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, 1998

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 $1.6 billion at January 29, 1999.

As of January 29, 1999, there were outstanding 42.0 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 60 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 businesses: engine, power generation, 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 many 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 1998, approximately 57 percent of net sales were in the United States. Major international markets include Asia and Australia (13 percent of net sales); Europe and the CIS (13 percent of net sales); Mexico and Latin America (8 percent of net sales) and Canada (7 percent of net sales).

BUSINESS MARKETS

Engine Business

Heavy-duty Truck Market

Cummins has a complete line of diesel engines that range from 280 to 600 horsepower serving the heavy-duty truck market. The Company's heavy-duty diesel engines are offered as standard or optional power by all major heavy-duty truck manufacturers in North America. The Company's largest customer for heavy-duty truck engines in 1998 was Navistar International Corporation, which represented 5 percent of the Company's net sales.

In 1998, factory retail sales of North American heavy-duty trucks were 18 percent higher than the previous year's level. Factory retail sales were 238,000 units in 1998, compared to 201,000 units in 1997 and 176,000 units in 1996. The Company's share of the North American heavy-duty truck engine market was 32 percent in 1998 based on data published by the American Automotive Manufacturers Association. The Company's share of the North American heavy-duty truck engine market was 32 percent in 1997 and 35 percent in 1996. The Company has retained number one market share for 26 years.

Based on data published by the Society of Motor Manufacturers and Traders, the Company's share of engines for trucks over 29 tonnes sold in the United Kingdom was 11 percent in 1998 and 12 percent in 1997.

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 by a very wide margin with 69 percent share. This market grew 37 percent in 1998.

In South Africa and Australia, the Company also enjoys number one market position.

In 1998, the Company began production of a new heavy-duty engine, the Signature 600, with the first fully electronic, dual overhead cam engine in this market. It also began production of a new 11-liter product called the ISM. A further new product, a 9-liter engine for vocational and regional delivery vehicles was announced in 1998 with production set for 1999. These engines are all part of a new series of products called the Interact System.

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. 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. and Nissan Diesel.

Medium-duty Truck Market

The Company has a line of diesel engines ranging from 175 to 300 horsepower serving medium-duty and inter-city delivery truck customers worldwide. The Company has introduced its next generation of midrange diesel engines, electronic four-valve-head versions which bring Interact technology to medium-duty trucks. The new versions are called the ISB and the ISC.

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 1998 was 19 percent. Freightliner was the Company's largest customer for this market in 1998, representing 2 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 and South America. In 1998, operations in China were expanded from a license for B Series engines to include a joint venture for production of C Series engines. In 1998, the joint venture in India began production ramp-up.

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. 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 Market

For this market, Cummins has both diesel and natural gas engines for pickup trucks, school buses, transit buses, delivery trucks and recreational vehicles.

In 1998, the Company introduced its ISC engines for the recreational vehicle market. Together with the ISC and other heavy-duty electronic products, Cummins' share of the diesel recreational vehicle business was 78 percent in 1998.

In North America, DaimlerChrysler, which offers the Cummins ISB engines in its Dodge Ram pickup truck, was the Company's largest customer for midrange engines in this market. Sales to DaimlerChrysler for all markets combined represented 18 percent of the Company's net sales in 1998.

The Company's ISC, M11 and ISM diesel engines are available for the US transit bus market. Cummins also offers the L10, B and C Series products for the natural gas markets which are primarily transit and school bus. The demand for alternate-fueled products continues to grow, as the Company is experiencing increased interest in international markets.

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, Caterpillar, Inc., AB Volvo, Daimler, Scania A.B. and MWM Brazil.

Industrial Markets

Cummins engines power a wide variety of equipment in the construction, mining, agricultural, marine, rail and government markets throughout the world. During 1998, the product offering was expanded upward with the limited introduction of a new high-horsepower engine in the mining market and downward with the development of a small 3-liter engine for the construction market.

A technical joint venture was formed with Komatsu in 1998 to provide a medium for joint product development. Activities in the construction market focused on furthering the financing program developed with Case in 1997 and improving customer service levels through improved on-site product service capabilities.

Case and Cummins also renegotiated a long-term partnership agreement through 2022. The agreement offers both companies the opportunity for improved sales and profitability.

Marine product applications include recreational and commercial markets. The Company's offering in the recreational market is also expanding with the introduction of a fully electronic 635 horsepower M11 engine. Additionally, the financing programs developed with Case in late 1997 were expanded to serve the marine market.

In the mining markets, the Company began the introduction of a new high-horsepower product (QSK60) which extends the power range from 2,000 to 2,700 horsepower. This engine brings electronics to the market place for improved performance and maintenance.

Power Generation Business

In 1998, power generation sales represented 20 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. In 1998, the Company's joint venture with Wartsila NSD to produce high-horsepower engines was expanded to include customer engineering, marketing and service support. The CW 200 series engine family was introduced in 1996 with initial deliveries in Europe and Asia. The CW 170 series engine family was 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 the Company's 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 the purchase of Perkins Engines and an investment in FG Wilson, provides the main competition. Detroit Diesel Corporation and AB Volvo are the other major engine manufacturers with a presence in the high-speed segment of the market. Onan competes with Caterpillar, Kohler and F G Wilson, among others, in the generator set business. Newage competes globally with Leroy Somer, Marathon and Meccalte, among others. In recent years, Emerson Electric, which owns Leroy Somer, has become a major player with its acquisition of F G Wilson.

Filtration Business 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 located 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. The Company continues an alliance with Mitsubishi Heavy Industries of Japan for production of jointly developed turbochargers.

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. This business is now consolidated. The Company's joint venture with Wartsila was 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 of 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 have a joint venture to produce 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 $228 million in 1998, $250 million in 1997, and $235 million in 1996.

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 the majority of Cummins' products on a quarterly basis. The power generation business, however, normally encounters seasonal declines in the first quarter of the year.

The Company's products compete on a number of factors, including performance, price, delivery, quality and customer support. Cummins believes that its continued focus on cost, quality and delivery, 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 8,400 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, 1998, the aggregate cost would have been approximately $275 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 manufactures 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, 1998, Cummins employed 28,300 persons worldwide, approximately 9,900 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 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. 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 mid-1999 for offices and plants in Southern Indiana and the Company's Technical Center. The Company plans to enter negotiations with the Office Committee Union before the expiration of its current contract in 1999.

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 1999. 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 1999 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.

In October 1998, Cummins and other manufacturers of heavy-duty diesel engines entered into a Consent Decree with the Environmental Protection Agency, the U. S. Department of Justice and the California Air Resources Board related to concerns they had raised regarding the level of Nitrogen Oxide (NOx) emissions from diesel engines under certain driving conditions. The terms of that Consent Decree are a matter of public record. Cummins has developed extensive corporate action plans to comply with all aspects of the Consent Decree. Additionally, three separate court actions have been filed as a result of allegations of the diesel emissions matter. The New York Supreme Court ruled in favor of the Company. This matter is now on appeal. A California State Court recently ruled in favor of the Company. A recent action was just filed in U.S. District Court, the District of Columbia.

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 1998, no such audit test was performed on Cummins engines. 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 1998. 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 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 1998, there were no emissions-related failures which reached a level that required a report.

Heavy-duty engines used in construction, agricultural and certain mining applications are also subject to emission regulations. In the United States such standards began phasing-in in 1996. In other parts of the world similar standards are applied. Cummins has successfully completed certification of its engines used in these nonroad applications. All of these products have undergone extensive laboratory and field tests prior to their release.

EPA's audit provisions cover certified nonroad engines. In 1998, no Cummins engines were selected for such audit testing.

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 1999.

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; 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; Wayne Reclamation & Recycling, Ft. Wayne, Indiana; and Casmalia Disposal Site, Santa Barbara, California. 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 16 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 16 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
1998			
First quarter	$62 3/4	$51	$.275
Second quarter	57 5/16	49 3/16	.275
Third quarter	56	30	.275
Fourth quarter	40 7/8	28 5/16	.275
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

At December 31, 1998, the approximate number of holders of record of the Company's common stock was 5,200.

The Company has repurchased 4.3 million shares of its common stock since 1994. In 1998, the Company repurchased .4 million shares on the open market at an aggregate purchase price of $14 million. 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 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 are not 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	1998	1997	1996	1995	1994
Net sales	$6,266	$5,625	$5,257	$5,245	$4,737
Net earnings (loss)	(21)	212	160	224	253
Earnings (loss) per share:					
Basic	(.55)	5.55	4.02	5.53	6.14
Diluted	(.55)	5.48	4.01	5.52	6.11
Cash dividends per share	1.10	1.075	1.00	1.00	.625
Total assets	4,542	3,765	3,369	3,056	2,706
Long-term debt	1,137	522	283	117	155

Earnings per share for 1994-1996 have been restated to reflect the adoption of SFAS No. 128 as disclosed in Note 1 to the Consolidated Financial Statements.

In 1998, the Company's results included charges totaling $217 million, comprised of $78 million for revised estimates of additional product coverage liability for both base and extended warranty programs, $114 million of costs associated with the Company's plan to restructure, consolidate and exit certain business activities and $25 million for a civil penalty resulting from an agreement reached with the U.S. Environmental Protection Agency, the Department of Justice and the California Air Resources Board regarding diesel engine emissions.

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.

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

OVERVIEW

Net sales were a record $6.3 billion in 1998, 11 percent higher than in 1997, and 19 percent higher than in 1996. Nelson Industries, Inc., acquired in January 1998, and Cummins India Limited, which was first consolidated in the fourth quarter of 1997, added sales of $428 million. Without these additional sales, net sales for 1998 would have been $5.8 billion, an increase of 4 percent over 1997.

