SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

CATERPILLAR®

FORM 10-K

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2001

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________.

Commission File No. 1-768

CATERPILLAR INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

1-768 (Commission File Number)	37-0602744 (IRS Employer I.D. No.)
100 NE Adams Street, Peoria, Illinois (Address of principal executive offices)	61629 (Zip Code)

Registrant's telephone number, including area code: (309) 675-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock ($1.00 par value)	Chicago Stock Exchange New York Stock Exchange Pacific Exchange, Inc.
Preferred Stock Purchase Rights	Chicago Stock Exchange New York Stock Exchange Pacific Exchange, Inc.
9% Debentures due April 15, 2006	New York Stock Exchange
6% Debentures due May 1, 2007	New York Stock Exchange
9 3/8% Debentures due August 15, 2011	New York Stock Exchange
9 3/8% Debentures due March 15, 2021	New York Stock Exchange
8% Debentures due February 15, 2023	New York Stock Exchange

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is 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. [✓]

As of December 31, 2001, there were 343,376,444 shares of common stock of the Registrant outstanding, and the aggregate market value of the voting stock held by non-affiliates of the Registrant (assuming only for purposes of this computation that directors and officers may be affiliates) was $17,667,556,467.

Documents Incorporated by Reference

Portions of the documents listed below have been incorporated by reference into the indicated parts of this Form 10-K, as specified in the responses to the item numbers involved.

- 2002 Annual Meeting Proxy Statement (“Proxy Statement”) - Part III
- Annual Report to Security Holders filed as an appendix to the 2002 Annual Meeting Proxy Statement ("Appendix") - Parts I, II, and IV

TABLE OF CONTENTS

			Page
Part I	Item 1.	Business	1
	Item 1a.	Executive Officers of the Registrant as of December 31, 2001	3
	Item 2.	Properties	5
	Item 3.	Legal Proceedings	8
Part II	Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	8
	Item 6.	Selected Financial Data	9
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	9
	Item 7a.	Quantitative and Qualitative Disclosures About Market Risk	12
	Item 8.	Financial Statements and Supplementary Data	12
Part III	Item 10.	Directors and Executive Officers of the Registrant	12
	Item 11.	Executive Compensation	13
	Item 12.	Security Ownership of Certain Beneficial Owners and Management	13
Part IV	Item 14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	13

PART I

Item 1. Business.

Principal Lines of Business
Caterpillar operates in three principal lines of business:

1. ***Machinery*** - design, manufacture, and marketing of construction, mining, agricultural, and forestry machinery - track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrapers, track and wheel excavators, backhoe loaders, mining shovels, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, telescopic handlers, skid steer loaders, and related parts.

2. ***Engines*** - design, manufacture, and marketing of engines for Caterpillar *Machinery,* electric power generation systems; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural, and other applications; and related parts. Reciprocating engines meet power needs ranging from 5 to over 22,000 horsepower (4 to over 16 200 kilowatts). Turbines range from 1,600 to 19,500 horsepower (1000 to 14 000 kilowatts).

3. ***Financial Products*** - financing to customers and dealers for the purchase and lease of Caterpillar and noncompetitive related equipment, as well as some financing for Caterpillar sales to dealers. Also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment. This line of business consists primarily of Caterpillar Financial Services Corporation and its subsidiaries and Caterpillar Insurance Services Corporation.

Due to financial information required by Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information,* we have also divided our business into eight operating segments for financial reporting purposes. Information about our operating segments, including geographic information, is incorporated by reference from Note 19 of the Notes to Consolidated Financial Statements on pages A-8 through A-23 of the Appendix.

Nature of Operations
We conduct operations in our *Machinery and Engines'* lines of business under highly competitive conditions, including intense price competition. We place great emphasis upon the high quality and performance of our products and our dealers' service support. Although no one competitor is believed to produce all of the same types of machines and engines, there are numerous companies, large and small, which compete with us in the sale of each of our products.

Our *Financial Products'* line of business also conducts business under highly competitive conditions. Financing for users of Caterpillar products is available through a variety of competitive sources, principally commercial banks and finance and leasing companies. We emphasize prompt and responsive service to meet customer requirements and offer various financing plans designed to increase the opportunity for sales of our products and generate financing income for our company. *Financial Products'* activity is primarily conducted in the United States, with additional offices in Asia, Australia, Canada, Europe, and Latin America.

Information about our operations in 2001 and outlook for 2002, including risks associated with foreign operations, are incorporated by reference from "Management's Discussion and Analysis" on pages A-25 through A-32 of the Appendix.

Alliances and acquisitions

In the fourth quarter of 2001, we entered a software alliance with the Ford Motor Company to develop a world-class logistics information system to increase the speed at which service repair parts are delivered to market.

Dealers

Machines are distributed principally through a worldwide organization of dealers, 63 located in the United States and 157 located outside the United States. Worldwide, these dealers operate more than 1,840 branch locations and have 1,100 Cat Dealer Rental outlets and serve 172 countries. Reciprocating engines are sold principally through the worldwide dealer organization and to other manufacturers for use in products manufactured by them. Some of the reciprocating engines manufactured by Perkins are also sold through their worldwide network of 178 distributors located in 115 countries. Some of the electric power generations systems manufactured by FG Wilson are sold through their worldwide network of 250 dealers located in 170 countries. Our dealers do not deal exclusively with our products; however, in most cases sales and servicing of our products are our dealers' principal business. Turbines and large marine reciprocating engines are sold through sales forces employed by Solar and MaK, respectively. Occasionally, these employees are assisted by independent sales representatives.

Patents and Trademarks

Our products are sold primarily under the brands "Caterpillar," "Cat," design versions of "Cat" and "Caterpillar," "Solar," "MaK," "Perkins," "FG Wilson," and "Olympian." We own a number of patents and trademarks relating to the products we manufacture, which have been obtained over a period of years. These patents and trademarks have been of value in the growth of our business and may continue to be of value in the future. We do not regard any of our business as being dependent upon any single patent or group of patents.

Research and Development

We have always placed strong emphasis on product-oriented research and engineering relating to the development of new or improved machines, engines and major components. In 2001, 2000, and 1999, we spent $898 million, $854 million, and $814 million, respectively, on our research and engineering programs. Of these amounts, $696 million in 2001, $649 million in 2000, and $626 million in 1999 were attributable to new prime products, major component development and major improvements to existing products. The remainders were attributable to engineering costs incurred during the early production phase as well as ongoing efforts to improve existing products.

Employment

At December 31, 2001, we employed 72,004 persons of whom 33,340 were located outside the United States.

Sales
Sales outside the United States were 51% of consolidated sales for 2001, 50% for 2000, and 50% for 1999.

Environmental Matters
The company is regulated by federal, state, and international environmental laws governing our use of substances and control of emissions. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings, or competitive position.

We are cleaning up hazardous waste at a number of locations, often with other companies, pursuant to federal and state laws. When it is likely we will pay clean-up costs at a site and those costs can be estimated, the costs are charged against our earnings. In doing that estimate, we do not consider amounts expected to be recovered from insurance companies and others.

The amount set aside for environmental clean-up is not material and is included in "Accrued expenses" in Statement 3 of the Appendix. If a range of liability estimates is available on a particular site, we accrue the lower end of that range.

We cannot estimate costs on sites in the very early stages of clean-up. Currently, we have five of these sites, and there is no more than a remote chance that a material amount for clean-up will be required.

Pursuant to a Consent Decree Caterpillar entered into with the United States Environmental Protection Agency ("EPA"), the company is required to meet certain emission standards by October 2002. The Consent Decree provides for the possibility that diesel engine manufacturers may not be able to meet these standards exactly on that date, and allows companies to continue selling non-compliant engines if they pay non-conformance penalties on those engines. The EPA currently is in the process of setting those non-conformance penalties. Compliance with the Consent Decree will not materially impact our results. However, if Caterpillar must pay non-conformance penalties and the EPA imposes penalty levels higher than anticipated, our results could be negatively impacted.

Item 1a. Executive Officers of the Registrant as of December 31, 2001

Name and Age	Present Caterpillar Inc. position and date of initial election	Principal positions held during the past five years other than Caterpillar Inc. position currently held
Glen A. Barton (62)	Chairman and Chief Executive Officer (1999)	• Group President (1990 – 1998) • Vice Chairman (1998 – 1999)
Vito H. Baumgartner (61)	Group President (2000)	• Chairman, Caterpillar Overseas S.A. (1990-present) • Vice President (1990-2000)
Gerald S. Flaherty (63)*	Group President (1990)	
Douglas R. Oberhelman (48)	Group President (2001)	• Vice President (1995-2001) • Chief Financial Officer (1995-1998)
James W. Owens (55)	Group President (1995)	
Gerald L. Shaheen (57)	Group President (1998)	• Vice President (1995-1998)

Name and Age	Present Caterpillar Inc. position and date of initial election	Principal positions held during the past five years other than Caterpillar Inc. position currently held
Richard L. Thompson (62)	Group President (1995)	
R. Rennie Atterbury III (64)*	Vice President, General Counsel and Secretary (1991)	
Sidney C. Banwart (56)	Vice President (1998)	• General Manager, Lafayette Plant (1995-1998)
Michael J. Baunton (50)	Vice President (1998)	• Divisional Managing Director, Varity Perkins (1996-1998) • President, Perkins Engine Company Limited (1998 - present)
James S. Beard (60)	Vice President (1990)	
Richard A. Benson (58)	Vice President (1989)	
James B. Buda (54)	Vice President, General Counsel and Secretary (2001)	• Associate General Counsel, Peoria (1996-1999) • Associate General Counsel, UK (1999-2001)
Rodney L. Bussell (55)	Vice President (2001)	• Manager, Transmission Business Unit (1992-1998) • General Manager, Large Engine Products & Fuel Systems Division, Lafayette (1998-2001)
James E. Despain (64)*	Vice President (1990)	
Michael A. Flexsenhar (62)*	Vice President (1995)	
Thomas A. Gales (53)	Vice President (2000)	• Sloan Fellow, M.I.T. (1997-1998) • Managing Director, Caterpillar France, S.A., Grenoble (1998-2000)
Donald M. Ings (53)	Vice President (1993)	• President, Solar Turbines Incorporated (1993-1998)
Richard P. Lavin (49)	Vice President (2001)	• Product Manager, Track-Type Tractors Division (1996-1998) • Director, Corporate Human Relations, Human Services Division (1998-1999) • Director, Compensation & Benefits, Human Services Division (1999-2001)
Stuart L. Levenick (48)	Vice President (2000)	• Regional Manager, Caterpillar Asia Pte. Ltd. (1995-1998) • General Manager, Commonwealth of Independent States, Caterpillar Overseas S.A. (1998-2000) • Chairman, Shin Caterpillar Mitsubishi Ltd. (2000 - present)
Duane H. Livingston (60)	Vice President (1995)	
Robert R. Macier (53)	Vice President (1998)	• Business Unit Manager, Joliet Plant (1994-1998)
David A. McKie (57)	Vice President (1998)	• Managing Director, Caterpillar Belgium S.A. (1995-1998)
F. Lynn McPheeters (59)	Vice President and Chief Financial Officer (1998)	• Treasurer (1996–1998)
Daniel M. Murphy (54)	Vice President (1996)	
Gerald Palmer (56)	Vice President (1992)	

Name and Age	Present Caterpillar Inc. position and date of initial election	Principal positions held during the past five years other than Caterpillar Inc. position currently held
James J. Parker (51)	Vice President (2001)	• General Manager, Truck Engine Division (1996-1998) • Director, Electric Power (1998-2001)
Robert C. Petterson (63)	Vice President (1991)	
John E. Pfeffer (59)	Vice President (1995)	• Chairman, Shin Caterpillar Mitsubishi Ltd. (1995-1999)
Siegfried R. Ramseyer (64)*	Vice President (1992)	
Edward J. Rapp (44)	Vice President (2000)	• Department Manager, Building Construction Products, Caterpillar Overseas S.A. (1995-1998) • Regional Manager, Caterpillar Overseas S.A. (1998-2000)
Alan J. Rassi (61)	Vice President (1992)	
Gary A. Stroup (52)	Vice President (1992)	• President, Solar Turbines Incorporated (1998-present)
Gerard R. Vittecoq (53)	Vice President (2000)	• Treasurer, Caterpillar Overseas S.A. (1996-1998) • Managing Director, Caterpillar Belgium S.A. (1998-2000)
Sherril K. West (54)	Vice President (1995)	
Donald G. Western (53)	Vice President (1995)	
Steven H. Wunning (50)	Vice President (1998)	• President, Caterpillar Logistics, Logistics & Product Services Division (1994-1998)
Kenneth J. Zika (54)	Controller (2001)	• Cost Management & Business Services Manager, Corporate Services Division (1997-1998) • Treasurer (1998-2001)
Kevin E. Colgan (49)	Treasurer (2001)	• Vice President, Caterpillar Financial Services Corporation (1997-2001)

* Retired effective January 1, 2002.

Item 2. Properties.

General Information

Caterpillar's operations are highly integrated. Although the majority of our plants are involved primarily in the production of either machines or engines, several plants are involved in the manufacture of both. In addition, several plants are involved in the manufacture of components which are used in the assembly of both machines and engines. Caterpillar's parts distribution centers are involved in the storage and distribution of parts for machines and engines. Also, the research and development activities carried on at the Technical Center involve both machines and engines.

Properties we own are believed to be generally well maintained and adequate for present use. Through planned capital expenditures, we expect these properties to remain adequate for future needs. Properties we lease are covered by leases expiring over terms of generally 1 to 10 years. We anticipate no difficulty in retaining occupancy of any leased facilities, either by renewing leases prior to expiration or by replacing them with equivalent leased facilities.

Nonrecurring Charges
Information regarding nonrecurring charges is incorporated by reference from Note 23 of the Notes to Consolidated Financial Statements on page A-22 of the Appendix.

Headquarters
Our corporate headquarters are in Peoria, Illinois. Additional marketing headquarters are located both inside and outside the United States. The Financial Products Division is headquartered in leased offices located in Nashville, Tennessee.

Distribution
Distribution of our parts is conducted from parts distribution centers inside and outside the United States. Caterpillar Logistics Services, Inc. distributes other companies' products utilizing certain of our distribution facilities as well as other non-Caterpillar facilities located both inside and outside the United States. We also own or lease other storage facilities that support distribution activities.

