69)
Issued	-	-	6
Balance at end of year	(245)	(169)	(135)

Common stock held in trust for employee benefit plans:			
Issued	(180)	-	-
Shares allocated to benefit plans	5	-	-
Balance at end of year	(175)	-	-
Unearned compensation:			
Balance at beginning of year	(46)	(51)	(55)
Shares allocated to participants	4	5	4
Balance at end of year	(42)	(46)	(51)
Cumulative translation adjustments:			
Balance at beginning of year	(47)	(73)	(69)
Adjustments	(21)	26	(4)
Balance at end of year	(68)	(47)	(73)
Shareholders' investment	$1,422	$1,312	$1,183
Shares of stock			
Common stock, $2.50 par value, 150.0 shares authorized			
Balance at beginning of year	43.9	43.9	43.8
Shares issued	4.2	-	-
Other	-	-	.1
Balance at end of year	48.1	43.9	43.9
Common stock in treasury			
Balance at beginning of year	4.5	3.7	2.2
Shares repurchased	1.5	.8	1.6
Shares issued	-	-	(.1)
Balance at end of year	6.0	4.5	3.7
Common stock held in trust for employee benefit plans	3.7	-	-

The accompanying notes are an integral part of this statement.

CUMMINS ENGINE COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES:

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

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

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

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

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

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

Maintenance and repair costs are charged to earnings as incurred.

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

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

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

Software: Costs of internally-developed software are expensed as incurred. External software costs (excluding research, reengineering and training) are capitalized and amortized over 5 years. Capitalized software, net of amortization, was $32 million at December 31, 1997 and $19 million at December 31, 1996.

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

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

NOTE 2. SUBSEQUENT EVENT: In January 1998, Cummins completed the acquisition of the stock of Nelson Industries, Inc., for $450 million. Nelson, a filtration and exhaust systems manufacturer, will be consolidated from the date of its acquisition. The purchase price in

excess of net assets will be amortized over 40 years.

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

NOTE 4. INVESTMENTS IN JOINT VENTURES AND ALLIANCES: Investments in joint ventures and alliances at December 31 were as follows:

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

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

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

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

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

NOTE 5. LONG-TERM DEBT: Long-term debt at December 31 was:

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

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

In 1997, the Company issued $120 million of 6.75 percent debentures that mature in 2027. Holders have a 1-time option in 2007 to redeem the debentures and Cummins has a recall right after ten years. The Company filed a Shelf Registration Statement with the Securities and

Exchange Commission in 1997 in the amount of $1 billion to issue from time to time debt securities, preferred stock, preference stock, common stock or warrants at prices and on terms to be determined at the time of sale. In the first quarter of 1998, the Company issued $765 million face amount of notes and debentures under this registration statement to finance the acquisition of Nelson and pay down other indebtedness outstanding at December 31, 1997. In 1996, a subsidiary of the Company issued 8.2 percent notes that resulted in net proceeds of $100 million.

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

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

NOTE 6. OTHER LIABILITIES: Other liabilities at December 31 included the following:

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

NOTE 7. INCOME TAXES: The provision for income taxes was as follows:

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

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

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

$ Millions	1997	1996
Employee Benefit plans	$266	$247
Product coverage & marketing expenses	64	72

Restructuring charges	9	10
US plant & equipment	(139)	(125)
Net foreign taxable differences, primarily plant and equipment	(23)	(23)
US Federal carryforward benefits:		
General business tax credits, expiring 2009 to 2011	31	45
Minimum tax credits, no expiration	10	9
Other net differences	13	21
	$231	$256

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

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

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

NOTE 8. RETIREMENT PLANS: The Company has various contributory and noncontributory pension plans covering substantially all employees. Benefits for salaried plans generally are based upon annual compensation, and benefits under the hourly plans generally are based upon various monthly amounts for each year of service. The Company has a non-qualified excess benefit plan that provides certain employees with defined retirement benefits in excess of qualified plan limits imposed by US tax law. In addition, the Company has a plan that provides officers and other key employees with term life insurance during active employment and supplemental retirement benefits.

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

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

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

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

$ Millions	1997	1996

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

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

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

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

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

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

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

The accrued liability for these plans at December 31 was:

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

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

NOTE 9. COMMON STOCK: The Company increased its quarterly common stock dividend from 25 cents per share to 27.5 cents, effective with the dividend payment in June 1997.