As disclosed in Notes 3 and 4 to the Consolidated Financial Statements, the Company recorded charges in 1998 totaling $217 million, comprised of $78 million for revised estimates of additional product coverage liability for both base and extended warranty programs, $114 million of costs associated with the Company's plan to restructure, consolidate and exit certain business activities and $25 million for a civil penalty resulting from an agreement reached with the U.S. Environmental Protection Agency and the Department of Justice regarding diesel engine emissions. Excluding these charges, earnings before interest and taxes were $282 million in 1998, compared to $312 million in 1997 and $232 million in 1996. Including the charges, the Company's net loss was $21 million or $(.55) per share in 1998. Net earnings in 1997 were $212 million or $5.48 per share and $160 million or $4.01 per share in 1996.

To maintain Cummins' technological leadership, the Company has been in the process of upgrading or replacing engines across all product lines. This new product development program peaked in 1998 with a record six new engine introductions. While this investment in product development offers competitive advantages, it resulted in a temporary increase in product costs and a decrease in profitability in 1998

RESULTS OF OPERATIONS

Net Sales:

In 1998, the Company achieved its seventh consecutive year of record sales, totaling $6.3 billion. Revenues from sales of engines were 55 percent of the Company's net sales in 1998, with engine revenues and unit shipments 8 percent and 9 percent higher, respectively, than in 1997. The Company shipped a record 403,300 engines in 1998, compared to 369,800 in 1997 and 332,300 in 1996 as follows:

Unit shipments	1998	1997	1996
Midrange engines	287,400	264,300	237,400
Heavy-duty engines	106,100	94,900	85,000
High-horsepower engines	9,800	10,600	9,900
	403,300	369,800	332,300

Revenues from non-engine products, which were 45 percent of net sales in 1998, were 16 percent higher than in 1997. The major changes within non-engine revenues were in filtration, with the sales of Nelson included from the date of acquisition by Cummins, and PowerCare (which includes new parts and remanufactured engines and parts). Sales of the remaining non-engine products, in the aggregate, were essentially level with 1997.

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

$ Millions	1998	1997	1996
Automotive markets	$2,928	$2,622	$2,447
Industrial markets	1,054	1,044	863
Engine Business	3,982	3,666	3,310
Power Generation Business	1,230	1,205	1,213
Filtration Business & Other	1,054	754	734
	$6,266	$5,625	$5,257

Cummins' engine business is the Company's largest business segment, producing engines and parts for sale to customers in both automotive and industrial markets. Engine business customers are each serviced through the Company's worldwide distributor network. The engines are used in trucks of all sizes, buses and recreational vehicles, as well as a variety of industrial applications including construction, mining, agriculture, marine, rail and military. Engine business revenues were $4.0 billion in 1998, a 9 percent increase over 1997 and 20 percent over 1996.

Sales of $2.9 billion in 1998 for automotive markets were 12 percent higher than in 1997 and 20 percent higher than in 1996. In 1998, heavy-duty truck engine revenues were 19 percent higher than in 1997 on a 20-percent increase in units. Within the North American heavy-duty truck market, unit shipments were up 20 percent over 1997, and Cummins continued to be the market leader with a 32-percent market share. In 1998, the Company began limited production of the Signature 600, a new electronic engine designed to capture a larger share of this market. International unit shipments for the heavy-duty market in 1998 were 20 percent higher than in 1997 due to continued strong demand in European and Mexican automotive markets.

Revenues from the sales of engines for medium-duty trucks in 1998 were 13 percent lower than in 1997 on a 12-percent decrease in units. In North America, the Company was affected by Ford's relocation of its production facilities, partially offset by increased sales in international markets, primarily Brazil.

For the bus and light commercial vehicle market, engine revenues in 1998 were 26 percent higher than in 1997, on a 22-percent increase in unit shipments. In January, Cummins jointly announced with DaimlerChrysler a new, fully electronic engine -- the ISB -- for the Dodge Ram pickup. The increase in 1998 was due primarily to record unit shipments to DaimlerChrysler for the Dodge Ram pickup, which were 26 percent higher than in 1997 and 37 percent higher than in 1996, and continued strong demand in bus markets.

In 1998, revenues from industrial markets were 1 percent higher than in 1997. Revenues from sales of engines decreased, while parts sales increased. Engine revenues in 1998 were 1 percent lower than in 1997 on an 8-percent increase in unit shipments. The variance between revenues and units resulted from lower heavy-duty and high-horsepower engine sales and a shift in product mix of midrange engine sales. The increased level of shipments was due to continued strong construction volumes in North America and Europe, partially offset by declines in worldwide agricultural markets. Sales of engines and parts into the marine market in 1998 were 6 percent lower than in 1997, due primarily to the economic turmoil in Asia. Sales into the mining market were 21 percent lower than the prior year. In 1998, Cummins announced an agreement with Komatsu, a joint venture partner, to develop a 3.3 liter engine targeted for the construction market, scheduled for release in the second half of 1999.

Revenues of $1.2 billion in 1998 for power generation were 2 percent higher than in 1997 and 1 percent higher than in 1996, with sales continuing to be impacted by the economic conditions in Asia and lower sales in Europe. Without the consolidation of Cummins India Limited, power generation sales would have decreased 4 percent from 1997. Sales of the Company's generator sets continued to reflect growth in North America, which offset declines in demand for generator sets in Asia. Engine sales to generator set assemblers were down 12 percent from the prior year and sales of alternators were down 11 percent, due primarily to lower demand in Asia and the Company's change in strategy, emphasizing sales of generator sets. Sales of small generator sets for recreational vehicles and other consumer markets remained strong in North America, increasing 12 percent from 1997.

Sales of $1.1 billion in 1998 for filtration and other were 40 percent higher than in 1997 and 44 percent higher than in 1996, with Nelson, acquired in January 1998, contributing sales of $311 million. International distributor sales increased 12 percent from 1997 due to the consolidation of Cummins India Limited in the fourth quarter of 1997.

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

$ Millions	1998	1997	1996
United States	$3,595	$3,123	$2,925
Asia/Australia	806	898	868
Europe/CIS	791	796	759
Mexico/Latin America	468	364	260
Canada	459	318	313
Africa/Middle East	147	126	132
	$6,266	$5,625	$5,257

In total, international markets accounted for 43 percent of the Company's revenues in 1998. Europe and the CIS, representing 13 percent of the Company's sales in 1998, were 1 percent lower than in 1997 and 4 percent higher than in 1996. Sales to Canada, representing 7 percent of sales in 1998, were 44 percent higher than in 1997 due to the acquisition of Nelson and the relocation of certain customer production facilities. Asian and Australian markets, in total, represented 13 percent of the Company's sales in 1998, as compared to 16 percent in 1997 and 17 percent in 1996. In Asia, sales to China were essentially flat compared to 1997, while revenues in Korea decreased 64 percent, Southeast Asia declined 47 percent and sales to Japan and India were 19 percent below 1997 levels, excluding the effect of Cummins India Limited consolidation.

Business in Mexico and Latin America, representing 8 percent of sales, was 29 percent higher than in 1997, but began to decline in the latter part of 1998. Sales to Latin America, including Brazil, represented 4 percent of the Company's sales in 1998 and were 28 percent higher than in 1997. Brazil individually accounted for 2 percent of sales in 1998. The recent economic events in Brazil have resulted in increased interest rates and devalued currencies in the region. Many of the Company's customers are sensitive to interest rates, which will affect sales demand. The devaluation of local currencies also could have an impact on operations, as certain of the Company's transactions are based in Brazilian currency, and could result in currency gains or losses. Sales to Mexico, representing approximately 4 percent of the Company's sales in 1998, could also potentially be affected by the economic uncertainty in Brazil. These events could reasonably be expected to have an adverse effect on the Company's business, however, the extent cannot be estimated reasonably based upon presently available information.

Gross Margin:

As disclosed in Note 3 to the Consolidated Financial Statements, the Company recorded special charges in 1998 of $92 million for product coverage costs and inventory write-downs. The product coverage special charges of $78 million include $43 million primarily attributable to base warranty costs and $35 million for extended warranty programs. These charges relate to a revised estimate of product coverage liability for engines manufactured in previous years. The special charges recorded in 1998 also include $14 million for inventory write-downs associated with the Company's restructuring and exit activities. These write-downs reflect amounts of inventory rendered excess or unusable due to the closing or consolidation of facilities.

The Company's gross margin percentage before the product coverage and inventory special charges was 21.4 percent in 1998, compared to 22.8 percent in 1997 and 22.5 percent in 1996. The Company's gross margin percentage declined due to a temporary increase in product coverage costs from ISB and ISC engines and higher new product costs attributable to the production ramp-up of the ISB, ISC and Signature 600 engines. This decrease was partially offset by the benefit from higher volume and pricing. The acquisition of Nelson and consolidation of Cummins India Limited added $124 million. Gross margin percentage after the special charges was 19.9 percent. Product coverage costs, excluding the special charges, were 3.3 percent of net sales in 1998, compared to 2.6 percent in 1997 and 2.7 percent in 1996.

Operating Expenses:

Selling and administrative expenses were 12.5 percent of net sales in 1998, compared to 13.2 percent in 1997 and 13.8 percent in 1996. On the 11-percent sales increase in 1998, these expenses, which include volume-variable components, were up less than 6 percent in absolute dollars. Net benefits of the Company's cost reduction and restructuring actions were partially offset by increases in expenses associated with new product launches and information systems during 1998.

Research and engineering expenses were 4.1 percent of net sales in 1998, compared to 4.6 percent in 1997 and 4.8 percent in 1996. This is a result of a reduction in technical spending and certain product developments moving to the production stage.

The Company's losses from joint ventures and alliances were $30 million in 1998, compared to income of $10 million in 1997. The difference was due primarily to the consolidation of Cummins India Limited and losses at the Company's joint venture with Wartsila. Cummins Wartsila is being affected by lower sales, primarily due to decreased demand in Asia, and higher product coverage expenses.

In an effort to address the decline in the Company's business in Asia, to leverage overhead costs for all operations and to improve joint venture operating performance, the Company established a restructuring program in 1998. As a result of this program, the Company recorded a charge of $100 million for costs to reduce the worldwide workforce by approximately 1,100 people, as well as costs associated with streamlining certain majority-owned and international joint venture operations.