Changes in Fixed Assets
During the five years ended December 31, 2001, changes in our investment in property, plant and equipment were as follows (stated in millions of dollars):

Year	Expenditures		Acquisitions		Provisions for Depreciation	Disposals and Other Adjustments	Net Increase (Decrease) During Period
	U.S.	Outside U.S.	U.S.	Outside U.S.			
1997	$ 750	$ 383	$ 0	$ 2	$ (738)	$ (106)	$ 291
1998	$ 935	$ 391	$ 21	$ 347	$ (818)	$ (41)	$ 835
1999	$ 950	$ 453	$ 3	$ 103	$ (888)	$ (196)	$ 425
2000	$ 1,067	$ 526	$ 0	$ 9	$ (969)	$ (62)	$ 571
2001	$ 1,345	$ 623	$ 2	$ 32	$ (1,070)	$ (280)	$ 652

At December 31, 2001, the net book value of properties located outside the United States represented about 34% of the net book value of all properties reflected in our consolidated financial position. Additional information about our investment in property, plant, and equipment is incorporated by reference from Note 1F on page A-9 and Note 9 on page A-15 of the Notes to Consolidated Financial Statements of the Appendix.

Technical Center, Training Centers, Demonstration Areas, and Proving Grounds
We own a Technical Center located in Mossville, Illinois and various other training centers, demonstration areas, and proving grounds located both inside and outside the United States.

Manufacturing, Remanufacturing, and Overhaul
Manufacturing, remanufacturing, and overhaul of our products are conducted at the following locations. These facilities are believed to be suitable for their intended purposes with adequate capacities for current and projected needs for existing products.

Manufacturing

Inside the U.S.

California
- Gardena
- San Diego

Florida
- Jacksonville

Georgia
- Alphretta
- Griffin
- Jefferson
- LaGrange
- Toccoa
- Thomasville

Illinois
- Aurora
- Champaign[1]
- Decatur
- DeKalb
- Dixon
- East Peoria
- Joliet
- Mapleton
- Mossville
- Peoria
- Pontiac
- Sterling
- Woodridge[1]

Indiana
- Lafayette

Kansas
- Emporia
- Wamego

Kentucky
- Danville

Michigan
- Menominee
- Mt. Clemens

Minnesota
- Grand Rapids[1]
- Minneapolis
- New Ulm

Mississippi
- Boonville
- West Plains

Nebraska
- Omaha[1]

North Carolina
- Clayton
- Franklin
- Goldsboro
- Leland
- Morganton
- Sanford

Ohio
- Dayton[1]
- Marion

South Carolina
- Greenville
- Sumter

Tennessee
- Dyersburg
- Rockwood

Texas
- Houston
- Waco

Outside the U.S.

Australia
- Burnie
- Melbourne

Belgium
- Gosselies

Brazil
- Piracicaba

Canada
- Laval
- Montreal

England
- Barwell
- Leicester
- Notingham
- Peterborough
- Peterlee
- Saxham
- Shrewsbury
- Skinningrove
- Stafford
- Stockton
- Wimborne
- Wolverhampton

France
- Arras
- Grenoble
- Rantigny

Germany
- Kiel
- Rostock
- Zweibrücken

Hungary
- Gödöllö

India
- Bangladore[1]
- Mumbai[1]
- Pondicherry
- Thiruvallur

Indonesia
- Jakarta

Italy
- Anagni[1]
- Bazzano
- Fano
- Frosinone[1]
- Jesi
- Marignano
- Milan[1]
- Minerbio

Japan
- Akashi[1]
- Sagamihara[1]

Mexico
- Monterrey
- Reynosa
- Saltillo[1]
- Tijuana
- Torreon

The Netherlands
- s'-Hertogenbosch

Northern Ireland
- Larne
- Monkstown
- Springvale

Peoples Republic of China
- Erliban[1]
- Shunde[1]
- Tianjin[2]
- Xuzhou[2]

Poland
- Janow Lubelski

Russia
- Tosno

South Africa
- Boksburg

Sweden
- Söderhamn

1 Facility of affiliated company (50% or less owned)
2 Facility of partially owned subsidiary (more than 50%, less than 100%)

Remanufacturing and Overhaul

Inside the U.S.

Mississippi
- Corinth
- Prentiss County

Texas
- De Soto
- Mabank

Outside the U.S.

Australia
- Melbourne

Belgium
- Gosselies

Canada
- Edmonton

Indonesia
- Bandung

Ireland
- Dublin

Malaysia
- Kuala Lumpur

Mexico
- Nuevo Laredo
- Tijuana
- Veracruz

Nigeria
- Port Harcourt

Item 3. Legal Proceedings.

The Company is a party to litigation matters and claims that are normal in the course of its operations, and, while the results of such litigation and claims cannot be predicted with certainty, management believes, based on the advice of counsel, the final outcome of such matters will not have a materially adverse effect on the consolidated financial position.

On January 16, 2002, Caterpillar commenced an action in the Circuit Court of the Tenth Judicial Circuit of Illinois in Peoria, Illinois against Navistar International Transportation Corporation and International Truck & Engine Corporation (collectively "Navistar"). The lawsuit arises out of a long-term purchase contract between Caterpillar and Navistar effective May 31, 1988, as amended from time to time (the "Purchase Agreement"). The lawsuit alleges that Navistar breached its contractual obligations by: (i) paying Caterpillar $8.08 less per fuel injector than the agreed upon price for new unit injectors delivered by Caterpillar; (ii) refusing to pay contractually agreed upon surcharges owed as a result of Navistar ordering less than planned volumes of replacement unit injectors; and (iii) refusing to pay contractually agreed upon interest stemming from Navistar's late payments. Caterpillar seeks a declaratory judgment upholding the contract and more than $75 million in damages arising from Navistar's alleged breach of contract.

On January 17, 2002, International Truck & Engine Corporation commenced an action against Caterpillar in the Circuit Court of Cook County, Illinois. The lawsuit alleges that Caterpillar breached the Purchase Agreement by: (i) failing to isolate its engineering and fuel systems business, (ii) failing to implement Navistar's "G2 technology;" (iii) improperly charging Navistar for costs associated with fixing problems caused by Caterpillar's design and/or manufacturing errors; (iv) not fulfilling its warranty obligations; (v) failing to fulfill its commitments regarding product pricing and cost reduction; and (vi) continuing to collect surcharges after Navistar's contractual obligation to pay the surcharges ceased. The lawsuit, which also alleges Caterpillar breached its implied covenant of good faith and fair dealing, seeks a declaratory judgment and approximately $70 million dollars in alleged damages arising out of Caterpillar's alleged breach. The Company believes the claims are without merit and will vigorously contest them. The Company further believes final resolution of this matter will not have a material impact on the Company's liquidity, capital resources, or results of operations.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Information required by Item 5 is incorporated by reference from "Price Ranges" and "Number of Stockholders" on page A-33 and from "Dividends declared per share of common stock" on page A-24 of the Appendix.

Non-U.S. Employee Stock Purchase Plans

We have twenty-four employee stock purchase plans administered outside the United States for our foreign employees. As of December 31, 2001, those plans had approximately 8,826 participants in the aggregate. During the fourth quarter of 2001, a total of 42,967 shares of Caterpillar common stock or foreign denominated equivalents were distributed under the plans.

Item 6. Selected Financial Data.

Information required by Item 6 is incorporated by reference from the "Five-year Financial Summary" on page A-24 of the Appendix.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Information required by Item 7 is incorporated by reference from "Management's Discussion and Analysis" on pages A-25 through A-32 of the Appendix.

SAFE HARBOR STATEMENT UNDER THE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained in our Management's Discussion and Analysis are forward looking and involve uncertainties that could significantly impact results. The words "believes," "expects," "estimates," "anticipates," "will be" and similar words or expressions identify forward-looking statements made on behalf of Caterpillar. Uncertainties include factors that affect international businesses, as well as matters specific to the Company and the markets it serves.

World Economic Factors

Our current outlook calls for a recovery in the U.S. economy in 2002. Our outlook assumes that the events of September 11th and the resulting impact on the economy were a one-time event and that there will be no further events of this magnitude. If, however, there are other significant economic shocks or sequence of shocks, there could be a more protracted negative impact on consumer spending and housing starts, which would negatively impact company results.

U.S. growth is expected to be on track for flat to slightly positive growth in the first quarter, followed by stronger growth in the second, and gaining momentum in the third and fourth quarters of 2002. Should recent interest rate and tax reductions fail to stimulate the U.S. economy as expected, leading to an extended recession, then sales of machines and engines may decline in 2002. The outlook also projects that economic growth is expected to improve in Asia Pacific, Europe, Africa & Middle East and Latin America. If, for any reason, these projected growth rates do not improve, sales would likely be lower than anticipated in the affected region. Recent economic weakness in Japan is leading to lower than expected growth in the Asia Pacific region, particularly Southeast Asia. In general, renewed currency speculation, significant declines in the stock markets, further oil or energy price increases, political disruptions or higher interest rates could result in weaker than anticipated economic growth and worldwide sales of both machines and engines could be lower than expected as a result. Economic recovery could also be delayed or weakened by growing budget or current account deficits or inappropriate government policies.

In particular, our outlook assumes that Europe, the United Kingdom and Canada implement and commit to maintain economic stimulus measures and that the Japanese government remains committed to stimulating their economic recovery with appropriate monetary and fiscal policies. The Japanese economy continues to show weakness, and this is having a negative impact on the outlook for the Asia Pacific region for 2002. The outlook also assumes that the Brazilian government follows through with promised fiscal and structural reforms; and that the Argentina crisis is confined to only Argentina, and does not spill over to negatively impact growth prospects in neighboring countries. If negative spill over effects become amplified, this could result in greater regional economic and financial uncertainty and weaker regional growth. Our outlook also assumes that currency and stock markets remain relatively stable, and that average world oil prices fluctuate *in a range of $20 to $25 a barrel. If commodity and/or currency markets experience a significant increase in volatility, and/or stock markets do not recover, uncertainty would increase, both of which would probably result in slower economic growth and lower sales. In addition, an eruption of political violence in the Middle East could lead to oil supply disruptions and resumed upward pressure on oil prices. In this case inflation pressures would move up again and interest rates would be higher than currently projected, leading to slower world economic growth and lower company sales.*

The Russian economy has improved, but political and economic uncertainty remains high and an unexpected deterioration could impact worldwide stock or currency markets, which in turn could weaken company sales.

Commodity Prices

The outlook for our sales also depends on commodity prices. Our outlook for an improvement in world economic growth in 2002 suggests that industrial metals prices would start to see a recovery no later than the second half of 2002. Recent declines in industrial production in Europe and Japan have exacerbated the depth and duration of the expected slowdown, and industrial metal prices continue to experience downward pressure. As a result, machine sales to the industrial metals area could come under downward pressure through the first half of 2002. Oil prices declined, as expected, from an average of about $30 to $32 a barrel in 2000 to an average of $25 to $30 a barrel in 2001. We are expecting an average of $20 to $25 a barrel in 2002. Agricultural prices are projected to be up slightly in 2002. Based on this forecast, equipment sales into sectors that are sensitive to crude oil prices (oil, coal and natural gas) are expected to be down only moderately in 2002.

Extended weakness in world economic growth could lead to sharp declines in commodity prices and lower than expected sales to the industrial metals and agriculture sectors.

Monetary and Fiscal Policies

For most companies operating in a global economy, monetary and fiscal policies implemented in the U.S. and abroad could have a significant impact on economic growth, and, accordingly, demand for a product. In the United States, the Federal Reserve moved aggressively to reduce interest rates in 2001. This action, together with federal tax cuts is expected to stimulate a recovery in U.S. growth in 2002. On the other hand, the European Central Bank has not yet lowered interest rates aggressively in response to slower economic growth and a weak agriculture sector in 2001, and machine and engine demand in Europe is likely to be lower in 2002.

In general, higher than expected interest rates, reductions in government spending, higher taxes, significant currency devaluations, and uncertainty over key policies are some factors likely to lead to slower economic growth and lower industry demand. The current outlook is for higher year over year U.S. growth in 2002, with flat to slightly positive growth in the first quarter of 2002 followed by stronger growth in the second quarter and gaining momentum in the third and fourth quarters of 2002. If, for whatever reason, the U.S. recession extended into 2002, and/or there was a setback leading to negative growth in the second, third or fourth quarters of 2002 then demand for company products could fall in the U.S. and Canada and would also be lower throughout the rest of the world.

Political Factors

Political factors in the U.S. and abroad have a major impact on global companies. In 2001, the U.S. Congress enacted a tax cut with the first reductions effective in the third and fourth quarters of 2001 and with additional benefits in 2002, which should have a positive impact on the U.S. economy. The Company is one of the largest U.S. exporters as a percentage of sales. International trade and fiscal policies implemented in the U.S. this year could impact the Company's ability to expand its business abroad. U.S. foreign relations with certain countries and any related restrictions imposed could also have a significant impact on foreign sales. There are a number of significant expected political developments in Latin America, Asia, and Europe, Africa and the Middle East which are expected to take place in 2002 that could affect U.S. trade policies and/or de-stabilize *local market conditions leading to lower company sales. In particular, renewed political uncertainty in Japan is contributing to a decline in business confidence, asset values and capital investment there. In addition, significant political and economic instability persists in Argentina. Our outlook assumes that the effects of this instability will be confined to Argentina and not spread to other countries in the region. Our outlook also assumes that stability will ultimately be restored in Argentina through democratic means. If, however, the instability persists, worsens or spreads to other countries in the region, it could materially impact company sales into Argentina and other countries in the region.*

Currency Fluctuations

Currency fluctuations are also an unknown for global companies. The Company has facilities in major sales areas throughout the world and significant costs and revenues in most major currencies. This diversification greatly reduces the overall impact of currency movements on results. However, if the U.S. dollar strengthens against foreign currencies, the conversion of net non-U.S. dollar proceeds to U.S. dollars would adversely impact the Company's results. Further, since the Company's largest manufacturing presence is in the U.S., a sustained overvalued dollar could have an unfavorable impact on our global competitiveness.

Dealer Practices

A majority of the Company's sales are made through its independent dealer distribution network. Dealer practices, such as changes in inventory levels for both new and rental equipment, are not within the Company's control (primarily because these practices depend upon the dealer's assessment of anticipated sales and the appropriate level of inventory) and may have a significant positive or negative impact on our results. In particular, the outlook assumes that dealer inventories of new machines will be slightly lower at the end of 2002 than at the end of 2001. If dealers reduce inventory levels more than anticipated, company sales will be adversely impacted.