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

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

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

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

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

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

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

Summary financial information is listed below for each geographic area:

$ Millions	US	Europe/ CIS	All Other	Corporate Items	Combined

1997

Net sales:					
To customers in the area	$3098	$ 792	$811	$ -	$4701
To customers outside the area	552	349	23	-	924
Intergeographic transfers	561	220	140	(921)	-
Total	$4211	$1361	$974	$(921)	$5625
Earnings before income taxes	$ 168	$ 60	$ 48	$ 10	$ 286
Identifiable assets	$2311	$ 682	$673	$ 99	$3765

1996

Net sales:					
To customers in the area	$2904	$ 770	$619	$ -	$4293
To customers outside the area	581	363	20	-	964
Intergeographic transfers	415	180	129	(724)	-
Total	$3900	$1313	$768	$(724)	$5257
Earnings before income taxes	$ 111	$ 75	$ 22	$ 6	$ 214
Identifiable assets	$2069	$ 624	$517	$ 159	$3369

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

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

Net sales by marketing territory were as follows:

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

NOTE 13. GUARANTEES, COMMITMENTS AND OTHER CONTINGENCIES: At December 31, 1997, the Company had the following minimum rental commitments for noncancelable operating leases: $33 million in 1998, $26 million in 1999, $21 million in 2000, $16 million in 2001, $14 million in 2002 and $47 million thereafter. Rental expense under these leases approximated $60 million in 1997 and $55 million in 1996 and 1995.

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

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

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

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

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

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

NOTE 14. QUARTERLY FINANCIAL DATA (unaudited):

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

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

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/K. M. Patel	By /s/R. J. Mills
K. M. Patel Vice President and Chief Financial Officer (Principal Financial Officer)	R. J. Mills Vice President - Corporate Controller (Principal Accounting Officer)

Date: March 1, 1998

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)	3/1/98
* (Theodore M. Solso)	Director and President & Chief Operating Officer	3/1/98
* (Harold Brown)	Director	3/1/98
* (Robert J. Darnall)	Director	3/1/98
* (John M. Deutch)	Director	3/1/98
* (W. Y. Elisha)	Director	3/1/98
* (Hanna H. Gray)	Director	3/1/98
* (William I. Miller)	Director	3/1/98
* (Donald S. Perkins)	Director	3/1/98
* (William D. Ruckelshaus)	Director	3/1/98
* (H. B. Schacht)	Director	3/1/98
* (F. A. Thomas)	Director	3/1/98
* (J. Lawrence Wilson)	Director	3/1/98

By /s/Mark R. Gerstle

Mark R. Gerstle

Attorney-in-fact

CUMMINS ENGINE COMPANY, INC.
EXHIBIT INDEX

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 June 30, 1996).
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-A/A dated November 1, 1993, and by reference to Form 8-A/A dated January 12, 1994 and by reference to Form 8-A/A dated July 15, 1996).
10(a)	Target Bonus Plan (incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1996).
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 Annual Report on Form 10-K for the year ended December 31, 1996).
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, Exhibit 10(g)).
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, Exhibit 10(k)).
10(k)	Retirement Plan for Non-Employee Directors of Cummins Engine Company, Inc., as amended February 1997 (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended March 30, 1997).
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, Exhibit 10(m)).
10(m)	Three Year Performance Plan as amended February 1997

(incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended March 30, 1997).

10(n) Consulting arrangement with Harold Brown (incorporated by reference to the description thereof provided in the Company's definitive Proxy Statement).

10(o) 1992 Stock Incentive Plan (incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1995, Exhibit 10(s)).

10(p) Restricted Stock Plan for Non-Employee Directors as amended February 11, 1997 (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended March 30, 1997).

10(q) Executive Retention Plan (incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1995, Exhibit 10(u)).

10(r) Performance Share Plan, as amended January 1989 (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended April 2, 1995, Exhibit 10(j)).

10(s) Senior Executive Bonus Plan (incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1996).

10(t) Senior Executive Three Year Performance Plan as amended February 11, 1997 (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended March 30, 1997).

10(u) Guarantees of Perpetual Loan Facility of Cummins Finance Limited dated January 31, 1996 with the Toronto Dominion Bank, The Bank of New York and Societe Generale (incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, Exhibit 10(y)).

11 Schedule of Computation of Per Share Earnings for each of the Three Years Ended December 31, 1997 (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).

EXHIBIT 11

CUMMINS ENGINE COMPANY, INC.
SCHEDULE OF COMPUTATION OF PER SHARE EARNINGS
FOR EACH OF THE THREE YEARS ENDED DECEMBER 31, 1997

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

EXHIBIT 21

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 Beteilingungs GmbH	Germany
Atlas Crankshaft Corporation	Ohio
Autofield Engineers Private Limited	India
Auto Diesels Power Plant Limited	United Kingdom
Behr America, Inc.	Delaware
Behr Gmgh	
Behr Heat Transfer Systems, Inc.	Delaware
Cadec Systems, Inc.	Indiana
Cal Disposition, Inc.	California
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, S.A. 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 Co. Ltd.	Korea
Cummins Diesel Sales & Service, Ltd. (India)	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 Finance Limited	United Kingdom
Cummins Funding Corporation	Delaware
Cummins France EURL	France
Cummins Great Lakes, Inc.	Indiana
Cummins India	India
Cummins India Holdings Limited	India
Cummins International Finance Corporation	Delaware
Cummins KH-12, Inc.	Delaware
Cummins Komatsu Engine Company	Indiana
Cummins Korea, Ltd.	Korea
Cummins Mexicana, S.A. de C.V.	Mexico
Cummins Military Systems Company	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 Ten Holdings Ltd.	Canada
Cummins U.K. Limited	United Kingdom
Cummins Venture Corporation	Delaware
Cummins Wartsila Engine Company, GEIE	France
Cummins Wartsila Engine Company, S.A.S.	France
Cummins Zimbabwe Pvt. Ltd.	Zimbabwe
Diesel Credit Services	United Kingdom
Diesel ReCon de Mexico, S.A. de C.V.	Mexico
Diesel ReCon Industria e Comercio Ltda.	Brazil
Dong Feng Cummins Engine Company Ltd.	China