The charges for majority-owned operations included $38 million for severance and related costs associated with workforce reductions in the engine and power generation businesses, primarily for administrative positions. The costs of these reductions were based on amounts pursuant to benefit programs and contractual provisions or statutory requirements at the affected operations. Approximately one-half of these 1,100 employees left the Company prior to December 31, 1998. An asset impairment loss of $22 million, calculated according to the provisions of SFAS No. 121, was recorded primarily for engine manufacturing equipment to be disposed of upon the closure or consolidation of facilities or the outsource of production. The recovery value for the equipment to be disposed of was based on estimated liquidation value. The carrying value of assets held for disposal and the effect on earnings from suspending depreciation on such assets is immaterial. Facility consolidation and other costs of $17 million included lease termination and facility exit costs of $10 million, product support costs of $3 million, and litigation and other costs of $4 million. As the restructuring consists primarily of the closing or consolidation of smaller operations, the Company does not expect these actions to have a material effect on future revenues.

The charges for restructuring joint venture operations totaled $23 million, the majority of which relates to actions being taken at the Company's joint venture with Wartsila, which is part of the Company's power generation business. The charges included $11 million for employee severance and related benefits for approximately 1,200 people, $7 million for a tax asset impairment loss and $5 million for other facility and equipment-related charges.

Approximately $25 million, primarily related to employee severance, has been charged to the restructuring liabilities as of December 31, 1998. Of the total charges associated with restructuring activities, cash outlays will approximate $60 million. The program is expected to be essentially complete by the end of 1999 and yield approximately $50 million in annual savings at completion.

In 1998, the Company recorded a charge of $25 million for a civil penalty to be paid by the Company as a result of an agreement reached with the U.S. Environmental Protection Agency, the Department of Justice and the California Air Resources Board regarding diesel engine emissions. In addition to the civil penalty, the agreement provides a schedule for diesel engines to meet certain emission standards and requires manufacturers to continue to invest in environmental projects to further reduce oxides of nitrogen (NOx) emissions. The Company has developed extensive corporate action plans to comply with all aspects of the agreement. Additionally, three separate court actions have been filed as a result of allegations of the diesel emissions matter. The New York Supreme Court ruled in favor of the Company. This matter is now on appeal. A California State Court recently ruled in favor of the Company. A recent action was just filed in the U.S. District Court, the District of Columbia.

Year 2000:

The Company continues to address the impact of the Year 2000 issue on its businesses worldwide. This issue affects computer systems that have date-sensitive programs that may not properly recognize the year 2000. With respect to the Company, this issue affects not only computer systems but also machinery and equipment used in production that may contain embedded computer technology.

Following a review and assessment of information systems and technology used in its internal business operations and production, the Company inventoried and identified those systems and products that the Company believes may be vulnerable to Year 2000 failures and established a program to address Year 2000 issues. The Company's Year 2000 efforts are being carried out by the Company's Year 2000 Team under the leadership of the Director of Year 2000 Compliance. A Year 2000 program office has been established at each of the Company's facilities and is overseen by a Year 2000 coordinator. The Year 2000 Team maintains a reporting structure to ensure that progress is made and tracked on Year 2000 issues. In addition to internal resources, the Company has retained external resources to assist with the implementation of its Year 2000 program.

The Company's program consists of the remediation, replacement or retirement of affected systems. Remediation is the alteration of a non-compliant application to make it compliant, replacement is the substitution of a non-compliant application with a compliant upgrade or product and retirement is the discarding of non-compliant applications that have been determined to be dispensable.

The Company completed a substantial portion of its remediation efforts and testing in 1998, and expects to complete that process by the end of the second quarter of 1999.

The Year 2000 Team will remain in place through January 1, 2000, and beyond as needed. Their role is to ensure that compliance is maintained once it is attained. The Company maintains contact with its key suppliers to obtain information relating to the status of such suppliers with respect to Year 2000 issues, placing particular emphasis on determining the Year 2000 readiness of its critical suppliers.

The Company expects to incur total expenditures of approximately $45 million in connection with its Year 2000 program and remediation efforts. To date, the Company has incurred approximately $30 million in costs relating to its Year 2000 efforts.

There can be no assurances that the systems or products of third parties, which the Company relies upon, will be timely converted or that a failure by a third party, or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the Company. This is particularly true because the Company utilizes sole suppliers for certain products. The high level of skill and expertise required to develop certain components makes it impossible to change suppliers quickly. The failure of a sole supplier may lead to a delay in production.

The Company continues to develop contingency plans in the event that its operations are disrupted on January 1, 2000. Such contingency plans include the stockpiling of certain business critical inventory, and identifying alternative suppliers where possible.

The estimated time of completion of the Company's Year 2000 program and compliance efforts, and the expenses related to the Company's Year 2000 compliance efforts are based upon management's best estimates, which were based on assumptions of future events, including the availability of certain resources, third party modification plans and other factors. There can be no assurances that these results and estimates will be achieved, and the actual results could materially differ from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability of personnel trained in this area and the ability to locate and correct all relevant computer codes.

Other:

Interest expense of $71 million was $45 million higher than in 1997 and $53 million higher than in 1996 due to the increased level of borrowings to support working capital on the higher sales level and to complete the acquisition of Nelson. Other income decreased $13 million in 1998 as compared to the year-ago period, primarily due to the Nelson goodwill amortization and lower royalty income.

Provision for Income Taxes:

The Company's effective income tax rate normally is below the 35% U.S. federal corporate tax rate. The lower tax rate is a result of tax benefits on export sales and tax credits on research expenses. These benefits in 1998 were more than offset by the unfavorable tax effects of nondeductible losses in foreign joint ventures and nondeductible EPA penalty and goodwill amortization. The combined effect was a 1998 income tax provision of $4 million.

CASH FLOW AND FINANCIAL CONDITION

Key elements of cash flows were:

$ Millions	1998	1997	1996
Net cash used in operating and investing activities	$(481)	$(154)	$ (66)
Net cash from financing activities	471	96	110
Effect of exchange rate changes on cash	(1)	(1)	4
Net change in cash	$(11)	$(59)	$ 48

During 1998, net cash used for operating and investing activities was $481 million. The higher level of net cash requirements in 1998 was due primarily to the acquisition of Nelson, planned capital expenditures ($271 million in 1998, compared to $405 million in 1997 and $304 million in 1996) for investments in new products and for working capital. Net working capital as a percent of sales was 12.8 percent in 1998, compared to 11.6 percent in 1997. Investments in joint ventures and alliances of $22 million reflected the net effect of capital contributions and cash generated by certain joint ventures.

Net cash provided from financing activities was $471 million in 1998. As disclosed in Note 6, the Company issued $765 million face amount of notes and debentures under a $1 billion registration statement filed with the Securities and Exchange Commission in December 1997. Net proceeds were used to finance the acquisition of Nelson and pay down other indebtedness outstanding at December 31, 1997. Based on the Company's projected cash flow from operations and existing credit facilities, management believes that sufficient liquidity is available to meet anticipated capital and dividend requirements in the foreseeable future.

Market Risk:

The Company is exposed to financial risk resulting from volatility in foreign exchange rates, interest rates and commodity prices. This risk is closely monitored and managed through the use of derivative contracts. As clearly stated in the Company's policies and procedures, financial derivatives are used expressly for hedging purposes, and under no circumstances are they used for speculating or for trading. Transactions are entered into only with banking institutions with strong credit ratings, and thus the credit risk associated with these contracts is considered immaterial. Hedging program results and status are reported to senior management on a periodic basis.

Due to its international business presence, the Company transacts extensively in foreign currencies. As a result, corporate earnings experience some volatility related to movements in exchange rates. In order to exploit the benefits of global diversification and naturally offsetting currency positions, foreign exchange balance sheet exposures are aggregated and hedged at the corporate level through the use of foreign exchange forward contracts. The objective of the foreign exchange hedging program is to reduce earnings volatility resulting from the translation of net foreign exchange balance sheet positions. A hypothetical 10% adverse change in the foreign currency exchange rates would decrease earnings by approximately $4 million. This calculation does not reflect the impact of the gains and losses in the underlying exposures that would be offset, in part, by the results of the derivative instruments. The sensitivity analysis also ignores the impact of foreign exchange movements on Cummins' competitive position as well as the remoteness of the likelihood that all foreign currencies will move in tandem against the U.S. dollar.

The Company currently has in place an interest rate swap that effectively converts fixed-rate debt into floating-rate debt. The objective of the swap is to lower the cost of borrowed funds. A hypothetical 100 basis-point increase in the floating interest rate from the current level would correspond to a $2 million increase in interest expense over a one-year period. This sensitivity analysis does not account for the change in the Company's competitive environment indirectly related to change in interest rates and the potential managerial action taken in response to these changes.

The Company is exposed to fluctuation in commodity prices through the purchase of raw materials as well as contractual agreements with component suppliers. Given the historically volatile nature of commodity prices, this exposure can significantly impact product costs. The Company uses commodity swap agreements to partially hedge exposures to changes in copper and aluminum prices. The effect of a hypothetical 10% depreciation of the underlying commodity price would be a loss of approximately $5 million. This amount excludes the offsetting impact of the price changes in commodity costs.

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 and Schedule on page 23.