Other Factors

The rate of infrastructure spending, housing starts, commercial construction and mining play a significant role in the Company's results. Our products are an integral component of these activities and as these activities increase or decrease in the U.S. or abroad, demand for our products may be significantly impacted. In 1999, the six-year Federal highway bill did not boost U.S. sales as much as anticipated due to delays in getting major capital projects for highways underway. In 2000 and 2001, there was a material increase in the volume of highway construction contracts, which had a positive impact on sales of certain types of equipment, and the company expects a similar positive impact of higher highway construction activity on machine sales in 2002. If funding for highway and airport construction in 2002 is reduced or delayed, or is concentrated on areas where company products do not play a significant role, sales could be negatively impacted. We are projecting further increases in highway/airport public spending in 2002. If these spending plans are reduced by Federal and/or state governments, machine sales would be lower than current projections.

Pursuant to a Consent Decree Caterpillar entered into with the United States Environmental Protection Agency ("EPA"), the Company is required to meet certain emission standards by October 2002. The Consent Decree provides, however, for the possibility that diesel engine manufacturers may not be able to meet these standards exactly on that date, and allows companies to continue selling non-compliant engines if they pay non-conformance penalties on those engines. However, EPA is currently in the process of setting new levels for these non-conformance penalties. Our outlook assumes that complying with the Consent Decree will not materially impact our results. If, however, Caterpillar must pay non-conformance penalties and EPA imposes penalty levels higher than anticipated, our profit could be negatively impacted.

Projected cost savings or synergies from alliances with new partners could also be negatively impacted by a variety of factors. These factors could include, among other things, higher than expected wages, energy and/or materials costs, and/or higher than expected financing costs due to unforeseen changes in central bank interest rate policies. Cost savings could also be negatively impacted by unforeseen changes in tax, trade, *environmental, labor, safety, payroll or pension policies in any of the jurisdictions where the alliances conduct their operations.*

Results may be impacted positively or negatively by changes in the sales mix. Our outlook assumes a certain geographic mix of sales as well as a product mix of sales.

The Company operates in a highly competitive environment and our outlook depends on a forecast of the Company's share of industry sales. A reduction in that share could result from pricing or product strategies pursued by competitors, unanticipated product or manufacturing difficulties, a failure to price the product competitively, or an unexpected buildup in competitors' new machine or dealer owned rental fleets, leading to severe downward pressure on machine rental rates and/or used equipment prices.

The environment also remains very competitive from a pricing standpoint. Additional price discounting would result in lower than anticipated price realization.

This discussion of uncertainties is by no means exhaustive but is designed to highlight important factors that may impact our outlook. Obvious factors such as general economic conditions throughout the world do not warrant further discussion but are noted to further emphasize the myriad of contingencies that may cause the Company's actual results to differ from those currently anticipated.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk.

Information required by Item 7a is incorporated by reference from the following Notes to Consolidated Financial Statements - Notes 1 I and 2 on pages A-9 through A-11 of the Appendix and Notes 16 and 17 on pages A-18 through A-19 of the Appendix and from “Sensitivity” on page A-31 of the Appendix.

Item 8. Financial Statements and Supplementary Data.

Information required by Item 8 is incorporated by reference from the Report of Independent Accountants on page A-3, and the Financial Statements and Notes to Consolidated Financial Statements on pages A-8 through A-23 of the Appendix.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information required by Item 10 relating to identification of directors is incorporated by reference from "Directors Up For Election This Year for Terms Expiring in 2005," "Directors Remaining in Office Until 2004," and "Directors Remaining in Office Until 2003" on pages 2 through 4 of the Proxy Statement. Identification of executive officers appears in Item 1a of this Form 10-K. There are no family relationships between the officers and directors of the Company. All officers serve at the pleasure of the Board of Directors and are regularly elected at a meeting of the Board of Directors in April of each year. Information required by Item 10 relating to compliance with Section 16(a) of the Securities Exchange Act is incorporated by reference from "Section 16(a) Beneficial Ownership Reporting Compliance" on page 29 of the Proxy Statement.

Item 11. Executive Compensation.

Information required by Item 11 is incorporated by reference from "Director Compensation" on page 6, "Performance Graph" on page 10, "Compensation Committee Report on Executive Officer and Chief Executive Officer Compensation" on pages 11 through 17, and "Executive Compensation Tables" on pages 18 through 20 of the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information required by Item 12 is incorporated by reference from "Caterpillar Stock Owned by Officers and Directors (as of December 31, 2001)" on pages 8 and 9 of the Proxy Statement.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

1. Financial Statements (Incorporated by reference from the Appendix):

- Report of Independent Accountants (p. A-3)
- Statement 1 - Results of Operations (p. A-4)
- Statement 2 - Changes in Consolidated Stockholders' Equity (p. A-5)
- Statement 3 - Financial Position (p. A-6)
- Statement 4 - Statement of Cash Flow (p. A-7)
- Notes to Consolidated Financial Statements (pages A-8 through A-23)

2. Financial Statement Schedule:

- All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto incorporated by reference.

(b) There were six reports (dated October 12, two on October 16, November 30, December 17, and December 21) filed on Form 8-K pursuant to Item 5 during the last quarter of 2001 and three additional reports filed on Form 8-K (two on January 23 and one February 8, 2002). No financial statements were filed as part of those reports.

(c) Exhibits:

3.1	Restated Certificate of Incorporation (incorporated by reference from Exhibit 3(i) to the Form 10-Q filed for the first quarter of 1998).
3.2	Certificate of Designation, Preferences and Rights of the Terms of the Series A Junior Participating Preferred Stock (incorporated by reference from Exhibit 2 to Form 8-A filed December 11, 1996).
3.3	Bylaws, amended and restated (incorporated by reference from Exhibit 3.3 to the 1998 Form 10-K).

4	Rights Agreement dated as of September 27, 2001, between Caterpillar Inc. and Mellon Investor Services LLC (incorporated by reference from Exhibit 4.6 to Form S-3 (Reg. # 333-71468) filed October 12, 2001).
10.1	Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan, amended and restated as of December 31, 2001.**
10.2	Caterpillar Inc. 1987 Stock Option Plan, as amended and restated and Long Term Incentive Supplement, amended and restated as of December 31, 2000.**
10.3	Supplemental Pension Benefit Plan, as amended and restated (incorporated by reference from Exhibit 10.3 to the 1999 Form 10-K).
10.4	Supplemental Employees' Investment Plan, as amended and restated through December 31, 2000.**
10.5	Caterpillar Inc. Corporate Incentive Compensation Plan - Management and Salaried Employees, as amended and restated through December 31, 2001.
10.6	Directors' Deferred Compensation Plan, as amended and restated through April 12, 1999 (incorporated by reference from Exhibit 10.6 to the 1999 Form 10-K).**
10.7	Directors' Charitable Award Program (incorporated by reference from Exhibit 10(h) to the 1993 Form 10-K).**
10.8	Deferred Employees' Investment Plan, as amended and restated through December 31, 2000.**
11	Statement re: Computation of per Share Earnings.
12	Statement Setting Forth Computation of Ratios of Profit to Fixed Charges.
13	Annual Report to Security Holders attached as an Appendix to the Company's 2002 Annual Meeting Proxy Statement.
21	Subsidiaries and Affiliates of the Registrant.
23	Consent of Independent Accountants.
99.1	Form 11-K for Caterpillar Foreign Service Employees' Stock Purchase Plan.

** Compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of this Form 10-K.

SIGNATURES

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

CATERPILLAR INC.
(Registrant)

March 18, 2002 By: /s/ James B. Buda
James B. Buda, *Secretary*

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 Company and in the capacities and on the dates indicated.

March 18, 2002	/s/ Glen A. Barton (Glen A. Barton)	Chairman of the Board, Director and Chief Executive Officer
March 18, 2002	/s/ Vito H. Baumgartner (Vito H. Baumgartner)	Group President
March 18, 2002	/s/ Douglas R. Oberhelman (Douglas R. Oberhelman)	Group President
March 18, 2002	/s/ James W. Owens (James W. Owens)	Group President
March 18, 2002	/s/ Gerald L. Shaheen (Gerald L. Shaheen)	Group President
March 18, 2002	/s/ Richard L. Thompson (Richard L. Thompson)	Group President
March 18, 2002	/s/ F. Lynn McPheeters (F. Lynn McPheeters)	Vice President and Chief Financial Officer
March 18, 2002	/s/ Kenneth J. Zika (Kenneth J. Zika)	Controller and Chief Accounting Officer

March 18, 2002	/s/ Lilyan H. Affinito (Lilyan H. Affinito)	Director
March 18, 2002	/s/ W. Frank Blount (W. Frank Blount)	Director
March 18, 2002	/s/ John R. Brazil (John R. Brazil)	Director
March 18, 2002	/s/ John T. Dillon (John T. Dillon)	Director
March 18, 2002	/s/ Juan Gallardo (Juan Gallardo)	Director
March 18, 2002	/s/ David R. Goode (David R. Goode)	Director
March 18, 2002	/s/ James P. Gorter (James P. Gorter)	Director
March 18, 2002	/s/ Peter A. Magowan (Peter A. Magowan)	Director
March 18, 2002	/s/ William A. Osborn (William A. Osborn)	Director
	(Gordon R. Parker)	Director
	(Lord Charles D. Powell)	Director
March 18, 2002	/s/ Joshua I. Smith (Joshua I. Smith)	Director
March 18, 2002	/s/ Clayton K. Yeutter (Clayton K. Yeutter)	Director

EXHIBIT 10.1

CATERPILLAR INC.
1996 STOCK OPTION AND LONG-TERM INCENTIVE PLAN
(Amended and Restated as of 12/31/2001)

Section 1. Purpose

The Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan ("Plan") is designed to attract and retain outstanding individuals as directors, officers and key employees of Caterpillar Inc. and its subsidiaries (collectively, the "Company"), and to furnish incentives to such individuals through awards based upon the performance of the Company and its stock. To this end, the Plan provides for grants of stock options, restricted stock, and performance awards, or combinations thereof, to non-employee directors, officers and other key employees of the Company, on the terms and subject to the conditions set forth in the Plan.

Section 2. Shares Subject to the Plan

2.1 *Shares Reserved for Issuance*

Twenty-four shares of Company common stock ("Shares") shall be available for issuance under the Plan either from authorized but unissued Shares or from Shares acquired by the Company, including Shares purchased in the open market. An additional four million Shares authorized but unissued under prior Company stock option plans shall be available for issuance under this Plan.

2.2 *Stock Splits/Stock Dividends*

In the event of a change in the outstanding Shares of the Company by reason of a stock dividend, recapitalization, merger, consolidation, split-up, combination, exchange of shares, or similar event, the Compensation Committee ("Committee") of the Company's Board of Directors ("Board") shall take any action, which, in its discretion, it deems necessary to preserve benefits under the Plan, including adjustment to the aggregate number of Shares reserved for issuance under the Plan, the number and option price of Shares subject to outstanding options granted under the Plan and the number and price of Shares subject to other awards under the Plan.

2.3 *Reacquired Shares*

If Shares issued pursuant to the Plan are not acquired by participants because of lapse, expiration or termination of an award, such Shares shall again become available for issuance under the Plan. Shares tendered upon exercise of an option by a Plan participant may be added back and made available solely for future grants under the Plan.

Section 3. Administration

The Committee shall have the authority to grant awards under the Plan to officers and other key employees of the Company. Except as limited by the express provisions of the Plan or by resolutions adopted by the Board, the Committee also shall have the authority and discretion to interpret the Plan, to establish and revise rules and regulations relating to the Plan, and to make any other determinations that it believes necessary or advisable for administration of the Plan.

The Committee shall be composed solely of members of the Board that are outside directors, as that term is defined in Section 162(m) of the Internal Revenue Code. The Committee shall have no authority with respect to non-employee director awards under the Plan.

Section 4. Stock Options

4.1 *Company Employees*

(a) Eligibility

The Committee shall determine Company officers and employees to whom options shall be granted, the timing of such grants, and the number of shares subject to the option; provided that the maximum number of Shares upon which options may be granted to any employee in any calendar year shall be 400,000.

(b) Option Exercise Price

The exercise price of each option shall not be less than 100% of the fair market value of Shares underlying the option at the time the option is granted. The fair market value for purposes of determining the exercise price shall be the mean between the high and low prices at which Shares are traded on the New York Stock Exchange the day the option is granted. In the event this method for determining fair market value is not practicable, fair market value shall be determined by such other reasonable method as the Committee shall select.

(c) Option Exercise

Options shall be exercisable in such installments and during such periods as may be fixed by the Committee at the time of grant. Options that are not incentive stock options as defined in Section 4.1(f) of the Plan shall not be exercisable after the expiration of ten years from the date of grant.

Payment of the exercise price shall be made upon exercise of all or a portion of any option. Such payment shall be in cash or by tendering Shares having a fair market value equal to 100% of the exercise price. The fair market value of Shares for this purpose shall be the mean between the high and low prices at which Shares are traded on the New York Stock Exchange on the date of exercise. Upon exercise of an option, any applicable taxes the Company is required to withhold shall be paid to the Company. Shares to be received upon exercise may be surrendered to satisfy withholding obligations.

(d) Termination of Employment

The Committee may require a period of continued employment before an option can be exercised. That period shall not be less than one year, except that the Committee may permit a shorter period in the event of termination of employment by retirement or death.

Termination of employment with the Company shall terminate remaining rights under options then held; provided, however, that an option grant may provide that if employment terminates after completion of a specific period, the option may be exercised during a period of time after termination. That period may not exceed sixty months where termination of employment is caused by retirement or death or sixty days where termination results from any other cause. If death occurs after termination of employment but during the period of time specified, such period may be extended to not more than sixty-six months after retirement, or thirty-eight months after termination of employment for any other cause. In the event of termination within two years after a Change of Control as defined in Section 8.2 of the Plan, options shall be exercisable for a period of sixty months following the date of termination or for the maximum term of the option, whichever is shorter. Notwithstanding the foregoing, the Committee may change the post-termination period of exercisability of an option provided that change does not extend the original maximum term of the option.

(e) Transferability of Options

(i) Except as otherwise permitted in Section 4.1(e)(ii), options shall not be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Internal Revenue Code or the Employee Retirement Income Security Act. Options are exercisable during the holder’s lifetime only by the holder, unless the holder becomes incapacitated or disabled, in which case the option may be exercised by the holder’s authorized representative. A holder may file with the Company a written designation of beneficiaries with the authority to exercise options in the event of the holder’s death.

(ii) Notwithstanding the provisions of Section 4.1(e)(i), and in addition to the permissible transfers under that provision, options granted to persons at the level of Vice President and above, as well as directors of this corporation and persons retired from those positions, may be transferred to any one or more “Permitted Transferees,” as long as those options are not incentive stock options as defined below and are fully vested. Options granted to employees below the level of Vice President may be transferred upon prior approval of the Company’s Director of Compensation and Benefits pursuant to the terms of this section.