Empresas Cummins S.A. de C.V.	Mexico
Enceratec, Inc.	Maryland
Engine Systems Limited	Pakistan
European Engine Alliance EEIG	
Fleetguard Commercial S.A. de C.V.	Mexico
Fleetguard Filtration Systems, India Pvt. Ltd.	India
Fleetguard GmbH	Germany
Fleetguard, Inc.	Indiana
Fleetguard Korea, Ltd.	Korea
Fleetguard Mexico S.A. de C.V.	Mexico
Fleetguard SNC	France
Getrag Precision Gear Company, LLC	South Carolina
Hodek Engineering Co. Ltd.	India
Holset Brasil Equipamentos Automotores Ltda.	Brazil
Holset Engineering Company, Inc.	Indiana
Holset Engineering Company Limited	United Kingdom
Holset SNC	France
HPI Company	Indiana
Hyperbar USA, Inc.	Indiana
Industria e Comercio Cummins Ltda.	Brazil
Industrial Power Alliance	Japan
Integrated Distribution Systems, Inc.	Delaware
KamDizel	Russia
K.B.B. GmbH	Germany
Komatsu Cummins Engine Co., Ltd.	Japan
Komatsu, Ltd.	Germany
Kompressorenban Bannewitz GmbH	Germany
Kuss Corporation	Ohio
Kuss SNC	France
Logstrup Modular Systems PTE, Limited	Singapore
Markon Engineering Company Ltd.	United Kingdom
MHTC Corporation	Delaware
Motores Cummins Diesel do Brazil, Ltda.	Brazil
Muenchworks Limited	Canada
NAP Accoustics South East Asia PTE, Limited	Singapore
Newage Engineers Pty. Ltd.	Australia
Newage (Far East) Pte. Ltd.	Singapore
Newage International Limited	United Kingdom
Newage Italia S.R.L.	Italy
Newage Ltd. (UK)	United Kingdom
Newage Ltd. (US)	Pennsylvania
Newage Machine Tools Limited	United Kingdom
Newage Norge	Norway
Newage Pension Trustees Limited	
Newage Staff Pension Trustees Limited	
No. 379 Taurus Ventures Ltd.	Canada
Northwest Dieselguard Limited	Canada
Nu-Plant Service Limited	United Kingdom
Ona Corporation	Alabama
Onan Australia Pty. Limited	Australia
Onan Canada Limited	Canada
Onan Corporation	Delaware
Onan Foreign Holdings, Ltd.	Delaware
Onan FSC Limited	Jamaica
Onan International B.V.	The Netherlands
Onan International Limited	United Kingdom
Onan New York, Inc.	New York
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
Precise Power Corporation	Florida
PT Newage Engineers Indonesia	Indonesia
Shanghai Fleetguard Filter Co., Ltd.	China
Stamford Iberica	Spain
Tata Cummins Ltd.	India
TATA Holset Private Limited	India
TATA Engineering Locomotive Company Limited	India
TATA Exports Limited	India
TATA Industries Limited	India
Techniparts S.A.	France
Turbo Europa, B.V.	The Netherlands
Wabco Compressor Manufacturing Company	Delaware
Wuxi Electrical & Machinery Group	China

Wuxi Engine Works	China
Wuxi Holset Engineering Company Limited	China
Wuxi Newage Alternators Ltd.	China
124747 Canada Limited	Canada
14-15 Corporation	Nevada

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

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, 33-56115, 333-2165, 333-31573 and 333-42687.

ARTHUR ANDERSEN LLP

Chicago, Illinois
March 3, 1998.

EXHIBIT 24

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, 1997 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 1, 1998

/s/James A. Henderson

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

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, 1997 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 1, 1998

/s/Theodore M. Solso

Theodore M. Solso
Director & President and
Chief Operating Officer

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1998

/s/Harold Brown

____

Harold Brown
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1998

/s/Robert J. Darnall

____

Robert J. Darnall
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1998

/s/W. Y. Elisha

____
W. Y. Elisha
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1998

/s/Hanna H. Gray
Hanna H. Gray
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1998

/s/John M. Deutch
John M. Deutch
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1998

/s/William I. Miller

William I. Miller
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1998

/s/Donald S. Perkins

Donald S. Perkins
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1998

/s/William D. Ruckelshaus

William D. Ruckelshaus
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1998

/s/H. B. Schacht

H. B. Schacht
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1998

/s/F. A. Thomas

F. A. Thomas
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1998

/s/J. Lawrence Wilson
____
J. Lawrence Wilson
Director

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