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 6, 1999 ("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, 1998 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	44	Vice President - Human Resources (1997 to present), Vice President - General Counsel (1997)
Pamela F. Carter	49	Vice President - General Counsel and Secretary (1997 to present)
C. Roberto Cordaro	48	Executive Vice President, Group President - Automotive (1996 to present), Group Vice President - Marketing (1990 to 1996)
John K. Edwards	54	Executive Vice President, Group President - Power Generation and International (1996 to present), Vice President - International (1989 to 1996)
Mark R. Gerstle	43	Vice President - Cummins Business Services (1998 to present), Vice President and Chief Administrative Officer and Secretary (1997 to 1998), Vice President - Law and Corporate Affairs and Secretary (1997), Vice President - General Counsel and Secretary (1995 to 1997), Assistant General Counsel (1991 to 1995)
James A. Henderson	64	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	51	Vice President - Filtration Group and President, Fleetguard, Inc. (1996 to present), Vice President - Aftermarket Group (1989 to 1996)
F. Joseph Loughrey	49	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	51	Vice President - Corporate Controller (1996 to present), Vice President Pacific Rim and Latin America - Fleetguard, Inc. (1993 to 1996)
Kiran M. Patel	50	Vice President and Chief Financial Officer (1996 to present), President - Fleetguard, Inc. (1993 to 1996)
Theodore M. Solso	51	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 and Schedule on page 23 for a list of the financial statements filed as a part of this report.

2. See Exhibit Index on page 44 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 1998.

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

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, 1998 and 1997, and the related consolidated statements of earnings, cash flows and shareholders' investment for each of the three years in the period ended December 31, 1998. 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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Chicago, Illinois,
January 26, 1999.

CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF EARNINGS

Millions, except per share amounts	1998	1997	1996
Net sales	$6,266	$5,625	$5,257
Cost of goods sold	4,925	4,345	4,072
Special charges	92	-	-
Gross profit	1,249	1,280	1,185
Selling & administrative expenses	787	744	725
Research & engineering expenses	255	260	252
Net expense (income) from joint ventures and alliances	30	(10)	-
Interest expense	71	26	18
Other income, net	(13)	(26)	(24)
Restructuring and other non-recurring charges	125	-	-
Earnings (loss) before income taxes	(6)	286	214
Provision for income taxes	4	74	54
Minority interest	11	-	-
Net earnings (loss)	$ (21)	$ 212	$ 160
Basic earnings (loss) per share	$(.55)	$5.55	$4.02
Diluted earnings (loss) per share	(.55)	5.48	4.01

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, 1998	December 31, 1997
Assets		
Current assets:		
Cash and cash equivalents	$ 38	$ 49
Receivables	833	771
Inventories	731	677
Other current assets	274	213
	1,876	1,710
Investments and other assets:		
Investments in joint ventures and alliances	136	204
Other assets	144	142
	280	346
Property, plant and equipment:		
Land and buildings	590	495
Machinery, equipment and fixtures	2,320	2,079
Construction in process	185	392
	3,095	2,966
Less accumulated depreciation	1,424	1,434
	1,671	1,532
Goodwill, net of amortization of $17 and $5	384	12
Other intangibles, deferred taxes and deferred charges	331	165
Total assets	$4,542	$3,765
Liabilities and shareholders' investment		
Current liabilities:		
Loans payable	$ 64	$ 90
Current maturities of long-term debt	26	42
Accounts payable	340	386
Accrued salaries and wages	99	87
Accrued product coverage & marketing expenses	209	120
Income taxes payable	13	18
Other accrued expenses	320	312
	1,071	1,055

Long-term debt	1,137	522
Other liabilities	1,000	713
Minority interest	62	53
Shareholders' investment:		
Common stock, $2.50 par value, 48.1 shares issued	120	120
Additional contributed capital	1,121	1,119
Retained earnings	648	715
Accumulated other comprehensive income	(167)	(70)
Common stock in treasury,at cost,6.1 & 6.0 shares	(240)	(245)
Common stock held in trust for employee benefit plans, 3.6 and 3.7 shares	(172)	(175)
Unearned compensation	(38)	(42)
	1,272	1,422
Total liabilities & shareholders' investment	$4,542	$3,765

The accompanying notes are an integral part of this statement.

CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

Millions	1998	1997	1996
Cash flows from operating activities:			
Net earnings (loss)	$ (21)	$ 212	$ 160
Adjustments to reconcile net earnings (loss) to net cash from operating activities:			
Depreciation and amortization	199	158	149
Restructuring actions	110	(24)	(42)
Equity in (earnings) losses of joint ventures and alliances	38	(1)	11
Receivables	(10)	(80)	(56)
Inventories	(26)	(65)	(62)
Accounts payable and accrued expenses	56	(18)	28
Deferred income taxes	(65)	22	17
Other	(10)	(4)	(12)
Total adjustments	292	(12)	33
	271	200	193
Cash flows from investing activities:			
Property, plant and equipment:			
Additions	(271)	(405)	(304)
Disposals	7	21	26
Investments in joint ventures and alliances	(22)	(47)	(5)
Acquisitions and dispositions of business activities	(468)	76	10
Other	2	1	14
	(752)	(354)	(259)
Net cash used in operating and investing activities	(481)	(154)	(66)
Cash flows from financing activities:			
Proceeds from borrowings	711	281	200
Payments on borrowings	(161)	(50)	(47)
Net (payments) borrowings under credit agreements	(30)	(12)	32
Repurchases of common stock	(14)	(75)	(34)
Dividend payments	(46)	(45)	(40)
Other	11	(3)	(1)
	471	96	110
Effect of exchange rate changes on cash	(1)	(1)	4
Net change in cash and cash equivalents	(11)	(59)	48
Cash & cash equivalents at beginning of year	49	108	60

Cash & cash equivalents at end of year	$ 38	$ 49	$108
Cash payments during the year for:			
Interest	$ 56	$ 21	$ 16
Income taxes	73	42	40

The accompanying notes are an integral part of this statement.

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

Millions, except per share amounts	1998		1997		1996	
Common stock:						
Balance at beginning of year	$ 120		$ 110		$ 110	
Issued to trust for employee benefit plans	-		9		-	
Other	-		1		-	
Balance at end of year	120		120		110	
Additional contributed capital:						
Balance at beginning of year	1,119		929		926	
Issued to trust for employee benefit plans	-		171		-	
Other	2		19		3	
Balance at end of year	1,121		1,119		929	
Retained earnings:						
Balance at beginning of year	715		548		428	
Net earnings (loss)	(21)	$(21)	212	$212	160	$160
Cash dividends	(46)		(45)		(40)	
Balance at end of year	648		715		548	
Accumulated other comprehensive income:						
Balance at beginning of year	(70)		(60)		(95)	
Foreign currency translation adjustments		(43)		(21)		26
Minimum pension liability adjustments		(54)		12		9
Unrealized losses on securities		-		(1)		-
Other comprehensive income	(97)	(97)	(10)	(10)	35	35
Comprehensive income		$(118)		$202		$195
Balance at end of year	(167)		(70)		(60)	
Common stock in treasury:						
Balance at beginning of year	(245)		(169)		(135)	
Repurchased	(14)		(76)		(34)	
Issued	19		-		-	
Balance at end of year	(240)		(245)		(169)	
Common stock held in trust for employee benefit plans:						
Balance at beginning of year	(175)		-		-	
Issued	-		(180)		-	
Shares allocated to benefit plans	3		5		-	
Balance at end of year	(172)		(175)		-	
Unearned compensation:						
Balance at beginning of year	(42)		(46)		(51)	
Shares allocated to participants	4		4		5	
Balance at end of year	(38)		(42)		(46)	
Shareholders' investment	$1,272		$1,422		$1,312	

Shares of stock			
Common stock, $2.50 par value, 150.0 shares authorized			
Balance at beginning of year	48.1	43.9	43.9
Shares issued	-	4.2	-
Balance at end of year	48.1	48.1	43.9
Common stock in treasury			
Balance at beginning of year	6.0	4.5	3.7
Shares repurchased	.4	1.5	.8
Shares issued	(.3)	-	-
Balance at end of year	6.1	6.0	4.5
Common stock held in trust for employee benefit plans			
Balance at beginning of year	3.7	-	-
Shares issued	-	3.8	-
Shares allocated to benefit plans	(.1)	(.1)	-
Balance at end of year	3.6	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.

Derivative Instruments: The Company makes use of derivative instruments in its foreign exchange, commodity price and interest rate hedging programs. Derivatives currently in use are commodity and interest rate swaps, as well as foreign currency forward contracts. These contracts are used strictly for hedging, and not for speculative purposes. Refer to Note 8 for more information on derivative financial instruments.

The Company enters into commodity swaps to offset the Company's exposure to price volatility for certain raw materials used in the manufacturing process. As the Company has the discretion to settle these transactions either in cash or by taking physical delivery, these contracts are not considered financial instruments for accounting purposes. These commodity swaps are accounted for as hedges.

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 $228 million in 1998, $250 million in 1997 and $235 million in 1996.

Maintenance and repair costs are charged to earnings as incurred.

Cash Equivalents: Cash equivalent include all highly liquid investments with an original maturity of three months or less at time of purchase.

Inventories: Inventories are generally stated at cost or net realizable value. Approximately 25 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	1998	1997
Finished products	$400	$351
Work-in-process and raw materials	387	388
Inventories at FIFO cost	787	739
Excess of FIFO over LIFO	(56)	(62)
	$731	$677

Property, Plant and Equipment: Property, plant and equipment are stated at cost. 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: Internal and external software costs (excluding research, reengineering and training) are capitalized and amortized generally over 5 years. Effective January 1, 1998, the Company adopted SOP 98-1 on accounting for internal use software costs. Internal software costs capitalized in 1998 in accordance with this new rule were $9 million. Capitalized software, net of amortization, was $75 million at December 31, 1998 and $32 million at December 31, 1997.

Earnings Per Share: Effective January 1, 1997, the Company adopted SFAS No. 128, a new accounting rule on calculating earnings per share. Under the new rule, basic earnings per share of common stock 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 when the effect of their exercise is dilutive. Shares of stock held by the employee benefits trust are not included in outstanding shares for EPS until distributed from the trust. Years prior to 1997 have been restated to reflect this new rule.