(iii) For purposes of Section 4.1(e)(ii), the term "Permitted Transferees" shall mean the members of the group that consists exclusively of the individual to whom the option is granted, the spouse of the individual to whom the option is granted, the lineal descendants of the individual to whom the option is granted, the spouses of the lineal descendents to whom the option is granted, the lineal descendants of any spouse or former spouse of the individual to whom the option is granted, the spouses of the lineal descendants of any spouse or former spouse of the individual to whom the option is granted, the estate (and any trust that serves a distributive function of an estate) of the Permitted Transferee, all trusts that an individual who is a Permitted Transferee can revoke and all trusts, corporations, partnerships, limited liability companies and other entities in which, directly or indirectly, but for the exercise of a power of appointment or the death of the survivor of the individual who are Permitted Transferees. Each owner of an equitable interest is an individual who is a Permitted Transferee.

(f) Incentive Stock Options

Incentive stock options, as defined in Section 422 of the Internal Revenue Code, may be granted under the Plan. The decision to grant incentive stock options to particular persons is within the Committee's discretion. Incentive stock options shall not be exercisable after expiration of ten years from the date of grant. The amount of incentive stock options vesting in a particular year cannot exceed $100,000 per option recipient, based on the fair market value of the options on the date of grant; provided that any portion of an option that cannot be exercised as an incentive stock option because of this limitation may be converted by the Committee to another form of option. The Board may amend the Plan to comply with Section 422 of the Internal Revenue Code or other applicable laws and to permit options previously granted to be converted to incentive stock options.

4.2 *Non-Employee Directors*

(a) Terms

Subject to the share ownership requirements, options with a term of ten years and one day are granted to each non-employee director for 4,000 Shares, effective as of the close of each annual meeting of stockholders at which an individual is elected a director or following which such individual continues as a director. Options granted to non-employee directors shall become exercisable by one-third at the end of each of the three successive one-year periods since the date of grant. The exercise price of each option shall be 100% of the fair market value of Shares underlying the option on the date of grant.

(b) Termination of Directorship

An option awarded to a non-employee director may be exercised any time within 60 months of the date the director terminates such status. In the event of a director's death, the director's authorized representative may exercise the option within 60 months of the date of death, provided that if the director dies after cessation of director status, the option is exercisable within 66 months of such cessation. In no event shall an option awarded to a non-employee director be exercisable beyond the expiration date of that option.

Section 5. Restricted Stock

5.1 *Company Employees*

(a) Eligibility

The Committee may determine whether restricted stock shall be awarded to Company officers and employees, the timing of award, and the conditions and restrictions imposed on the award.

(b) Terms

During the restriction period, the recipient shall have a beneficial interest in the restricted stock and all associated rights and privileges of a stockholder, including the right to vote and receive dividends, subject to any restrictions imposed by the Committee at the time of grant.

The following restrictions will be imposed on Shares of restricted stock until expiration of the restriction period:

(i) The recipient shall not be entitled to delivery of the Shares;

(ii) None of the Shares issued as restricted stock may be transferred other than by will or by the laws of descent and distribution; and

(iii) Shares issued as restricted stock shall be forfeited if the recipient terminates employment with the Company, except for termination due to retirement after a specified age, disability, death or other special circumstances approved by the Committee.

Shares awarded as restricted stock will be issued subject to a restriction period set by the Committee of no less than two nor more than ten years. The Committee, except for restrictions specified in the preceding paragraphs, shall have the discretion to remove any or all of the restrictions on a restricted stock award whenever it determines such action appropriate. Upon expiration of the restriction period, the Shares will be made available to the recipient, subject to satisfaction of applicable tax withholding requirements.

5.2 *Non-Employee Directors*

(a) On January 1 of each year, 400 Shares of restricted stock shall be granted to each director who is not currently an employee of the Company. The stock will be subject to a restriction period of three years from the date of grant. During the restriction period, the recipient shall have a beneficial interest in the restricted stock and all associated rights and privileges of a stockholder, including the right to vote and receive dividends.

The following restrictions will be imposed on restricted stock until expiration of the restricted period:

(i) The recipient shall not be entitled to delivery of the Shares;

(ii) None of the Shares issued as restricted stock may be transferred other than by will or by the laws of descent and distribution; and

(iii) Shares issued as restricted stock shall be forfeited if the recipient ceases to serve as a director of the Company, except for termination due to death, disability, or retirement under the Company's Directors' Retirement Plan.

Upon expiration of the restriction period, the Shares will be made available to the recipient, subject to satisfaction of applicable tax withholding requirements.

(b) Each January 1st, 350 shares of restricted stock, in addition to shares described in Section 5.2(a), shall be awarded to each director who is not currently and has not been an employee of the Company. Shares awarded under this Section 5.2(b) will be held in escrow until the director terminates service with the Company. During the restriction period, the recipient shall have a beneficial interest in the restricted stock and all associated rights and privileges of a stockholder except as discussed below.

The following restrictions will be imposed on restricted stock awarded under this Section 5.2(b) until it is made available to the recipient:

(i) The recipient shall not receive dividends on the shares, but an amount equal to such dividends will be credited to the director's stock equivalent account in the Company's Directors' Deferred Compensation Plan;

(ii) The recipient shall not be entitled to delivery of the shares;

(iii) None of the shares awarded may be transferred other than by will or by the laws of descent and distribution; and

(iv) The right to receive shares shall be subordinate to the claims of general creditors of the Company.

Upon termination of service, restricted shares will be made available to the recipient subject to satisfaction of applicable tax withholding requirements; provided, however, that if the recipient has not served on the Board for at least five years at the time of such termination, all restricted shares awarded under this Section 5.2(b) shall be forfeited.

Pursuant to termination of the Company's Directors' Retirement Plan effective December 31, 1996, each director continuing in office was awarded an amount of restricted stock equal to the accumulated value of past pension accruals as determined by the Company's actuary. Those shares will be subject to the same restrictions as shares awarded annually pursuant to this Section 5.2(b).

(c) Effective January 1, 2002, shares of restricted stock shall no longer be granted under Section 5.2(a) of the Plan or awarded under Section 5.2(b) of the Plan. Shares of restricted stock that were granted or awarded prior to January 1, 2002, shall be subject to the same restrictions and provisions as determined in 5.2(a) and 5.2(b).

Section 6. Performance Awards

6.1 *Eligibility and Terms*

The Committee may grant awards to officers and other key employees ("Performance Awards") based upon Company performance over a period of years ("Performance Period"). The Committee shall have sole discretion to determine persons eligible to participate, the Performance Period, Company performance factors applicable to the award ("Performance Measures"), and the method of Performance Award calculation.

At the time the Committee establishes a Performance Period for a particular award, it shall also establish Performance Measures and targets to be attained relative to those measures ("Performance Targets"). Performance Measures may be based on any of the following factors, alone or in combination, as the Committee deems appropriate: (i) return on assets; (ii) return on equity; (iii) return on sales; (iv) total shareholder return; (v) cash flow; (vi) economic value added; and (vii) net earnings. Performance Targets may include a minimum, maximum and target level of performance with the size of Performance Awards based on the level attained. Once established, Performance Targets and Performance Measures shall not be changed during the Performance Period; provided, however, that the Committee may eliminate or decrease the amount of a Performance Award otherwise payable to a participant. Upon completion of a Performance Period, the Committee shall determine the Company's performance in relation to the Performance Targets for that period and certify in writing the extent to which Performance Targets were satisfied.

6.2 *Payment of Awards*

Performance Awards may be paid in cash, Shares of restricted stock (pursuant to terms applicable to restricted stock awarded to Company employees as described in the Plan) or a combination thereof, as determined by the Committee. Performance Awards shall be made not later than 90 days following the end of the relevant Performance Period. The fair market value of a Performance Award payment to any individual employee in any calendar year shall not exceed $2.5 million. The fair market value of Shares to be awarded shall be determined by the average of the high and low price of Shares on the New York Stock Exchange on the last business day of the Performance Period. Federal, state and local taxes will be withheld as appropriate.

6.3 *Termination*

To receive a Performance Award, the participant must be employed by the Company on the last day of the Performance Period. If a participant terminates employment during the Performance Period by reason of death, disability or retirement, a payout based on the time of employment during the Performance Period shall be distributed. Participants employed on the last day of the Performance Period, but not for the entire Performance Period, shall receive a payout prorated for that part of the Performance Period for which they were participants. If the participant is deceased at the time of Performance Award payment, the payment shall be made to the recipient's designated representative.

Section 7. Election to Receive Non-Employee Director Fees in Shares

Effective April 8, 1998, non-employee directors shall have the option of receiving all or a portion of their annual retainer fees, as well as fees for attendance at meetings of the Board and committees of the Board (including any Committee Chairman stipend), in the form of Shares.

The number of Shares that may be issued pursuant to such election shall be based on the amount of cash compensation subject to the election divided by the fair market value of one Share on the date such cash compensation is payable. The fair market value shall be the mean between the high and low prices at which Shares are traded on the New York Stock Exchange on payable date.

Shares provided pursuant to the election shall be held in book-entry form by the Company on behalf of the non-employee director. Upon request, the Company shall deliver Shares so held to the non-employee director. While held in book-entry form, the Shares shall have all associated rights and privileges, including voting rights and the right to receive dividends.

Section 8. Change of Control

8.1 *Effect on Grants and Awards*

Unless the Committee shall otherwise expressly provide in the agreement relating to a grant or award under the Plan, upon the occurrence of a Change of Control as defined below: (i) all options then outstanding under the Plan shall become fully exercisable as of the date of the Change of Control; (ii) all terms and conditions of restricted stock awards then outstanding shall be deemed satisfied as of the date of the Change of Control; and (iii) all Performance Awards for a Performance Period not completed at the time of the Change of Control shall be payable in an amount equal to the product of the maximum award opportunity for the Performance Award and a fraction, the numerator of which is the number of months that have elapsed since the beginning of the Performance Period through the later of (A) the date of the Change of Control or (B) the date the participant terminates employment, and the denominator of which is the total number of months in the Performance Period; provided, however, that if this Plan shall remain in force after a Change of Control, a Performance Period is completed during that time, and the participant's employment has not terminated, this provision (iii) shall not apply.

8.2 *Change of Control Defined*

For purposes of the Plan, a "Change of Control" shall be deemed to have occurred if:

(a) Any person becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 15 percent or more of the combined voting power of the Company's then outstanding common stock, unless the Board by resolution negates the effect of this provision in a particular circumstance, deeming that resolution to be in the best interests of Company stockholders;

(b) During any period of two consecutive years, there shall cease to be a majority of the Board comprised of individuals who at the beginning of such period constituted the Board;

(c) The shareholders of the Company approve a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) less than fifty percent of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(d) Company shareholders approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of its assets.

Section 9. Amendment and Termination

The Board may terminate the Plan at any time, except with respect to grants and awards then outstanding. The Board may amend the Plan without shareholder approval, unless such approval is necessary to comply with applicable laws, including provisions of the Exchange Act or Internal Revenue Code.

Section 10. Regulatory Compliance

Notwithstanding any other provision of the Plan, the issuance or delivery of any Shares may be postponed for such period as may be required to comply with any applicable requirements of any national securities exchange or any requirements under any other law or regulation applicable to the issuance or delivery of such Shares. The Company shall not be obligated to issue or deliver any Shares if such issuance or delivery shall constitute a violation of any provision of any law or regulation of any governmental authority or national securities exchange.

Section 11. Effective Date

The Plan shall be effective upon its approval by the Company's stockholders at the 1996 Annual Meeting of Stockholders.

EXHIBIT 10.5

CATERPILLAR INC.

CORPORATE INCENTIVE COMPENSATION PLAN
MANAGEMENT AND SALARIED EMPLOYEES
(AMENDED AND RESTATED THROUGH DECEMBER 31, 2001)

Section 1. Type of Plan and Purpose

1.1 Type of Plan and Purpose. This Plan is an incentive compensation plan. The purpose of the Plan is to provide contingent benefits to Employees to reflect their efforts in contribution to the profitability of the Company; and to serve as an incentive for Employees further to contribute to the continued and future financial success of the Company and to its ability to provide continued employment opportunities to its Employees.

This Plan has been adopted in accordance with rules and guidelines established by the Stock Option and Officers' Compensation Committee of the Board of Directors of the company. Those guidelines permit business and service units of Caterpillar Inc. or its subsidiaries to adopt separate incentive compensation plans within parameters established by that Committee based upon measurements approved by the company's internal Incentive Compensation Review Committee. Those guidelines (a) generally require that a portion of the award under any such unit plan be based upon the corporate return on assets measurement established under this Plan, and (b) permit such unit plan to adopt a shorter eligibility period. Those unit incentive compensation plans with such a corporate measurement form a part of the Plan.

It is understood that the duty of the Employers, their Boards of Directors, and the management they select is to provide the Employers' shareholders protection of, and a maximum return on, their investment, consistent with retention in the business of such profits as the Board of Directors of the Company deems prudent, and with fair and competitive prices, wages, benefits and other terms of employment; no provision of this Plan or any unit incentive compensation plan shall be construed as altering that objective or in any way limiting management of such Board of Directors in the performance of their duties.

1.2 Supplements. The succeeding provisions of this Plan will be expanded and/or modified by Supplements. Such Supplements will set forth the particulars wherein the provisions of this Plan, as applied to any group of Employees are expanded and/or differ from those set forth in the succeeding provisions of this Plan exclusive of such Supplements. All provisions of this Plan are subject to any express provisions to the contrary contained in any such Supplements.

Section 2. Definitions

2.1 Annual Salary Rate for any year means (i) in the case of a Participant who is a management employee, his monthly salary rate as of December 31 of that year (or his last day on the management payroll during that year if earlier) multiplied by 12; or (ii) in the case of a Participant who is a salaried employee, his weekly salary rate as of December 31 of that year (or his last day on the salaried payroll during that year if earlier) multiplied by 52.

The Annual Salary Rate shall include any salary amount deferred under Part 2 of the Employees' Investment Plan and contributed as a basic Employer contribution thereunder, and any salary amount deferred under the Flexible Spending Account, but excludes any (a) bonuses or special cash awards, (b) commissions, (c) international service allowances, (d) extra shift or overtime payments, (e) night shift premiums, (f) pay for vacation time not used and (g) payments under this plan or other payments or contributions (other than EIP 2 contributions) under any employee benefit plan.

2.2 Company means Caterpillar Inc. or any successor to it by merger, consolidation, reorganization or otherwise.

2.3 Company Service means all periods of full-time employment with the Company and its subsidiaries, including all periods of leave of absence and all periods of layoff.

2.4 Effective Date of this Plan means January 1, 1993.

2.5 Employee means, subject to Subsection 3.1, any person who is a resident or citizen of the United States of America or Canada and who on or after the Effective Date is in the regular full-time employ of an Employer (or a part-time or temporary employee included in a group for whom approval to include in the Plan has been obtained from the Incentive Compensation Review Committee) on its salaried or management payrolls and is employed for work on the prevailing schedules of the department to which he is assigned, and who is included in a group to whom the Plan has been made available by extension by an Employer and includes any such person while absent from work under circumstances which do not break continuity of service.

2.6 Employer means the Company or any subsidiary of the Company that has adopted or adopts the Plan with the Company's written consent.

2.7 Officer means those Employees who fill the following positions: Vice President, Group President, and Chairman/Vice Chairman. For purposes of this Plan, the Controller and Treasurer are not included in the definition of Officer.

2.8 Participant means any Employee who is eligible to be covered by the Plan pursuant to Subsection 3.1.

2.9 The first Plan Year will begin on the effective date and will end on the first December 31 thereafter. Each subsequent Plan Year will end on the next following December 31.

Section 3. Eligibility and Participation

3.1 Eligibility and Participation. Each Employee of the Employers shall be eligible to be covered by the Plan and become a Participant as of the latest to occur of (i) the Effective Date; (ii) the date he has completed 90 days of Company Service (does not include any time with ATS); and (iii) the date he is included in a group to which the Plan has been and continues to be extended by an Employer. Notwithstanding anything contained herein to the contrary, for all purposes of the Plan, any U.S. International Service Employee who is not an Employee of the Company or any of the other Employers shall be considered to be an eligible Employee if he then meets the requirements of Subparagraph (ii) above. As used herein, the term "U.S. International Service Employee" means an Employee who (i) on the direction or with the permission of an Employer is transferred to employment outside of the United States of America with a subsidiary (whether or not organized or incorporated within the United States of America) which has not adopted the Plan; and (ii) meets the definition of a U.S. International Service Employee contained in the Company's U.S. International Service Practices; and the term Employee shall also include such other persons as shall be designated by the Committee. A Participant in the Plan shall continue as such so long as he meets the definition of an Employee contained in Subsection 2.5 or considered to be an Employee pursuant to this Subsection 3.1.

Notwithstanding the above, payment amounts shall not be duplicated under this Plan by amounts paid for the same period of service or corporate performance measurement under any other profit sharing plan, incentive compensation plan, gainsharing-type plan, or similar plan sponsored by Caterpillar Inc. or any of its subsidiaries, or would be paid except for any applicable waiting period expressed in such plan or except where specifically provided for in approved plan documentation. However, an Officer who is eligible to participate in an incentive compensation plan for a business or service unit under his control may participate in this Plan for that portion of his Annual Salary Rate not included in the calculation of his business or service unit incentive compensation payment.

3.2 Employment Requirements. Any Participant shall be eligible for an incentive compensation benefit under the Plan for any year, provided that he is actively employed by the Company and any of its subsidiaries on December 31 of that year or is on leave of absence or layoff from the Company or any of its subsidiaries on such December 31; except that any otherwise eligible Employee who died, retired, or received a separation payment in lieu of layoff during such year shall also be covered as if he were an active Employee on December 31 of that year.

Section 4. Amount of Benefit

4.1 Salary Grade 23 and Below. The amount payable to a Participant at Salary Grade 23 and below (as of December 31 of that year) shall be determined by multiplying the Participant's Annual Salary Rate times the following applicable rate of percentage for that salary grade times the applicable Corporate Performance Factor:

Salary Grade	Percentage
21 and below	7%
22	8%
23	9%

4.2 Salary Grade 24 and Above. The amount payable to a Participant at Salary Grade 24 and above (as of December 31 of that year) shall be determined by multiplying his Annual Salary Rate times the Team Award percentage (determined from Exhibit 1 for non-Officer Participants in Salary Grades 24 and above, and from Exhibit 2 for Officers), for his salary grade as of December 31, times the applicable Corporate Performance Factor, plus the amount of his Individual Award, if any. Designated Officers may participate in their units' incentive compensation plan and may be eligible for Team Awards based on their division results and the corporate performance of Caterpillar Inc. (each award to be prorated according to the approved weighting between the division results and corporate performance).

Individual Awards may be made only from a discretionary pool. A separate Employee Discretionary Pool will be established for Participants (excluding Officers) for each Vice Presidential administrative area or for each group of Participants subject to a business or service unit incentive compensation plan. A separate discretionary pool will be established for Officers.

The Individual Award, if any, for which only Participants in Salary Grades 24 and above are eligible, shall be determined solely at the discretion of the Participant's Unit Manager (or by the Compensation Committee of the Board of Directors for Officers) and shall not exceed the amount of the Employee's Team Award. In addition, the sum of the Individual Awards payable to all Participants in Salary Grade 24 and above shall not exceed the Employee Discretionary Pool Amount. The Employee Discretionary Pool Amount shall be 25% of the total amount of the Team Awards paid to Participants at Salary Grade 24 and above (excluding Officers).

The sum of the Individual Awards payable to Participants who are Officers shall not exceed the Officer Discretionary Pool Amount. The Officer Discretionary Pool Amount shall be the sum of each Officer's percentage of annual salary rate (See Exhibit 1) adjusted by the Corporate Performance Factor defined in Section 4.4. The Officer Discretionary Pool will be calculated as if all officers participated wholly and exclusively in the Corporate Incentive Compensation Plan. Individual awards payable to the officers are at the total discretion of the Chairman who may choose to use all, part or none of the award so determined (any amounts not used do not carry over).

4.3 Individual Performance Level Less Than Five. Notwithstanding the provisions of Subparagraphs 4.1 or 4.2 to the contrary, Employees or Officers with a performance rating of Individual Performance Level 5 or those who have unsatisfactory/unacceptable performance in units not using specific performance ratings will not be eligible for a Team Award or an Individual Award, and contributions shall not be made to either the Participant Discretionary Pool Amount or the Officer Discretionary Pool Amount for such Employees or Officers.

4.4 Corporate Performance Factor. The Corporate Performance Factor will be determined each year in relation to minimum, target and maximum corporate return on asset (ROA) levels determined by the Company (see Exhibit 3). The actual performance factor will be determined by interpolation based on the actual ROA achieved at the end of the year compared to these levels, and the participants team incentive compensation amount, if any, will be calculated accordingly. The achieved ROA will be determined by dividing Profit by the Average Gross Assets rounded to the nearest third decimal. The Company must achieve the minimum ROA percentage specified before any amount shall be payable.

As used herein, the term "Average Gross Assets" means the total corporate assets averaged throughout the year. Total corporate assets excludes the assets of Financial Products but includes the investment in Financial Products and is reported in the Annual Report and the Quarterly Report to Stockholders under the column entitled Machinery and Engines as Supplemental Consolidating Data on the Statement of Financial Position. The average for the year will be calculated by adding together five points: the ending balance for the previous year and the ending balance for each of the four quarters during the year and dividing by five. The term "Profit" means the amount of profit for the year before income taxes reported in such Statement 1 (or any equivalent successor statement thereto which provides such amount of profit) in the subtotal immediately preceding the provision for income taxes line, but increased by the amount of expense for that year for incentive compensation amounts payable under the Plan and any other similar incentive compensation plan or profit sharing plan of the Employers (excluding any investment plan of the Employers) and any awards granted under any bonus plan of the Employers. Such Profit before income taxes would exclude the effect of extraordinary gains or losses, if any, as defined by generally accepted accounting principles, and would also exclude the effects of accounting changes and unplanned, non-recurring gains or losses that are significant in nature, as approved by the Committee. Profit shall also exclude income from nonconsolidated operations. Consolidated Financial Statements which are prepared using generally accepted accounting principles and as audited by the Company's independent certified public accountants shall be final and conclusive.

4.5 Percentage Determination. The Employee's Team Award percentage, Individual Award percentage, Employee Discretionary Pool Amount percentage, Officer Discretionary Pool Amount percentage, the Corporate Performance Factors, the Company's ROA target percentage, and the minimum and maximum percentage will be determined for each year by the Committee on Stock Options and Officer's Compensation.

4.6 RIP, EIP, etc. Credit. 100% of the amount paid under the Plan to an Employee shall be counted as compensation for the month in which payment is made for purposes of the Retirement Income Plan or any other pension plan sponsored by Caterpillar Inc. or its subsidiaries, in which the Employee is a Participant. No incentive compensation amount shall be taken into account under the Employee's Investment Plan, the Group Insurance Plan, or any other employee benefit plan or payroll practice of Caterpillar Inc. or its subsidiaries.

4.7 Proration of Payment Amount. If an Employee is not a Participant or is not actively employed by an Employer for the entire year but is eligible for an incentive compensation amount for the year pursuant to the provisions of Subsection 3.2, his payment amount will be prorated based upon his days of active employment in that year on the management or salaried payrolls while a Participant. Days while on disability leave of absence will be counted as days of active employment in accordance with uniform rules established by the Committee with respect to the maximum number of such days to be counted during any period of disability leave of absence, but in no event shall any days occurring after the expiration of a continuous period of absence of six months be counted. No other leaves of absence will be counted for purposes of calculating the payment amount.

4.8 Participation in Another Incentive Compensation Plan. If an Employee, who otherwise met the eligibility requirements of Section 3, ceased to be a Participant during the Plan Year because he became a participant in another incentive compensation plan sponsored by Caterpillar Inc. or one of its subsidiaries, he shall be eligible for a Team Award and/or an Individual Award under this Plan for that period of time that he was a Participant in this Plan. Twenty five percent (25%) of the prorated Team Award paid under this Plan shall be included in the Employee Discretionary Pool Amount.

4.9 Transfer from Hourly Payroll. Notwithstanding anything contained herein to the contrary, if a Participant or former Participant is employed by the Employers on December 31 of any Plan Year and does not receive a payment for any period of employment in that Plan Year under either this Plan or the profit sharing plan or an incentive compensation plan covering employees on the hourly payroll of the Employers, he shall receive a payment under this Plan for such period of employment in the same amount which would otherwise have been payable to him under the terms of this Plan or under such hourly plan but for his ineligibility thereunder because he was not participating therein on said December 31.

4.10 Supplemental Employees. Notwithstanding anything contained herein to the contrary, if (a) a Participant ceases to be a full-time Employee of an Employer, and (b) on December 31 of the year in which said Participant ceases to be a full-time Employee, he is and has thereafter been continuously employed as a supplemental employee on either a part-time or temporary basis by an Employer, his payment amount shall be prorated based upon his days of active regular full-time employment in that year on the salaried or management payroll while a Participant. His Annual Salary Rate shall be the rate in effect when he ceased full-time employment.

Section 5. Incentive Compensation Payment

5.1 Date and Method of Payment. Any amount which is payable for any year shall be paid to an eligible Participant not later than 3 months of the year following the year for which the amount is computed. The amount of such payment shall be paid by check less required withholding for federal, state, local and other taxes. Payments will be made in the same currency in which the Employee receives his base salary.

5.2 Beneficiaries. If a Participant is deceased at the time any payment is payable to him, the amount of such payment shall be payable to the same person or persons and in the same proportionate amount as shall be payable to the beneficiary or beneficiaries of his basic life insurance under the Group Insurance Plan of his Employer.

5.3 Lost Participants. If any payment becomes distributable pursuant to Subsection 5.1 and the whereabouts of a Participant (or any beneficiary pursuant to Subsection 5.2) is then unknown to the Employer and the Employer shall fail to receive a claim for such payment from the person entitled thereto (or from any other person validly acting on his behalf), then such payment shall be disposed of in an equitable manner as permitted by law under rules adopted by the Plan Administrator.

Section 6. Miscellaneous

6.1 Administration of the Plan. Except as otherwise expressly provided, the Plan shall be administered by the Incentive Compensation Review Committee ("the Committee"), appointed by the Chairman of the Board, who shall be the Plan Administrator and shall be authorized to (a) determine all questions arising in the administration of the Plan, (b) establish rules and procedures to carry out their duties and responsibilities, (c) delegate such duties and responsibilities to other employees of the Employers, and (d) do all other acts which in its judgment are necessary for the proper administration of this Plan.

6.2 Facility of Payment. If the Committee shall receive evidence satisfactory to it that any Participant or other person entitled to receive a benefit under this Plan is physically or mentally incompetent to receive such payment and to give a valid release therefor, the Committee at its discretion may make payment in one or more of the following ways: (a) directly to such Participant or person, (b) to his legal guardian or conservator, or (c) to his spouse or to any other person to be expended for his benefit. The decision of the Committee shall be in each case final and binding on all persons in interest.

6.3 Amendment and Termination of Plan. The Company shall have the power at any time and from time to time, by action of its Board of Directors, to amend or terminate this Plan; provided, however, that the Committee may also amend the Plan so long as such amendment does not change the duties and responsibilities of the Committee or the Stock Option and Officers' Compensation Committee of the Company's Board of Directors and so long as the cost of such amendment to the Employers does not exceed $100,000 per year.

6.4 Employment Rights. Participation in the Plan will not give any Employee or an Employer any right to be retained in the service of the Company or its subsidiaries, nor any right or claim to any payment under the Plan unless such right or claim has specifically accrued under the terms of the Plan.

6.5 Action by Employers. Any action required or permitted to be taken by any Employer hereunder may, except as otherwise expressly provided, be taken by the Group President or any Vice President of such Employer or by any other person designated by the Group President or any Vice President of the Employer to act for such Employer.

6.6 Gender and Number. Where the context permits, words in the masculine gender shall include the feminine gender, the plural shall include the singular, and the singular shall include the plural.

**CATERPILLAR INC.
AND ITS SUBSIDIARIES**

COMPUTATIONS OF EARNINGS PER SHARE

FOR THE YEARS ENDED DECEMBER 31,

		2001	2000	1999
I.	Net profit for year (millions of dollars) (A):	$ 805	$ 1,053	$ 946
II.	Determination of shares (millions):			
	Weighted average number of common shares outstanding (B)	343.3	346.8	355.4
	Shares issuable on exercise of stock options, net of shares assumed to be purchased out of proceeds at average market price	3.8	2.1	4.0
	Average common shares outstanding for fully diluted computation (C)	347.1	348.9	359.4
III.	Profit per share of common stock:			
	Assuming no dilution (A÷B)	$ 2.35	$ 3.04	$ 2.66
	Assuming full dilution (A÷C)	$ 2.32	$ 3.02	$ 2.63

EXHIBIT 12

CATERPILLAR INC.,
CONSOLIDATED SUBSIDIARY COMPANIES,
AND 50%-OWNED UNCONSOLIDATED AFFILIATED COMPANIES

STATEMENT SETTING FORTH COMPUTATION
OF RATIOS OF PROFIT TO FIXED CHARGES
(Millions of dollars)

YEARS ENDED DECEMBER 31,

	2001	2000	1999
Profit	$ 805	$ 1,053	$ 946
Add:			
Provision for income taxes	$ 359	$ 439	448
Profit before taxes	$ 1,164	$ 1,492	$ 1,394
Fixed charges:			
Interest and other costs related to borrowed funds[1]	$ 948	$ 988	$ 835
Rentals at computed interest factors[2]	86	90	83
Total fixed charges	$ 1,034	$ 1,078	$ 918
Profit before provision for income taxes and fixed charges	$ 2,198	$ 2,570	$ 2,312
Ratio of profit to fixed charges	2.1	2.4	2.5

(1) Interest expense as reported in Consolidated Results of Operations plus the Company's proportionate share of 50 percent-owned unconsolidated affiliated companies' interest expense.