Millions, except per share amounts	Net Earnings (Loss)	Weighted Average Shares	Per share
1998			
Basic	$(21)	38.5	$(.55)
Options	-	-	
Diluted	$(21)	38.5	$(.55)
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

NOTE 2. ACQUISITION: In January 1998, the Company completed the acquisition of the stock of Nelson Industries, Inc., for $453 million. Nelson, a filtration and exhaust systems manufacturer, was consolidated from the date of its acquisition. On a pro forma basis, if the Company had acquired Nelson on January 1, 1997, consolidated net sales for 1997 would have been $5.9 billion and consolidated earnings would not have been materially different. In accordance with APB Opinion No. 16, Nelson's net assets were recorded at fair value at the date of acquisition. The purchase price in excess of net assets will be amortized over 40 years.

NOTE 3. SPECIAL CHARGES: In 1998, the Company recorded special charges of $92 million for product coverage costs and inventory write-downs. The product coverage special charges of $78 million included $43 million primarily attributable to the recent experience of higher-than-anticipated base warranty costs to repair certain automotive engines manufactured in previous years, and $35 million related to a revised estimate of product coverage cost liability primarily for extended warranty programs. The Company believed it was necessary to make these special charges to accrue for such product coverage costs expected to be incurred in the future on these engines currently in the field. The special charges also included $14 million for inventory write-downs associated with the Company's restructuring and exit activities. These write-downs relate to amounts of inventory rendered excess or unusable due to the closing or consolidation of facilities. The Company has committed to these facility closures and consolidations as part of a plan to reduce costs and improve operating performance.

NOTE 4. RESTRUCTURING AND OTHER NON-RECURRING CHARGES: In 1998, the Company recorded charges of $125 million, comprised of $100 million for costs to reduce the worldwide workforce, as well as costs associated with streamlining certain majority-owned and international joint venture operations and $25 million for a civil penalty to be paid by the Company as a result of an agreement reached with the U.S. Environmental Protection Agency (EPA), the Department of Justice (DOJ) and the California Air Resources Board (CARB) regarding diesel engine emissions.

The major components of these charges are as follows:

$ Millions	
Restructuring of majority-owned operations:	
Workforce reductions	$ 38
Asset impairment loss	22
Facility consolidations and other	17
	77
Restructuring of joint venture operations:	
Workforce reductions	11
Tax asset impairment loss	7
Facility and equipment-related costs	5
	23
EPA penalty	25
Total	$125

The restructuring program was undertaken to address the decline in the Company's business in Asia, to leverage overhead costs for all operations and to improve joint venture operating performance.

The charges for majority-owned operations include $38 million for severance and related costs associated with workforce reductions of approximately 1,100 people. These reductions are in the engine and power generation businesses and are primarily for administrative positions. Costs for workforce reductions were based on amounts pursuant to benefit programs and contractual provisions or statutory requirements at the affected operations. Approximately one-half of these employees left the Company prior to December 31, 1998.

The asset impairment loss, calculated according to the provisions of SFAS 121, was recorded primarily for engine manufacturing equipment to be disposed of upon the closure or consolidation of facilities or the outsource of production. The recovery value for the equipment to be disposed of was based on estimated liquidation value. The carrying value of assets held for disposal and the effect on earnings from suspending depreciation on such assets is immaterial.

Facility consolidation and other costs of $17 million include lease termination and facility exit costs of $10 million, product support costs of $3 million and litigation and other costs of $4 million. As the restructuring consists primarily of the closing or consolidation of smaller operations, the Company does not expect these actions to have a material effect on future revenues.

The charges for restructuring joint venture operations totaled $23 million, the majority of which relates to actions being taken at the Company's joint venture with Wartsila, which is part of the Company's power generation business. The charges include $11 million for employee severance and related benefits for approximately 1,200 people, $7 million for a tax asset impairment loss and $5 million for other facility and equipment-related charges.

Approximately $25 million, primarily related to employee severance, has been charged to the restructuring liabilities as of December 31, 1998. Of the total charges associated with restructuring activities, cash outlays will approximate $60 million. The program is expected to be essentially complete by the end of 1999 and yield approximately $50 million in annual savings at completion.

In addition to the civil penalty, the agreement with the EPA/DOJ/CARB provides a schedule for diesel engines to meet certain emission standards and requires manufacturers to continue to invest in environmental projects to further reduce oxides of nitrogen (NOx) emissions. The Company has developed extensive corporate action plans to comply with all aspects of the agreement. Additionally, three separate court actions have been filed as a result of allegations of the diesel emissions matter. The New York Supreme Court ruled in favor of the Company. This matter is now on appeal. A California State Court recently ruled in favor of the Company. A recent action was just filed in the U.S. District Court, the District of Columbia.

NOTE 5. INVESTMENTS IN JOINT VENTURES AND ALLIANCES: Investments in joint ventures and alliances at December 31 were as follows:

$ Millions	1998	1997
Consolidated Diesel	$ 39	$ 32
Tata Cummins	22	16
Komatsu alliances	17	10
Chongqing Cummins	15	16
Behr America, Inc.	14	14
Dong Feng	8	7
Cummins Wartsila	(6)	88
Other	27	21
	$136	$204

Net sales of the joint ventures and alliances were $1.2 billion in 1998 and $1.3 billion in 1997 and 1996. Summary balance sheet information for the joint ventures and alliances was as follows:

	December 31,	
$ Millions	1998	1997
Current assets	$527	$447
Noncurrent assets	613	533
Current liabilities	(406)	(258)
Noncurrent liabilities	(455)	(305)
Net assets	$279	$417
Cummins' share	$136	$204

The Company has guaranteed $79 million in outstanding debt of the Cummins Wartsila joint venture as of December 31, 1998.

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 $535 million in 1998 and $538 million in 1997.

NOTE 6. LONG-TERM DEBT: Long-term debt at December 31 was:

$ Millions	1998	1997

7.125% debentures due 2028	$249	$ -
6.45% notes due 2005	224	-
Commercial paper	142	242
5.65% debentures due 2098, net of unamortized discount of $40 (effective interest rate 7.48%)	125	-
6.25% notes due 2003	125	-
6.75% debentures due 2027	120	120
8.2% notes through 2003	79	96
Guaranteed notes of ESOP Trust due 2010	63	65
10.35%-10.65% medium-term notes through 1998	-	14
Other	36	27
Total	1,163	564
Current maturities	(26)	(42)
Long-term debt	$1,137	$522

Maturities of long-term debt for the five years subsequent to December 31, 1998 are $26 million, $26 million, $25 million, $27 million and $141 million. At both December 31, 1998 and 1997, the weighted-average interest rate on loans payable and current maturities of long-term debt approximated 7 percent.

The Company maintains a $500 million revolving credit agreement, maturing in 2003, under which there were no outstanding borrowings at December 31, 1998 or 1997. The revolving credit agreement supports the Company's commercial paper borrowings. In February 1998, the Company issued $765 million face amount of notes and debentures under a $1 billion Registration Statement filed with the Securities and Exchange Commission in 1997. Net proceeds were used to finance the acquisition of Nelson and pay down other indebtedness outstanding at December 31, 1997. The Company also has other domestic and international credit lines with approximately $193 million available at December 31, 1998.

In 1997, the Company issued $120 million of 6.75 percent debentures that mature in 2027. Holders have a one-time option in 2007 to redeem the debentures and Cummins has a recall right after ten years.

The Company has guaranteed the outstanding borrowings of its ESOP Trust. The notes were refinanced in July 1998. 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 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 7. OTHER LIABILITIES: Other liabilities at December 31 included the following:

$ Millions	1998	1997
Accrued retirement & post-employment benefits	$720	$487
Accrued product coverage & marketing expenses	156	111
Accrued compensation	38	34
Deferred income taxes	17	25
Other	69	56
	$1,000	$713

NOTE 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: The Company is exposed to financial risk resulting from volatility in foreign exchange rates and interest rates. This risk is closely monitored and managed through the use of financial derivative contracts. As clearly stated in the Company's policies and procedures, financial derivatives are used expressly for hedging purposes, and under no circumstances are they used for speculating or trading. Transactions are entered into only with banking institutions with strong credit ratings, and thus the credit risk associated with these contracts is considered immaterial. Hedging program results and status are reported to senior management on a periodic basis.

Foreign Exchange Rates

Due to its international business presence, the Company uses foreign exchange forward contracts to manage its exposure to exchange rate volatility. Foreign exchange balance sheet exposures are aggregated and hedged at the corporate level. Maturities on these instruments generally fall within the one-month and six-month range. The objective of the hedging program is to reduce earnings volatility resulting from the translation of net foreign exchange balance sheet positions. The total notional amount of these forward contracts outstanding at December 31, 1998, and December 31, 1997, were $174 million and $257 million, respectively.

Interest Rates

The Company manages its exposure to interest rate fluctuations through the use of interest rate swaps. Currently the Company has in place one interest rate swap that effectively converts fixed-rate debt into floating-rate debt. The objective of this swap is to lower the cost of borrowed funds. The contract was established during October 1998 with a notional value of $225 million. There were no interest rate swap contracts outstanding at December 31, 1997.

Fair Value of Financial Instruments

Based on borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of total debt, including current maturities, at December 31, 1998, approximated $1,214 million. The carrying value at that date was $1,227 million. At December 31, 1997, the fair and carrying values of total debt, including current maturities, were $664 and $654 million, respectively. The carrying values of all other receivables and liabilities approximated fair values.

NOTE 9. INCOME TAXES: The provision for income taxes was as follows:

$ Millions	1998	1997	1996
Current:			
U.S. Federal and state	$16	$16	$22
Foreign	41	32	15
	57	48	37
Deferred:			
U.S. Federal and state	(34)	26	-
Foreign	(19)	-	17
	(53)	26	17
	$ 4	$74	$54

The Company expects to realize all of its tax assets, including the use of all carryforwards, before any expiration.