(2) Amounts represent those portions of rent expense that are reasonable approximations of interest costs.

EXHIBIT 13

APPENDIX

CATERPILLAR INC.

GENERAL AND FINANCIAL INFORMATION

2001

TABLE OF CONTENTS

	Page
Report of Management	A-3
Report of Independent Accountants	A-3
Consolidated Financial Statements and Notes	A-4
Five-year Financial Summary	A-24
Management's Discussion and Analysis (MD&A)	
Fourth-Quarter 2001 Compared with Fourth-Quarter 2000	A-25
Machinery and Engines Sales by Geographic Region	A-27
2001 Compared with 2000	A-27
Supplemental Information	A-28
2000 Compared with 1999	A-28
Liquidity & Capital Resources	A-29
Critical Accounting Policies	A-30
Employment	A-31
Other Matters	A-31
Outlook	A-32
Supplemental Stockholder Information	A-33
Directors and Officers	A-34

REPORT OF MANAGEMENT

The management of Caterpillar Inc. has prepared the accompanying financial statements for the years ended December 31, 2001, 2000, and 1999, and is responsible for their integrity and objectivity. The statements were prepared in conformity with generally accepted accounting principles, applying certain estimates and judgments as required.

Management maintains a system of internal accounting controls which has been designed to provide reasonable assurance that: transactions are executed in accordance with proper authorization, transactions are properly recorded and summarized to produce reliable financial records and reports, assets are safeguarded, and the accountability for assets is maintained.

The system of internal controls includes statements of policies and business practices, widely communicated to employees, which are designed to require them to maintain high ethical standards in their conduct of company affairs. The internal controls are augmented by careful selection and training of supervisory and other management personnel, by organizational arrangements that provide for appropriate delegation of authority and division of responsibility, and by an extensive program of internal audit with management follow-up. The company's adoption of 6 Sigma is expected to improve processes leading to enhanced internal controls.

The financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants, in accordance with generally accepted auditing standards. They have made similar annual audits since the initial incorporation of our company. Their role is to render an objective, independent opinion on management's financial statements. Their report appears below.

Through its Audit Committee, the Board of Directors reviews our financial and accounting policies, practices, and reports. The Audit Committee consists exclusively of seven directors who are not salaried employees and who are, in the opinion of the Board of Directors, free from any relationship that would interfere with the exercise of independent judgment as a committee member. The Audit Committee meets several times each year with representatives of management, including the internal auditing department, and the independent accountants to review the activities of each and satisfy itself that each is properly discharging its responsibilities. Both the independent accountants and the internal auditors have free access to the Audit Committee and meet with it periodically, with and without management representatives in attendance, to discuss, among other things, their opinions as to the adequacy of internal controls and to review the quality of financial reporting.

Glen Barton

Chairman of the Board

F. L. McPheeters

Chief Financial Officer

January 23, 2002

REPORT OF INDEPENDENT ACCOUNTANTS

PRICEWATERHOUSECOOPERS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF CATERPILLAR INC.:

In our opinion, the accompanying consolidated financial statements, in Statements 1 through 4, present fairly, in all material respects, the financial position of Caterpillar Inc. and its subsidiaries at December 31, 2001, 2000, and 1999, and the results of their operations and their cash flow for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental consolidating data in Statements 1, 3 and 4 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of *Machinery and Engines* and *Financial Products*. The supplemental consolidating data has been subjected to the auditing procedures applied in the audit of the consolidated financial statements; and, in our opinion, except for the *Machinery and Engines* presentation of *Financial Products* on the equity basis, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

Peoria, Illinois

January 23, 2002

STATEMENT 1
Results of Operations for the Years Ended December 31
(Dollars in millions except per share data)

	Consolidated			Supplemental consolidating data: Machinery and Engines[1]			Supplemental consolidating data: Financial Products		
	2001	2000	1999	**2001**	2000	1999	**2001**	2000	1999
Sales and revenues:									
Sales of Machinery and Engines (Note 1C)	**$ 19,027**	$ 18,913	$ 18,559	**$ 19,027**	$ 18,913	$ 18,559	**$ —**	$ —	$ —
Revenues of Financial Products (Note 1C)	**1,423**	1,262	1,143	**—**	—	—	**1,645**	1,465	1,277
Total sales and revenues	**20,450**	20,175	19,702	**19,027**	18,913	18,559	**1,645**	1,465	1,277
Operating costs:									
Cost of goods sold	**14,752**	14,497	14,481	**14,752**	14,497	14,481	**—**	—	—
Selling, general, and administrative expenses	**2,567**	2,367	2,347	**2,229**	2,099	2,079	**389**	307	299
Research and development expenses	**696**	649	626	**696**	649	626	**—**	—	—
Interest expense of Financial Products	**657**	688	560	**—**	—	—	**685**	739	585
Other operating expenses (Notes 1B, 9, and 23)	**467**	237	194	**153**	—	—	**314**	237	194
Total operating costs	**19,139**	18,438	18,208	**17,830**	17,245	17,186	**1,388**	1,283	1,078
Operating profit	**1,311**	1,737	1,494	**1,197**	1,668	1,373	**257**	182	199
Interest expense excluding Financial Products	**285**	292	269	**285**	292	269	**—**	—	—
Other income (expense) (Note 3)	**143**	83	196	**(88)**	(126)	66	**88**	96	52
Consolidated profit before taxes	**1,169**	1,528	1,421	**824**	1,250	1,170	**345**	278	251
Provision for income taxes (Note 6)	**367**	447	455	**239**	350	362	**128**	97	93
Profit of consolidated companies	**802**	1,081	966	**585**	900	808	**217**	181	158
Equity in profit of unconsolidated affiliated companies (Note 10)	**3**	(28)	(20)	**(4)**	(31)	(21)	**7**	3	1
Equity in profit of Financial Products subsidiaries	**—**	—	—	**224**	184	159	**—**	—	—
Profit	**$ 805**	$ 1,053	$ 946	**$ 805**	$ 1,053	$ 946	**$ 224**	$ 184	$ 159

	2001	2000	1999
Profit per common share	**$ 2.35**	$ 3.04	$ 2.66
Profit per common share — diluted[2]	**$ 2.32**	$ 3.02	$ 2.63
Weighted-average common shares (millions)	**343.3**	346.8	355.4
Weighted-average common shares — diluted (millions)[2]	**347.1**	348.9	359.4
Cash dividends declared per common share	**$ 1.390**	$ 1.345	$ 1.275

[1] Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

[2] Diluted by assumed exercise of stock options, using the treasury stock method.

The supplemental consolidating data is presented for the purpose of additional analysis. See Note 1B on Page A-8 for a definition of the groupings in these statements. Transactions between Machinery and Engines *and* Financial Products *have been eliminated to arrive at consolidated data.*

See accompanying Notes to Consolidated Financial Statements.

Changes in Consolidated Stockholders' Equity for the Years Ended December 31

(Dollars in millions)

	2001		2000		1999	
Common stock (Note 14):						
Balance at beginning of year	**$ (1,628)**		$ (1,230)		$ (993)	
Common shares issued, including treasury shares reissued: 2001 — 916,634; 2000 — 408,629; 1999 — 1,535,626	**18**		14		23	
Treasury shares purchased: 2001 — 937,000; 2000 — 10,789,700; 1999 — 4,956,100	**(43)**		(412)		(260)	
Balance at year-end	**(1,653)**		(1,628)		(1,230)	
Profit employed in the business:						
Balance at beginning of year	**7,205**		6,617		6,123	
Profit	**805**	**805**	1,053	1,053	946	946
Dividends declared	**(477)**		(465)		(452)	
Balance at year-end	**7,533**		7,205		6,617	
Accumulated other comprehensive income (net of tax):						
Foreign currency translation adjustment (Note 1H):						
Balance at beginning of year	**55**		125		65	
Aggregate adjustment for year	**(72)**	**(72)**	(70)	(70)	60	60
Balance at year-end	**(17)**		55		125	
Minimum Pension Liability Adjustment (Note 8):						
Balance at beginning of year	**(32)**		(47)		(64)	
Aggregate adjustment for year	**(170)**	**(170)**	15	15	17	17
Balance at year-end	**(202)**		(32)		(47)	
Derivative financial instruments (Notes 1I and 2):						
Balance at beginning of year	**—**		—		—	
Gains/(losses) deferred during year	**(39)**	**(39)**	—	—	—	—
(Gains)/losses reclassified to earnings during year	**13**	**13**	—	—	—	—
Balance at year-end	**(26)**		—		—	
Available-for-sale securities (Note 21):						
Balance at beginning of year	**—**		—		—	
Gains/(losses) deferred during year	**(26)**	**(26)**	—	—	—	—
(Gains)/losses reclassified to earnings during year	**2**	**2**	—	—	—	—
Balance at year-end	**(24)**		—		—	
Comprehensive income		**513**		998		1,023
Stockholders' equity at year-end	**$ 5,611**		$ 5,600		$ 5,465	

See accompanying Notes to Consolidated Financial Statements.

STATEMENT 3
Financial Position at December 31
(Dollars in millions)

	Consolidated (Caterpillar Inc. and subsidiaries)			Supplemental consolidating data					
				Machinery and Engines[1]			Financial Products		
	2001	2000	1999	**2001**	2000	1999	**2001**	2000	1999
Assets									
Current assets:									
Cash and short-term investments	**$ 400**	$ 334	$ 548	**$ 251**	$ 206	$ 440	**$ 149**	$ 128	$ 108
Receivables — trade and other	**2,592**	2,608	3,233	**2,170**	2,411	2,357	**1,182**	1,201	1,761
Receivables — finance (Note 5)	**5,849**	5,471	4,206	**—**	—	—	**5,849**	5,471	4,206
Deferred income taxes (Note 6)	**423**	397	405	**381**	377	394	**42**	20	11
Prepaid expenses	**1,211**	1,019	824	**1,220**	1,038	841	**8**	2	3
Inventories (Note 1D and 4)	**2,925**	2,692	2,594	**2,925**	2,692	2,594	**—**	—	—
Total current assets	**13,400**	12,521	11,810	**6,947**	6,724	6,626	**7,230**	6,822	6,089
Property, plant, and equipment — net (Notes 1F and 9)	**6,603**	5,951	5,380	**5,019**	4,713	4,457	**1,584**	1,238	923
Long-term receivables — trade and other	**55**	76	95	**55**	76	95	**—**	—	—
Long-term receivables — finance (Note 5)	**6,267**	6,095	5,588	**—**	—	—	**6,267**	6,095	5,588
Investments in unconsolidated affiliated companies (Notes 1B and 10)	**787**	551	553	**460**	504	523	**327**	47	30
Investments in Financial Products subsidiaries	**—**	—	—	**1,662**	1,620	1,464	**—**	—	—
Deferred income taxes (Note 6)	**938**	907	954	**999**	960	974	**13**	10	9
Intangible assets (Note 1F)	**1,671**	1,507	1,543	**1,668**	1,504	1,541	**3**	3	2
Other assets	**936**	856	788	**465**	453	478	**471**	403	310
Total assets	**$ 30,657**	$ 28,464	$ 26,711	**$ 17,275**	$ 16,554	$ 16,158	**$ 15,895**	$ 14,618	$ 12,951
Liabilities									
Current liabilities:									
Short-term borrowings (Note 12)	**$ 2,180**	$ 971	$ 770	**$ 219**	$ 369	$ 51	**$ 2,164**	$ 919	$ 1,030
Accounts payable	**2,123**	2,339	2,003	**2,210**	2,556	2,317	**166**	147	41
Accrued expenses	**1,419**	1,148	1,048	**854**	720	758	**593**	451	337
Accrued wages, salaries, and employee benefits	**1,292**	1,274	1,191	**1,276**	1,262	1,180	**16**	12	11
Dividends payable	**120**	117	115	**120**	117	115	**—**	5	29
Deferred and current income taxes payable (Note 6)	**11**	57	23	**(29)**	28	(12)	**40**	29	35
Deferred liability	**—**	—	—	**—**	—	—	**298**	316	190
Long-term debt due within one year (Note 13)	**3,131**	2,762	3,104	**73**	204	167	**3,058**	2,558	2,937
Total current liabilities	**10,276**	8,668	8,254	**4,723**	5,256	4,576	**6,335**	4,437	4,610
Long-term debt due after one year (Note 13)	**11,291**	11,334	9,928	**3,492**	2,854	3,099	**7,799**	8,480	6,829
Liability for postemployment benefits (Note 8)	**3,103**	2,514	2,536	**3,103**	2,514	2,536	**—**	—	—
Deferred income taxes and other liabilities (Note 6)	**376**	348	528	**346**	330	482	**99**	81	48
Total liabilities	**25,046**	22,864	21,246	**11,664**	10,954	10,693	**14,233**	12,998	11,487
Contingencies (Note 18)									
Stockholders' equity (Statement 2)									
Common stock of $1.00 par value (Note 14):									
Authorized shares: 900,000,000									
Issued shares (2001, 2000, and 1999 — 407,447,312) at paid-in amount	**1,043**	1,048	1,045	**1,043**	1,048	1,045	**801**	787	762
Profit employed in the business	**7,533**	7,205	6,617	**7,533**	7,205	6,617	**1,046**	922	744
Accumulated other comprehensive income	**(269)**	23	78	**(269)**	23	78	**(185)**	(89)	(42)
Treasury stock (2001 — 64,070,868 shares; 2000 — 64,050,502 shares; and 1999 — 53,669,431 shares) at cost	**(2,696)**	(2,676)	(2,275)	**(2,696)**	(2,676)	(2,275)	**—**	—	—
Total stockholders' equity	**5,611**	5,600	5,465	**5,611**	5,600	5,465	**1,662**	1,620	1,464
Total liabilities and stockholders' equity	**$ 30,657**	$ 28,464	$ 26,711	**$ 17,275**	$ 16,554	$ 16,158	**$ 15,895**	$ 14,618	$ 12,951

[1] Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

The supplemental consolidating data is presented for the purpose of additional analysis. See Note 1B on Page A-8 for a definition of the groupings in these statements. Transactions between Machinery and Engines *and* Financial Products *have been eliminated to arrive at consolidated data.*

See accompanying Notes to Consolidated Financial Statements.