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

$ Millions	1998	1997
Employee benefit plans	$300	$266
Product coverage & marketing expenses	106	64
Restructuring charges	14	9
US plant & equipment	(176)	(139)
Net foreign taxable differences, primarily plant and equipment	6	(23)
US Federal carryforward benefits:		
General business tax credits, expiring 2009 to 2013	43	31
Minimum tax credits, no expiration	12	10
Other net differences	12	13
	$317	$231
Balance Sheet Classification		
Current assets	$203	$129
Noncurrent assets	131	127
Noncurrent liabilities	(17)	(25)
	$317	$231

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

$ Millions	1998	1997	1996
Earnings (loss) before income taxes:			
US	$(21)	$205	$134
Foreign	15	81	80
	$(6)	$286	$214

Tax at 35 percent US statutory rate	$(2)	$100	$ 75
Nondeductible EPA penalty	9	-	-
Nondeductible goodwill amortization	3	-	-
Research tax credits	(10)	(11)	(6)
Foreign sales corporation benefits	(9)	(11)	(11)
Differences in rates and taxability of foreign subsidiaries	15	(3)	-
All other, net	(2)	(1)	(4)
	$ 4	$ 74	$(54)

NOTE 10. RETIREMENT PLANS: The Company has various contributory and noncontributory pension plans covering substantially all employees. Cummins common stock represented 9 percent of pension plan assets at December 31, 1998.

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 projected benefit obligation, accumulated benefit obligation and fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets were $1,296 million, $1,251 million, and $999 million, respectively as of December 31, 1998, and $418 million, $381 million, and $339 million, respectively, as of December 31, 1997. The assumed long-term rate of compensation increase for salaried plans was 4.25% in 1998 and 5.00% in 1997. Other significant assumptions for the Company's principal plans were:

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
Weighted-average discount rate	6.5%	7.5%	6.5%	7.5%
Long-term rate of return on plan assets	10.0%	10.0%		

For measurement purposes a 7% annual increase in health care costs was assumed for 1999, decreasing gradually to 4.25% in ten years and remaining constant thereafter.

Increasing the health care cost trend rate by one percent would increase the obligation by $42 million and annual expense by $3 million. Decreasing the health care cost trend rate by one percent would decrease the obligation by $38 million and annual expense by $3 million.

The Company's net periodic benefit cost under these plans was as follows:

	Pension Benefits			Other Benefits		
$ Millions	1998	1997	1996	1998	1997	1996
Service cost	$ 47	$ 41	$ 45	$ 8	$ 8	$ 9
Interest cost	123	115	104	40	41	36
Expected return on plan assets	(153)	(134)	(116)	-	-	-
Amortization of transition asset	(4)	(9)	(9)	-	-	-
Other	12	13	16	4	9	10
	$ 25	$ 26	$ 40	$ 52	$ 58	$ 55

	Pension Benefits		Other Benefits	
$ Millions	1998	1997	1998	1997
Change in benefit obligation:				
Benefit obligation at beginning of year	$1,693	$1,491	$ 596	$ 545
Service cost	47	41	8	8
Interest cost	123	115	44	41
Plan participants' contributions	7	6	1	1
Amendments	2	4	-	-
Experience (gain) loss	161	128	20	26
Benefits paid	(123)	(96)	(29)	(25)
Other	(3)	4	-	-

Benefit obligation at end of year	$1,907	$1,693	$ 640	$ 596
Change in plan assets:				
Fair value of plan assets at beginning of year	$1,905	$1,555	$ -	$ -
Actual return on plan assets	(129)	414	-	-
Employer contribution	34	23	28	24
Plan participants' contributions	7	6	1	1
Benefits paid	(123)	(96)	(29)	(25)
Other	(2)	3	-	-
Fair value of plan assets at end of year	$1,692	$1,905	$ -	$ -
Funded status	$ (215)	$ 212	$ (640)	$ (596)
Unrecognized:				
Experience (gain) loss (a)	172	(269)	80	62
Prior service cost (b)	55	63	(11)	(12)
Transition asset (c)	(7)	(11)	-	-
Net amount recognized	$ 5	$ (5)	$ (571)	$ (546)
Amounts recognized in the statement of financial position:				
Prepaid benefit cost	$ 50	$ 9	$ -	$ -
Accrued benefit liability	(232)	(14)	(571)	(546)
Intangible asset	104	-	-	-
Accumulated other comprehensive income	83	-	-	-
Net amount recognized	$ 5	$ (5)	$ (571)	$ (546)

(a) The net deferred gain (loss) 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.

NOTE 11. 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.

In 1998, the Company repurchased 0.4 million shares on the open market at an aggregate purchase price of $14 million. In 1997, the Company repurchased 1.3 million shares from Ford Motor Company and another 0.2 million shares on the open market at an aggregate purchase price of $75 million. The Company repurchased 0.8 million shares on the open market at an aggregate purchase price of $34 million in 1996. 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 12. 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 13. EMPLOYEE STOCK PLANS: Under the Company's stock incentive and option plans, officers and other eligible employees may be awarded stock options, stock appreciation rights and restricted stock. Under the provisions of the stock incentive plan, up to one percent of the Company's outstanding shares of common stock at the end of the preceding year is available for issuance under the plan each year. At December 31, 1998, there were no shares of common stock available for grant and 1,234,875 options exercisable under the plans.

The Company accounts for stock options in accordance with APB Opinion No. 25 and related interpretations. No compensation expense has been recognized for stock options since the options have exercise prices equal to the market price of the Company's common stock at the date of grant.

Options	Number of Shares	Weighted-average exercise price

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
Granted	703,660	45.34
Exercised	(54,075)	36.36
Cancelled	(27,425)	53.80
December 31, 1998	2,543,010	48.08

Options outstanding at December 31, 1998, 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 $18.61 per share in 1998 and $14.94 per share in 1997. The fair value of each option was estimated on the date of grant using a risk-free interest rate of 5.6 percent in 1998 and 6.4 percent in 1997, current annual dividends, expected lives of 10 years and expected volatility of 34 percent. A fair-value method of accounting for awards subsequent to January 1, 1996, would have had no material effect on results of operations.

NOTE 14. COMPREHENSIVE INCOME: Effective January 1, 1998, the Company adopted SFAS No. 130, a new accounting rule which requires companies to report comprehensive income. Comprehensive income includes net income and all other nonowner changes in equity during a period.

The tax effect on other comprehensive income is as follows:

	Foreign Currency Translation Adjustments	Unrealized Losses on Securities	Minimum Pension Liability Adjustments	Total Other Compre-hensive Income
1998				
Pre-tax amount	$(44)	$(1)	$(83)	$(128)
Tax (expense) benefit	1	1	29	31
Net amount	$(43)	$ -	$(54)	$(97)
1997				
Pre-tax amount	$(21)	$(1)	$ 12	$(10)
Tax (expense) benefit	-	-	-	-
Net amount	$(21)	$(1)	$ 12	$(10)
1996				
Pre-tax amount	$ 26	$ -	$ 9	$ 35
Tax (expense) benefit	-	-	-	-
Net amount	$ 26	$ -	$ 9	$ 35

The components of accumulated other comprehensive income are as follows:

	Foreign Currency Translation Adjustments	Unrealized Losses on Securities	Minimum Pension Liability Adjustments	Accumu-lated Other Compre-hensive Income
Balance at 12/31/95	$(73)	$ -	$(22)	$(95)
Change in 1996	26	-	9	35
Balance at 12/31/96	(47)	-	(13)	(60)
Change in 1997	(21)	(1)	12	(10)

Balance at 12/31/97	(68)	(1)	(1)	(70)
Change in 1998	(43)	-	(54)	(97)
Balance at 12/31/98	$(111)	$(1)	$(55)	$(167)

NOTE 15. SEGMENTS OF THE BUSINESS: Effective for 1998 annual reporting, the Company adopted SFAS No. 131 on segment reporting. Under the provisions of the new standard, Cummins has three reportable segments: Engine, Power Generation, and Filtration and Other. The engine segment produces engines and parts for sale to customers in automotive and industrial markets. The engines are used in trucks of all sizes, buses and recreational vehicles, as well as various industrial applications including construction, mining, agriculture, marine, rail and military. The power generation segment is the Company's power systems supplier, selling engines, generator sets and alternators. The filtration and other segment includes sales of filtration products and exhaust systems, turbochargers and company-owned distributors.

The Company's reportable segments are organized according to products and the markets they each serve. This business structure was designed to focus efforts on providing enhanced service to a wide range of customers.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that the Company evaluates performance based on earnings before interest and income taxes and on net assets, and, therefore, no allocation of debt-related items and income taxes is made to the individual segments.

Operating segment information is as follows:

1998	Engine	Power Generation	Filtration and Other	Total
Net sales	$3,982	$1,230	$1,054	$6,266
Depreciation & amortization	120	40	39	199
Income (expense) from joint ventures and alliances	(4)	(25)	(1)	(30)
Earnings before interest, income taxes and special charges	136	25	121	282
Special charges	165	50	2	217
Earnings (loss) before interest & income taxes	(29)	(25)	119	65
Net assets	946	511	803	2,260
Investment in joint ventures and alliances	132	3	1	136
Capital expenditures	172	67	32	271
Additions to goodwill	12	2	370	384
1997				
Net sales	$3,666	$1,205	$ 754	$5,625
Depreciation & amortization	102	34	22	158
Income (expense) from joint ventures and alliances	12	(2)	-	10
Earnings (loss) before interest and income taxes	207	(2)	107	312
Net assets	1,074	531	312	1,917
Investment in joint ventures and alliances	133	65	6	204
Capital expenditures	304	79	22	405
1996				
Net sales	$3,310	$1,213	$ 734	$5,257
Depreciation & amortization	97	31	21	149
Income (expense) from joint ventures and alliances	(2)	2	-	-
Earnings before interest and income taxes	160	14	58	232
Net assets	784	459	249	1,492
Investment in joint ventures and alliances	114	89	4	207
Capital expenditures	242	44	18	304

Reconciliation to Consolidated Financial Statements:

	1998	1997	1996

Earnings before interest & income taxes for reportable segments	$ 65	$ 312	$ 232
Interest expense	71	26	18
Income tax expense	4	74	54
Minority interest	11	-	-
Net earnings (loss)	$ (21)	$ 212	$ 160
Net assets for reportable segments	$2,260	$1,917	$1,492
Liabilities deducted in arriving at net assets	1,926	1,583	1,586
Deferred tax assets not allocated to segments	334	256	284
Debt-related costs not allocated to segments	22	9	7
Total assets	$4,542	$3,765	$3,369

Summary geographic information is listed below:

$ Millions	US	UK	Canada	Other	Total
1998					
Net sales (a)	$3,595	$ 389	$ 459	$1,823	$6,266
Long-lived assets	$1,470	$ 209	$ -	$ 272	$1,951
1997					
Net sales (a)	$3,123	$ 384	$ 318	$1,800	$5,625
Long-lived assets	$1,360	$ 251	$ -	$ 267	$1,878
1996					
Net sales (a)	$2,925	$ 348	$ 313	$1,671	$5,257
Long-lived assets	$1,201	$ 200	$ -	$ 211	$1,612

(a) Net sales are attributed to countries based on location of customer.