STATEMENT 4 Caterpillar Inc.

Statement of Cash Flow for the Years Ended December 31

(Millions of dollars)

	Consolidated (Caterpillar Inc. and subsidiaries)			Supplemental consolidating data: Machinery and Engines[1]			Supplemental consolidating data: Financial Products		
	2001	2000	1999	**2001**	2000	1999	**2001**	2000	1999
Cash flow from operating activities:									
Profit	**$ 805**	$ 1,053	$ 946	**$ 805**	$ 1,053	$ 946	**$ 224**	$ 184	$ 159
Adjustments for noncash items:									
Depreciation and amortization	**1,169**	1,063	977	**835**	813	772	**334**	250	205
Profit of Financial Products	**—**	—	—	**(224)**	(184)	(159)	**—**	—	—
Nonrecurring charges	**153**	—	—	**153**	—	—	**—**	—	—
Other	**344**	79	156	**308**	(112)	78	**25**	123	78
Changes in assets and liabilities:									
Receivables — trade and other	**99**	(327)	494	**166**	(29)	368	**(49)**	(273)	294
Inventories	**(211)**	(54)	312	**(211)**	(54)	312	**—**	—	—
Accounts payable and accrued expenses	**(160)**	335	(95)	**(203)**	231	(45)	**40**	195	(180)
Other — net	**(212)**	(90)	(200)	**(218)**	(87)	(205)	**16**	(5)	3
Net cash provided by operating activities	**1,987**	2,059	2,590	**1,411**	1,631	2,067	**590**	474	559
Cash flow from investing activities:									
Capital expenditures — excluding equipment leased to others	**(1,100)**	(928)	(913)	**(1,071)**	(891)	(884)	**(29)**	(37)	(29)
Expenditures for equipment leased to others	**(868)**	(665)	(490)	**(38)**	(9)	(21)	**(830)**	(656)	(469)
Proceeds from disposals of property, plant, and equipment	**356**	263	215	**32**	29	30	**324**	234	185
Additions to finance receivables	**(16,284)**	(14,879)	(8,526)	**—**	—	—	**(16,284)**	(14,879)	(8,526)
Collections of finance receivables	**12,339**	10,996	5,676	**—**	—	—	**12,339**	10,996	5,676
Proceeds from sale of finance receivables	**3,107**	2,686	1,324	**—**	—	—	**3,107**	2,686	1,324
Net intercompany borrowings	**—**	—	—	**105**	(24)	(100)	**103**	6	(87)
Investments and acquisitions	**(405)**	(115)	(302)	**(110)**	(102)	(275)	**(295)**	(13)	(27)
Other — net	**(72)**	(111)	(24)	**59**	(41)	(170)	**(45)**	(94)	67
Net cash used for investing activities	**(2,927)**	(2,753)	(3,040)	**(1,023)**	(1,038)	(1,420)	**(1,610)**	(1,757)	(1,886)
Cash flow from financing activities:									
Dividends paid	**(474)**	(462)	(445)	**(474)**	(462)	(445)	**(105)**	(29)	(36)
Common stock issued, including treasury shares reissued	**6**	4	11	**6**	4	11	**14**	25	79
Treasury shares purchased	**(43)**	(412)	(260)	**(43)**	(412)	(260)	**—**	—	—
Net intercompany borrowings	**—**	—	—	**(103)**	(6)	87	**(105)**	24	100
Proceeds from long-term debt issued	**4,062**	3,760	3,770	**681**	12	306	**3,381**	3,748	3,464
Payments on long-term debt	**(2,953)**	(3,147)	(2,288)	**(354)**	(198)	(109)	**(2,599)**	(2,949)	(2,179)
Short-term borrowings — net	**420**	800	(127)	**(38)**	301	(71)	**458**	499	(56)
Net cash provided by (used for) financing activities	**1,018**	543	661	**(325)**	(761)	(481)	**1,044**	1,318	1,372
Effect of exchange rate changes on cash	**(12)**	(63)	(23)	**(18)**	(66)	(29)	**(3)**	(15)	6
Increase (decrease) in cash and short-term investments	**66**	(214)	188	**45**	(234)	137	**21**	20	51
Cash and short-term investments at the beginning of the period	**334**	548	360	**206**	440	303	**128**	108	57
Cash and short-term investments at the end of the period	**$ 400**	$ 334	$ 548	**$ 251**	$ 206	$ 440	**$ 149**	$ 128	$ 108

[1] Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

All short-term investments, which consist primarily of highly liquid investments with original maturities of three months or less, are considered to be cash equivalents.

The supplemental consolidating data is presented for the purpose of additional analysis. See Note 1B on Page A-8 for a definition of the groupings in these statements. Transactions between Machinery and Engines *and* Financial Products *have been eliminated to arrive at consolidated data.*

See accompanying Notes to Consolidated Financial Statements.

1. Operations and summary of significant accounting policies

A. Nature of operations

We operate in three principal lines of business:

(1) ***Machinery*** — design, manufacture, and marketing of construction, mining, agricultural, and forestry machinery — track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrapers, track and wheel excavators, backhoe loaders, mining shovels, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, telescopic handlers, skid steer loaders, and related parts.

(2) ***Engines*** — design, manufacture, and marketing of engines for Caterpillar *Machinery,* electric power generation systems; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural, and other applications; and related parts. Reciprocating engines meet power needs ranging from 5 to over 22,000 horsepower (4 to over 16 200 kilowatts). Turbines range from 1,600 to 19,500 horsepower (1000 to 14 000 kilowatts).

(3) ***Financial Products*** — financing to customers and dealers for the purchase and lease of Caterpillar and noncompetitive related equipment, as well as some financing for Caterpillar sales to dealers. Also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment. This line of business consists primarily of Caterpillar Financial Services Corporation (Cat Financial) and its subsidiaries and Caterpillar Insurance Holdings, Inc.

Our products are sold primarily under the brands "Caterpillar," "Cat," "Solar," "MaK," "Perkins," "FG Wilson," and "Olympian."

We conduct operations in our *Machinery* and *Engines* lines of business under highly competitive conditions, including intense price competition. We place great emphasis on the high quality and performance of our products and our dealers' service support. Although no one competitor is believed to produce all of the same types of machines and engines, there are numerous companies, large and small, which compete with us in the sale of each of our products.

Machines are distributed principally through a worldwide organization of dealers, 63 located in the United States and 157 located outside the United States. Worldwide, these dealers have over 1,840 branch locations and 1,100 Cat Dealer Rental outlets and serve 172 countries. Reciprocating engines are sold principally through the worldwide dealer organization and to other manufacturers for use in products manufactured by them. Some of the reciprocating engines manufactured by Perkins also are sold through their worldwide network of 178 distributors located in 115 countries. Some of the electric power generation systems manufactured by FG Wilson are sold through their worldwide network of 250 dealers located in 170 countries. Our dealers do not deal exclusively with our products; however, in most cases sales and servicing of our products are our dealers' principal business. Turbines and large marine reciprocating engines are sold through sales forces employed by Solar and MaK, respectively. Occasionally, these employees are assisted by independent sales representatives.

Manufacturing activities of the *Machinery* and *Engines* lines of business are conducted in 47 plants in the United States; 12 in the United Kingdom; eight in Italy; five in Mexico; four each in China and India; three each in France, Germany, and Northern Ireland; two each in Australia, Canada, and Japan; and one each in Belgium, Brazil, Hungary, Indonesia, The Netherlands, Poland, Russia, South Africa, and Sweden. Fourteen parts distribution centers are located in the United States and 12 are located outside the United States.

The *Financial Products* line of business also conducts operations under highly competitive conditions. Financing for users of Caterpillar products is available through a variety of competitive sources, principally commercial banks and finance and leasing companies. We emphasize prompt and responsive service to meet customer requirements and offer various financing plans designed to increase the opportunity for sales of our products and generate financing income for our company. *Financial Products* activity is primarily conducted in the United States, with additional offices in Asia, Australia, Canada, Europe, and Latin America.

B. Basis of consolidation

The financial statements include the accounts of Caterpillar Inc. and its subsidiaries. Investments in companies that are owned 20% to 50% are accounted for by the equity method (see Note 10 on Page A-15).

The accompanying financial statements and supplemental consolidating data, where applicable, have been grouped as follows:

Consolidated — Caterpillar Inc. and its subsidiaries.

Machinery and Engines — primarily our manufacturing, marketing, and parts distribution operations, with the *Financial Products* subsidiaries accounted for on the equity basis.

Financial Products — our finance and insurance subsidiaries, primarily Cat Financial and Caterpillar Insurance Holdings, Inc.

Certain amounts for prior years have been reclassified to conform with the current-year financial statement presentation. A new line ("Other operating expenses") was added to the Statement of Results of Operations in 2001. The *Financial Products* amounts currently reported on the new line represent depreciation expense on equipment leased to others. Such expenses were previously included in "Selling, general and administrative expenses."

C. Sales and revenue recognition

Sales of *Machinery and Engines* are unconditional sales that are generally recorded when the title transfers as product is shipped and invoiced to customers or independently owned and operated dealers.

Revenues of *Financial Products* primarily represent finance and lease revenues of Cat Financial, a wholly-owned subsidiary. Finance revenues are recognized over the term of the contract at a constant rate of return on the scheduled uncollected principal balance. Lease revenues are recognized in the period earned. Recognition of income is suspended when collection of future income is not probable. Income recognition is resumed if the receivable becomes contractually current and collection doubts are removed; previously suspended income is recognized at that time.

D. Inventories

Inventories are stated at the lower of cost or market. Cost is principally determined using the last-in, first-out (LIFO) method. The value of inventories on the LIFO basis represented about 80% of total inventories at December 31, 2001, 2000, and 1999.

If the FIFO (first-in, first-out) method had been in use, inventories would have been $1,923, $2,065, and $2,000 higher than reported at December 31, 2001, 2000, and 1999, respectively.

E. Securitized receivables

When finance receivables are securitized, we retain interest in the form of interest-only strips, servicing rights, cash reserve accounts, and subordinate certificates. Gains or losses on the securitization are dependent upon the purchase price being allocated between the carrying value of the securitized receivables and the retained interests based upon their relative fair value. We estimate fair value based on the present value of future expected cash flows using key assumptions for credit losses, prepayment speeds, forward yield curves and discount rates (see Note 5 on Pages A-11 and A-12).

F. Depreciation and amortization

Depreciation of plant and equipment is computed principally using accelerated methods. Amortization of purchased intangibles is computed using the straight-line method, generally over a period of 20 years or less. Accumulated amortization was $350, $252, and $150 at December 31, 2001, 2000, and 1999, respectively.

G. Shipping and handling costs

We include shipping and handling (including warehousing) costs incurred in connection with the distribution of replacement parts in the "Selling, general and administrative expenses" line of the income statement. These amounts were $241, $235, and $251 for the years ended December 31, 2001, 2000, and 1999, respectively.

H. Foreign currency translation

The functional currency for most of our *Machinery and Engines* consolidated companies is the U.S. dollar. The functional currency for most of our *Financial Products* and equity basis companies is the respective local currency. Gains and losses resulting from the translation of foreign currency amounts to the functional currency are included in the results of operations. Gains and losses resulting from translating assets and liabilities from the functional currency to U.S. dollars are included in "Accumulated other comprehensive income," which is part of stockholders' equity.

I. Derivative financial instruments

Our earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates, interest rates and commodity prices. Our Risk Management Policy (Policy) allows for the use of derivative financial instruments to manage foreign currency exchange rate, interest rate, and commodity price exposure. Our Policy specifies that derivatives are not to be used for speculative purposes. Derivatives that we use are primarily foreign currency forward and option contracts, interest rate swaps, and commodity forward and option contracts. The company's derivative activities are subject to the management, direction, and control of our Financial Officers. Risk management practices, including the use of financial derivative instruments, are presented to the Audit Committee of the Board of Directors at least annually.

All derivatives are recognized on the balance sheet at their fair value. On the date the derivative contract is entered, the company designates the derivative as (1) a hedge of the fair value of a recognized liability ("fair value" hedge), (2) a hedge of a forecasted transaction or the variability of cash flow to be paid ("cash flow" hedge), or (3) an "undesignated" instrument. Changes in the fair value of a derivative that is qualified, designated, and highly effective as a fair value hedge, along with the gain or loss on the hedged liability that is attributable to the hedged risk, are recorded in current earnings. Changes in the fair value of a derivative that is qualified, designated, and highly effective as a cash flow hedge are recorded in other comprehensive income until earnings are affected by the forecasted transaction or the variability of cash flow and are then reported in current earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings.

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value hedges to specific liabilities on the balance sheet and linking cash flow hedges to specific forecasted transactions or variability of cash flow.

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we discontinue hedge accounting prospectively, in accordance with Statement of Financial Accounting Standards No. 133 (SFAS 133). Please refer to Note 2 for more information on derivatives.

J. Estimates in financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. The more significant estimates include: residual values for leased assets and reserves for warranty, product liability losses, postemployment benefits, post-sale discounts, credit losses, and certain nonrecurring costs.

K. Future accounting changes

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (SFAS 141), "Business Combinations." SFAS 141 addresses financial accounting and reporting for business combinations. This Statement requires that all business combinations be accounted for by the purchase method. As required by SFAS 141, we adopted this new accounting standard for all business combinations initiated after June 30, 2001. The adoption of SFAS 141 did not have a material impact on our financial statements.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets." SFAS 142 addresses financial accounting and reporting for intangible assets and goodwill. The Statement requires that goodwill and intangible assets having indefinite useful lives not be amortized, rather be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. As required by SFAS 142, we will adopt this new accounting standard on January 1, 2002. Application of the non-amortization provisions of SFAS 142 is expected to result in a pretax increase in earnings of $80 per year. Upon adoption, we will perform the required transitional impairment tests of goodwill and indefinite-lived intangible assets. Adoption of the transitional impairment provisions of SFAS 142 is not expected to result in an impairment loss.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. As required by SFAS 143, we will adopt this new accounting standard on January 1, 2003. We believe the adoption of SFAS 143 will not have a material impact on our financial statements.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for the impairment of all long-lived assets. As required by SFAS 144, we will adopt this new accounting standard on January 1, 2002. We believe the adoption of SFAS 144 will not have a material impact on our financial statements.