Revenues from the Company's largest customer represent approximately $1.1 billion of the Company's net sales in 1998. These sales are included in the engine and filtration and other segments.

NOTE 16. GUARANTEES, COMMITMENTS AND OTHER CONTINGENCIES: At December 31, 1998, the Company had the following minimum rental commitments for noncancelable operating leases: $41 million in 1999, $38 million in 2000, $30 million in 2001, $25 million in 2002, $21 million in 2003 and $46 million thereafter. Rental expense under these leases approximated $70 million in 1998, $60 million in 1997 and $55 million in 1996.

Commitments under outstanding letters of credit, guarantees and contingencies at December 31, 1998, approximated $195 million.

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 17. QUARTERLY FINANCIAL DATA (unaudited):

$ Millions, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
1998					
Net sales	$1,500	$1,635	$1,525	$1,606	$6,266

Gross profit	297	369	258	325	1,249
Net earnings (loss)	7	53	(110)	29	(21)
Basic earnings (loss) per share	$ .18	$ 1.39	$(2.86)	$ .75	$ (.55)
Diluted earnings (loss) per share	.18	1.38	(2.86)	.75	(.55)
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

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

CUMMINS ENGINE COMPANY, INC.
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(Dollars in Millions)

1995 Restructuring Cost Liabilities:	1998	1997	1996
Balance at beginning of year	$ 35	$ 65	$114
Additions:			
Provisions	-	-	-
Deductions:			
Charges against liabilities	(35)	(30)	(49)
Balance at end of year	$ -	$ 35	$ 65

1998 Restructuring Cost Liabilities:			
Balance at beginning of year	$ -	$ -	$ -
Additions:			
Provisions	114	-	-
Deductions:			
Charges against liabilities	(25)	-	-
Balance at end of year	$ 89	$ -	$ -

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
K. M. Patel
Vice President and Chief Financial Officer
(Principal Financial Officer)

By /s/R. J. Mills
R. J. Mills
Vice President - Corporate Controller
(Principal Accounting Officer)

Date: March 1, 1999

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)	3/1/99
*	Director and President & Chief	3/1/99

____________________ (Theodore M. Solso)	Operating Officer	
* ____________________ (Harold Brown)	Director	3/1/99
* ____________________ (Robert J. Darnall)	Director	3/1/99
* ____________________ (John M. Deutch)	Director	3/1/99
* ____________________ (W. Y. Elisha)	Director	3/1/99
* ____________________ (Hanna H. Gray)	Director	3/1/99
* ____________________ (James A. Johnson)	Director	3/1/99
* ____________________ (William I. Miller)	Director	3/1/99
* ____________________ (Donald S. Perkins)	Director	3/1/99
* _______________________ (William D. Ruckelshaus)	Director	3/1/99
* ____________________ (H. B. Schacht)	Director	3/1/99
* ____________________ (F. A. Thomas)	Director	3/1/99
* ____________________ (J. Lawrence Wilson)	Director	3/1/99

By /s/K. M. Patel
____
K. M. Patel
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 March 29, 1998).

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) Employee Stock Purchase Plan (filed herewith)

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)).

21 Subsidiaries of the Registrant (filed herewith).

23 Consent of Arthur Andersen LLP (filed herewith).

24 Powers of Attorney (filed herewith).

27 Financial Data Schedule (filed herewith).

Cummins Engine Company, Inc.
Employee Stock Purchase Plan

The following terms and provisions constitute The Cummins Engine Company, Inc. Employee Stock Purchase Plan as approved and in effect as of November 1, 1998.

1. Definitions.

   A. "Account" shall mean an account under the Plan established by the Administrator for each Participant.

   B. "Administrator" shall mean Bank of New York or such other administrator as Cummins in its discretion may approve from time to time after the Effective Date.

   C. "Base Pay" shall mean the Participant's base salary or hourly wages, exclusive of allowances, incentive pay, reimbursed expenses, overtime pay, fringe benefits and other similar forms of payment.

   D. "Code" shall mean the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

   E. "Commission" shall mean the United States Securities and Exchange Commission.

   F. "Company" shall mean Cummins or its U.S. subsidiaries and affiliates.

   G. "Common Stock" shall mean shares of the Common Stock of Cummins, $2.50 par value per share.

   H. "Cummins" shall mean Cummins Engine Company, Inc.

   I. "Company Contributions" shall mean amounts contributed to the Plan by the Company on behalf of a Participant that are sufficient to result in the Participant receiving the equivalent of a 10% discount on the Plan shares purchased pursuant to Sections 4 and 5 of the Plan. Cummins may, upon 30 days prior written notice to Participants, change the targeted discount level and related amount of Company Contributions in its sole discretion.

   J. "Effective Date" shall mean November 1, 1998.

   K. "Employee" shall mean any active U.S. employee of the Company.

   L. "Investment Authorization" shall mean an investment authorization form, which may also include a Withholding Authorization.

   M. "Participant" shall mean an individual who satisfies the eligibility requirements set forth in Section 2 of the Plan.

   N. "Plan" shall mean this Cummins Engine Company, Inc. Employee Stock Purchase Plan.

   O. "Plan Shares" shall mean shares of Common Stock.

   P. "Statement" shall mean a statement prepared by the Administrator and mailed to a Participant summarizing the transactions in the Participant's Account.

   Q. "Withholding Authorization" shall mean an initial enrollment or subsequent change payroll withholding authorization form, which may include an Investment Authorization.

2. Eligibility. To participate in the Plan, an individual:

   A. Must be an Employee employed at a work location having sufficient payroll system capabilities to support the Plan;

   B. Must submit a Withholding Authorization to the Company on or before the first day of the month in which the individual wishes to participate, authorizing the Company to make the payroll deductions specified by the employee, subject to any minimum deduction set by Cummins; and

C. Must submit an Investment Authorization to the Company, authorizing the Company, through the Administrator, to act as agent for the employee for purposes set forth in the Plan.

3. Sources of Cash. The Administrator will establish an Account as agent for each Participant and will credit the cash received from the following sources to the Account for the purchase of Plan Shares for each Participant's Account:

A. Employee payroll deduction contributions made by the Participant;

B. Company Contributions made on behalf of the Participant; and

C. Unless otherwise directed by the Participant, cash dividends received from Cummins on all Plan Shares in a Participant's Account at the time a dividend is paid.

The minimum and maximum contribution that a Participant may make to an Account is 1% and 15% of Base Pay per pay period, respectively, or such other amounts as Cummins in its sole discretion may determine from time-to-time after the Effective Date.

4. Application of Cash. The Administrator will apply the cash credited to the Participant's Account under Section 3 to the purchase of full and fractional Plan Shares and will credit them to the Participant's Account. In making these purchases, the Administrator may commingle the cash credited to all Participants' Accounts. The Administrator will make reasonable efforts to apply the cash described in Section 3 that it receives as agent for the Participant to the purchase of Plan Shares on or promptly after the first day of the following month after receipt by the Administrator, except as described in Section 5. Dividends received on Plan Shares and other amounts of cash credited to the Account will be aggregated with the employee payroll deductions and amounts contributed by the Company received during the calendar month and applied to the purchase of Plan Shares, unless otherwise directed by the Participant.

5. Purchase of Plan Shares. The Administrator will purchase Plan Shares in negotiated transactions or on any securities exchange or other securities trading facility where Common Stock is traded from time to time. The purchases will be on terms as to price, delivery and other matters, and will be executed through those brokers or dealers, as the Administrator may determine. Under certain circumstances, observance of the rules and regulations of the Commission or applicable securities exchange or other securities trading facility may require temporary suspension of purchases by the Administrator or may require that a purchase be spread over a longer period than indicated in Section 4. In that event, purchases will be made or resumed when permitted by the rules and regulations of the Commission or applicable securities exchange or other securities trading facility; and the Administrator will not be accountable for its inability to make all purchases within the applicable period. If any Commission, securities exchange or other securities trading facility suspension of trading in Common Stock remains effective for 90 consecutive days, the Administrator will remit to each Participant promptly after the end of the period, all cash in the Participant's Account attributable to the Participant's payroll deductions and cash dividends paid to all Cummins shareholders during such period.

6. Statements. As soon as practicable after the end of each calendar quarter (but in no event later than 20 calendar days after the end of each calendar quarter) the Administrator will mail a Statement to each Participant summarizing the transactions in the Participant's Account. The Administrator will hold the Plan Shares of all Participants in its name or in the name of its nominee evidenced by as many or as few certificates as the Administrator determines. No certificate representing Plan Shares purchased for a Participant's Account will be issued to the Participant unless and until his or her Account is terminated.

7. Expenses. Cummins will pay the service charges, brokerage, costs of mailing and other charges incurred in connection with the purchase of Plan Shares.

8. Tax Matters. Each Participant is responsible for all taxes (whether local, state or federal) due because of the Company Contribution, because of the payment of a dividend or because of the sale of Plan Shares credited to him or her. The Administrator will timely prepare and forward to the United States Internal Revenue Service, the appropriate state and local authorities and

the Participants the information returns required by the Code and all state statutes, presently Forms 1099-Div and 1099-B. All Company Contributions will constitute taxable income to the Participant to whose Account they are credited and will be reported to the United States Internal Revenue Service on the Participant's Form W-2 as taxable earnings.

9. Stock Dividends and Splits. Any stock dividends and any shares received as a result of a stock split on any Plan Shares accumulated in a Participant's Account will, when received by the Administrator, be credited to the Participant's Account.

10. Tender or Exchange Offer. If a tender offer or exchange offer is commenced for Common Stock, the Administrator, upon receipt of information with respect thereto as the holder of record of the Plan Shares, will either (i) forward, or arrange for the forwarding of, information provided by the offeror to holders of record of Common Stock to each Participant or (ii) provide to the offeror the name and mailing address of each Participant as reflected on the records of the Administrator with instructions to mail such material to each Participant. The Administrator will tender all or part of a Participant's Plan Shares in response to written instructions from the Participant in such form as the Administrator may reasonably require and only if such instructions are received by the Administrator at least five days (or such shorter period as may be required by law) prior to the termination of the offer. Unless the Administrator has received instructions in accordance with the previous sentence, it will not tender a Participant's Plan Shares. Except to the extent disclosure is required to tender Plan Shares pursuant to proper written instructions, the Administrator will maintain the confidentiality of a Participant's election to tender or not tender Plan Shares.

11. Voting of Plan Shares. The Administrator will vote the Participant's Plan Shares as instructed by the Participant on a form to be furnished by and returned to the Administrator at least five days (or such shorter period as the law may require) before the meeting at which such Plan Shares are to be voted. The Administrator will not vote Plan Shares for which no instructions are received.

12. Sale of Plan Shares. A Participant may request that the Administrator sell all or any part of his or her Plan Shares at any time. A Participant who wishes to sell any part of his or her Plan Shares may do so by giving notice to the Administrator. Upon receipt of the notice, the Administrator, as the Participant's agent, will sell the number of Plan Shares specified in the Participant's notice within five business days of receipt by the Administrator of instructions to sell the Plan Shares, and will deliver to the Participant the proceeds of the sale, less a handling charge, brokerage commissions, and other costs of sale. Whole and fractional shares may be aggregated and sold with those of other Participants, in which case the proceeds for each Participant will be based on the average sales price of all shares aggregated and sold. Any sale may, but need not, be made by purchase for other Accounts, in which case the price will be the mean of the high and low selling price of Common Stock as reported by the principal stock exchange on which the stock is traded on the date of receipt by the Administrator of the notice of the Participant's desire to sell Plan Shares, or, if the stock is not traded on the date of receipt, the mean on the next prior date that it was so traded. Any fractional shares that are not sold will be paid for in cash at a price equal to the mean of the high and low selling prices of Common Stock as reported by the principal stock exchange on which Common Stock is traded on the date of receipt by the Administrator of the notice of the Participant's desire to sell Plan Shares or, if the stock is not traded on the date of receipt, the mean on the next prior date that it was traded. If a Participant elects to sell all of his or her Plan Shares, that Participant will be deemed to have terminated participation in the Plan, and the provisions of Section 13 will apply.

13. Termination. Participation in the Plan may be terminated by a Participant at any time by giving notice to the Company. The Company will inform the Administrator of any Participant election to terminate participation within ten business days of the receipt by the Company of the notice from the Participant. As soon as practicable following receipt of the notice (but in no event more than 20 days following receipt of the notice), unless a Participant makes a contrary election, the Administrator will send to the terminating Participant, at a reasonable charge, a certificate representing the full Plan Shares accumulated in his or her Account and a check for the net proceeds of any fractional share in his Account. If a Participant elects to terminate and

continues to be an Employee, he or she may not rejoin the Plan for a period of six months from the date of the termination. In any case of termination, the Administrator will, if the Participant elects, sell, as the Participant's agent, all or part of the Participant's shares within five business days of receipt by the Administrator of instructions to sell his or her Plan Shares, and will deliver to him or her the proceeds of the sale, less a handling charge, brokerage commissions, and other costs of sale. Whole and fractional shares may be aggregated and sold with those of other Participants, in which case the proceeds for each Participant will be based on the average sales price of all shares aggregated and sold. Any sale may, but need not, be made by purchase for other Accounts in which case the price will be the mean of the high and low selling price of Common Stock as reported by the principal stock exchange on which the stock is traded on the date of receipt by the Administrator of the notice of termination or, if the stock is not traded on the date of receipt, the mean on the next prior date that it was so traded. On termination, fractional shares accumulated in a Participant's Account which are not aggregated and sold will be paid for in cash at a price equal to the mean of the high and low selling prices of Common Stock as reported by the principal stock exchange or inter-dealer quotation system on which Common Stock is traded on the date of receipt by the Administrator of the notice of termination or, if the stock is not traded on the date of receipt, the mean on the next prior date that it was traded.

14. Amendments. The Administrator may, with the consent of Cummins, amend this Plan. Cummins may amend or terminate the Plan by giving the Administrator 90 days written notice of such amendment or termination. The Administrator may terminate this Plan by giving Cummins 90 days written notice of termination. In addition the Administrator may, with the consent of Cummins, or shall, if requested to do so by Cummins, appoint a successor to serve as agent for the Participants under the Plan. In any case, the Administrator and Cummins will cause a notice of the action to be mailed to each Participant. No action will have a retroactive effect that would prejudice the interests of the Participants. The terms and conditions of this Plan as in effect on the effective date of the appointment of the successor will be binding upon the successor.

15. Limitation on the Company's and the Administrator's Liability. The Company and the Administrator will not be liable for any action which is in compliance with the terms and conditions of this Plan taken or omitted in good faith, including without limitation, any claim of liability:

   A. Arising out of failure to terminate a Participant's Account upon the Participant's death or otherwise prior to the receipt of written notice of the event causing termination, accompanied by documentation deemed satisfactory by the Administrator;

   B. With respect to the prices at which Plan Shares are purchased or Plan Shares or Rights are sold for a Participant's Account and the timing and terms on which the purchase or sale is made; or

   C. For the market value, or any fluctuation in the market value, after purchase of the Plan Shares or sale of Plan Shares or Rights for a Participant's Account.

16. Transfer; Assignment. Except as is expressly provided in this Plan, no Participant may sell, pledge, hypothecate or otherwise assign or transfer his Account, any interest in his Account or any cash or stock credited to his Account. Any attempt to sell, pledge, hypothecate, assign or transfer his Account, any interest in his Account or any cash or stock credited to his Account will be void.

17. Effect of Financial Hardship Distribution. A Participant who receives a financial hardship distribution from a qualified cash or deferred arrangement described in Section 401(k) of the Code that is maintained by the Company may not contribute to the Plan for a period of 12 months after receipt of the financial hardship distribution. The Participant must submit a new Withholding Authorization to the Company in order to recommence contributions to the Plan after he or she has received the financial hardship distribution.

18. Governing Law. The Withholding Authorization, the Investment Authorization and this Plan and its operation will be governed by and construed in accordance with the laws of the State of Indiana.

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 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
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 (Korea)	Korea
Cummins Diesel Sales & Service, Ltd. (India)	India
Cummins Engine (Beijing) Co., Ltd.	China
Cummins Engine (China) Investment Company	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 Ltd.	India
Cummins India Holdings Limited	India
Cummins International Finance Corporation	Delaware
Cummins KH-12, Inc.	Delaware
Cummins Komatsu Engine Company	Indiana
Cummins Mexicana, S.A. de C.V.	Mexico
Cummins Military Systems Company	Delaware
Cummins Nordeste, S.A.	Brazil
Cummins Original Equipment Remanufacturer	Canada
Cummins Power Generation Australia Pty. Ltd.	Australia
Cummins Power Generation, Inc.	Indiana
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, S.A.S.	France
Cummins Zimbabwe Pvt. Ltd.	Zimbabwe
DICUMAR	Argentina
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 Services Ltd.	United Kingdom
Holset SNC	France
HPI Company	Indiana
Hyperbar USA, Inc.	Indiana
Industria e Comercio Cummins Ltda.	Brazil
Industrial Power Alliance, Ltd.	Japan
Integrated Distribution Systems, Inc.	Delaware
Innovative Computing Company	Oklahoma
KamDizel	Russia
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
Nelson Industries, Inc.	Wisconsin
Nelson Industries Mexico, S.A. de C.V.	Mexico
Nelson Muffler Canada Inc.	Canada
Nelson-Burgess, Ltd.	Canada
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
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
PBB Transit	Delaware
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
Professional Data Processing, Inc.	Wisconsin
PT Newage Engineers Indonesia	Indonesia
Shanghai Fleetguard Filter Co., Ltd.	China
Shenghen Congfa Cummins 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, 333-42687 and 333-67391.

ARTHUR ANDERSEN LLP

Chicago, Illinois
March 8, 1999.

EXHIBIT 24

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned hereby constitutes and appoints K. M. Patel 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, 1998 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, 1999

/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 K. M. Patel 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, 1998 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, 1999

/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, 1999

/s/Harold Brown

Harold Brown
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1999

/s/Robert J. Darnall

Robert J. Darnall
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1999

/s/John M. Deutch

John M. Deutch
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1999

/s/W. Y. Elisha

W. Y. Elisha
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1999

/s/Hanna H. Gray

Hanna H. Gray
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1999

/s/James A. Johnson
____
James A. Johnson
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY
____

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Dated: March 1, 1999

/s/William I. Miller
____
William I. Miller
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY
____

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Dated: March 1, 1999

/s/Donald S. Perkins

____

Donald S. Perkins
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1999

/s/William D. Ruckelshaus

____

William D. Ruckelshaus
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1999

/s/H. B. Schacht

____

H. B. Schacht
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1999

/s/F. A. Thomas

____

F. A. Thomas
Director

CUMMINS ENGINE COMPANY, INC.
POWER OF ATTORNEY

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Dated: March 1, 1999

/s/J. Lawrence Wilson

____

J. Lawrence Wilson
Director

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