2. Derivative financial instruments and risk management

A. Adoption of SFAS 133

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB amended portions of SFAS 133 by issuing Statement of Financial Accounting Standards No. 138. We adopted these new standards effective January 1, 2001. Adoption of these new accounting standards resulted in cumulative after tax reductions to net income and accumulated other comprehensive income of $2 and $12, respectively, in the first quarter of 2001. The adoption also immaterially impacted both assets and liabilities recorded on the balance sheet. During 2001, we reclassified $5 of the transition adjustment from accumulated other comprehensive income to current earnings.

B. Foreign currency exchange rate risk

Foreign currency exchange rate movements create a degree of risk by affecting the U.S. dollar value of sales made and costs incurred in foreign currencies. Movements in foreign currency rates also affect our competitive position as these changes may affect business practices and/or pricing strategies of non-U.S.-based competitors. Additionally, we have balance sheet positions denominated in foreign currency, thereby creating exposure to movements in exchange rates.

Our *Machinery and Engines* operations purchase, manufacture, and sell products in many locations around the world. As we have a diversified revenue and cost base, we manage our future foreign currency cash flow exposure on a net enterprise basis. We use foreign currency forward and option contracts to manage unmatched foreign currency cash inflow and outflow. Our objective is to minimize the risk of exchange rate movements that would reduce the U.S. dollar value of our foreign currency cash flow. Our Policy allows for managing anticipated foreign currency cash flow for up to four years.

We generally designate as cash flow hedges at inception of the contract any Australian dollar, Brazilian real, British pound, Canadian dollar, euro, Japanese yen, Mexican peso, or Singapore dollar forward or option contracts that exceed 90 days in duration. Designation is performed on a specific exposure basis to support hedge accounting. The remainder of *Machinery and Engines* foreign currency contracts is undesignated. Losses of $2 on the undesignated contracts were recorded in current earnings ["Other income (expense)" in Statement 1] for the year. Gains of $.3 due to changes in time and volatility value on options were excluded from effectiveness calculations and included in current earnings ["Other income (expense)"] for the year. As of December 31, 2001, $5 of deferred net gains included in equity ("Accumulated other comprehensive income" in Statement 3) is expected to be reclassified to current earnings ["Other income (expense)"] over the next 12 months. There were no circumstances where hedge treatment was discontinued during the year ended December 31, 2001.

In managing foreign currency risk for our *Financial Products* operations, our objective is to minimize (offset) earnings volatility resulting from conversion and the remeasurement of net foreign currency balance sheet positions. Our Policy allows the use of foreign currency forward contracts to offset the risk of currency mismatch between our receivable and debt portfolio. All such foreign currency forward contracts are undesignated. "Other income (expense)" includes gains of $43 on the undesignated contracts substantially offset by balance sheet remeasurement and conversion losses.

C. Interest rate risk

Interest rate movements create a degree of risk by affecting the amount of our interest payments and the value of our fixed rate debt. Our policy is to use interest rate swap agreements and forward rate agreements to manage our exposure to interest rate changes and lower the cost of borrowed funds.

Our *Machinery and Engines* operations generally use fixed rate debt as a source of funding. Our objective is to minimize the cost of borrowed funds. Our policy allows us to enter fixed-to-floating interest rate swaps and forward rate agreements to meet that objective with the intent to designate as fair value hedges at inception of the contract all fixed-to-floating interest rate swaps. Designation as a hedge of the fair value of our fixed rate debt is performed to support hedge accounting. Gains on undesignated contracts of $.3 were recorded in current earnings ["Other income (expense)"] for the year. Gains on designated interest rate derivatives of $23 were offset by losses on hedged debt of $18 in current earnings ["Other income (expense)"] for the year. Deferred gains on liquidated fixed-to-floating interest rate swaps, which were previously designated as fair value hedges, are being amortized to earnings ratably over the remaining life of the hedged debt. Gains of $6 on the liquidated swaps were amortized to current earnings ["Other income (expense)"] for the year. We designate as cash flow hedges at inception of the contract all forward rate agreements. Designation as a hedge of the anticipated issuance of debt is performed to support hedge accounting. *Machinery and Engines* forward rate agreements are 100% effective. As of December 31, 2001, $.3 of deferred net gains included in equity ("Accumulated other comprehensive income") is expected to be reclassified to current earnings ["Other income (expense)"] over the next 12 months. The reclassification of the remaining deferred gain to current earnings ["Other income (expense)"] will occur over a maximum of 30 years. There were no circumstances where hedge treatment was discontinued during the year ended December 31, 2001.

Our *Financial Products* operations have a "match funding" objective whereby, within specified boundaries, the interest rate profile (fixed rate or floating rate) of their debt portfolio largely matches the interest rate profile of their receivable, or asset, portfolio. In connection with that objective, we use interest rate derivative instruments to modify the debt structure to match the receivable portfolio. This "match funding" reduces the risk of deteriorating margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move. We also use these instruments to gain an economic and/or competitive advantage through lower cost of borrowed funds. This is accomplished by changing the characteristics of existing debt instruments or entering into new agreements in combination with the issuance of new debt.

Our Policy allows us to issue floating-to-fixed, fixed-to-floating, and floating-to-floating interest rate swaps to meet the "match funding" objective. We designate as fair value hedges at inception of the contract all fixed-to-floating interest rate swaps. Designation as a hedge of the fair value of our fixed rate debt is performed to support hedge accounting. As *Financial Products* fixed-to-floating interest rate swaps are 100% effective, gains on designated interest rate derivatives of $44 were offset completely by losses on hedged debt of $44 in current earnings ["Other income (expense)"] for the year ended December 31, 2001. *Financial Products* policy is to designate as cash flow hedges at inception of the contract most floating-to-fixed interest rate swaps. Designation as a hedge of the variability of cash flow is performed to support hedge accounting. Losses of $1 due to ineffectiveness on floating-to-fixed interest rate swaps were included in current earnings ["Other income (expense)"] for the year ended December 31, 2001. As of December 31, 2001, $30 of deferred net losses included in equity ("Accumulated other comprehensive income") is expected to be reclassified to current earnings ("Interest expense of Financial Products" in Statement 1) over the next 12 months. There were no circumstances where hedge treatment was discontinued during the year ended December 31, 2001.

D. Commodity price risk

Commodity price movements create a degree of risk by affecting the price we must pay for certain raw material. Our policy is to use commodity forward and option contracts to minimize volatility in the payments we make for such commodities.

Our *Machinery and Engines* operations purchase aluminum, copper, and nickel embedded in the components we purchase from suppliers. Our suppliers pass on to us price changes in the commodity portion of the component cost.

Our objective is to minimize volatility in the price of these commodities. Our policy allows us to enter commodity forward and option contracts to lock in the purchase price of the commodities within a four-year horizon. All such commodity forward and option contracts are undesignated. Losses on the undesignated contracts of $8 were recorded in current earnings ["Other income (expense)"] for the year.

3. Other income (expense)

	Years ended December 31,		
	2001	2000	1999
Investment and interest income	**$ 96**	$ 96	$ 74
Foreign exchange (losses) gains	**(29)**	(78)	9
Miscellaneous income	**76**	65	113
	$ 143	$ 83	$ 196

4. Inventories

	December 31,		
	2001	2000	1999
Raw materials and work-in-process	**$1,085**	$ 1,022	$ 969
Finished goods	**1,658**	1,485	1,430
Supplies	**182**	185	195
	$2,925	$ 2,692	$2,594

5. Finance receivables

Finance receivables are receivables of Cat Financial, which generally can be repaid or refinanced without penalty prior to contractual maturity. Total finance receivables reported in Statement 3 are net of an allowance for credit losses. The effective interest rate on these receivables is 8.7%.

Caterpillar Inc. utilizes inventory merchandising programs for its North American dealers. Certain dealer receivables, which arise from the sale of goods, are sold to Cat Financial at a discount. Some of these receivables are then securitized by Cat Financial into private-placement, revolving securitization facilities. Cat Financial services the dealer receivables, which are held in a securitization trust. Securitization of receivables is a cost-effective means of financing the business. During 2001, a consolidated net discount of $24 was recognized on the securitization of dealer receivables. Significant assumptions used to estimate the fair value of dealer receivables securitized during 2001 include a 7.2% discount rate, a one-month weighted-average maturity, a weighted-average prepayment rate of 0%, and expected credit losses of 0%.

During 2001, Cat Financial securitized retail installment sale contracts and finance leases into a public asset-backed securitization facility. These finance receivables, which are being held in a securitization trust, are secured by new and used equipment. Cat Financial retained servicing responsibilities and subordinated interests related to this securitization. Subordinated interests include $12 in subordinated certificates, an interest in certain future cash flows (excess) with an initial fair value of $20, and a reserve account with an initial fair value of $5. The company's retained interests are generally subordinate to the investors' interests. A net gain of $21 was recognized on this transaction.

Significant assumptions used to estimate the fair value of the subordinated certificates in this transaction include a 6.31% discount rate, a weighted-average prepayment rate of 14%, and expected credit losses of 0.55%. Significant assumptions used to estimate the fair value of the excess and the reserve account in this transaction include a 13.61% discount rate, a weighted-average prepayment rate of 14%, and expected credit losses of 0.55%. The company receives annual servicing fees of approximately 1% of unpaid note value.

During 2001, Cat Financial serviced installment sale contracts and finance lease contracts that they securitized. Cat Financial receives a servicing fee of 1% of the average outstanding principal balance. As of December 31, 2001, Cat Financial's retained interests in these securitizations totaled $51. Key assumptions used to initially determine the fair value of the retained interests included cash flow discount rates on subordinate tranches of 6.31%-6.90%, a cash flow discount rate on other retained interests of 13.61%, a weighted-average maturity of 41 months, average prepayment rates of 14%, and expected credit losses of .48%-.55%.

(Dollars in millions except per share data)

The investors and the securitization trusts have no recourse to Cat Financial's other assets for failure of debtors to pay when due.

Cash flow in 2001 related to the above securitizations consisted of:

	Dealer Receivables	Finance Receivables
Proceeds from receivables initially securitized	$ —	$ 630
Proceeds from subsequent securitization of receivables into revolving facility	$ 2,477	$ —
Servicing fees received	$ 5	$ 6

Characteristics of the dealer receivables and finance receivables securitizations as of and for the year ended December 31, 2001 were:

	Dealer Receivables	Finance Receivables
Total securitized principal balance	$ 500	$ 615
Average securitized principal balance	$ 504	$ 836
Loans more than 30 days past due	$ —	$ 31
Net credit losses	$ —	$ 3
Weighted average maturity (in months)	1	26

We estimated the impact of individual 10% and 20% changes to the key economic assumptions used to determine the fair value of residual cash flow in retained interests on our income. An independent, adverse change to each key assumption had an immaterial impact on the fair value of residual cash flow.

Please refer to Table I below for additional finance receivables information and Note 16 and Table IV on Page A-18 for fair value information.

TABLE I — Finance Receivables Information

Contractual maturities of outstanding receivables:

Amounts Due In	Installment Contracts	Financing Leases	Notes	Total
	December 31, 2001			
2002	$1,473	$1,478	$2,556	$ 5,507
2003	998	981	895	2,874
2004	553	594	656	1,803
2005	238	275	299	812
2006	74	114	198	386
Thereafter	7	164	560	731
	3,343	3,606	5,164	12,113
Residual value	—	954	—	954
Less: Unearned income	233	514	27	774
Total	$3,110	$4,046	$5,137	$12,293

Impaired loans and leases:

	2001	2000	1999
Average recorded investment	**$ 323**	$ 144	$ 106
At December 31:			
Recorded investment	**$ 259**	$ 265	$ 95
Less: Fair value of underlying collateral	**167**	198	41
Potential loss	**$ 92**	$ 67	$ 54

Allowance for credit loss activity:

	2001	2000	1999
Balance at beginning of year	**$ 163**	$ 134	$ 110
Provision for credit losses	**97**	62	60
Less: Net credit losses	**72**	28	31
Less: Other — net	**11**	5	5
Balance at end of year	**$ 177**	$ 163	$ 134

Cat Financial's net investment in financing leases:

	December 31, **2001**	2000	1999
Total minimum lease payments receivable	**$3,606**	$ 3,477	$3,493
Estimated residual value of leased assets:			
Guaranteed	**272**	283	261
Unguaranteed	**682**	713	718
	4,560	4,473	4,472
Less: Unearned income	**514**	517	544
Net investment in financing leases	**$4,046**	$ 3,956	$ 3,928

6. Income taxes

The components of profit before taxes were:

	Years ended December 31, 2001	2000	1999
U.S.	**$ 741**	$ 1,083	$1,050
Non-U.S.	**428**	445	371
	$1,169	$ 1,528	$1,421

The components of the provision for income taxes were:

	Years ended December 31, 2001	2000	1999
Current tax provision:			
U.S. Federal	**$ 150**	$ 177	$ 179
Non-U.S.	**174**	196	190
State (U.S.)	**11**	14	21
	$ 335	$ 387	$ 390
Deferred tax provision (credit):			
U.S. Federal	**65**	83	81
Non-U.S.	**(34)**	(35)	(25)
State (U.S.)	**1**	12	9
	32	60	65
Total provision	**$ 367**	$ 447	$ 455

Reconciliation of the U.S. federal statutory rate to effective rate:

	Years ended December 31, 2001	2000	1999
U.S. statutory rate	**35.0 %**	35.0 %	35.0 %
(Decreases) increases in taxes resulting from:			
Net operating loss carryforwards	**—**	—	(0.4)%
Benefit of Foreign Sales Corporation	**(4.9)%**	(3.8)%	(4.4)%
Release valuation allowance	**—**	(2.6)%	—
Non-U.S. subsidiaries taxed at other than 35%	**(0.1)%**	1.6 %	1.9 %
Other — net	**1.4 %**	(0.8)%	(0.1)%
Provision for income taxes	**31.4 %**	29.4 %	32.0 %

We paid income taxes of $379, $359, and $306 in 2001, 2000, and 1999, respectively.

We have recorded income tax expense at U.S. tax rates on all profits, except for undistributed profits of non-U.S. companies which are considered permanently invested. Determination of the amount of unrecognized deferred tax liability related to permanently invested profits is not feasible.

Deferred tax assets and liabilities:

	December 31, 2001	2000	1999
Deferred tax assets:			
Postemployment benefits other than pensions	**$1,112**	$ 1,052	$1,044
Warranty reserves	**186**	191	237
Unrealized profit excluded from inventories	**212**	176	167
Net operating loss carryforwards	**217**	198	170
Inventory valuation method	**54**	71	93
Other	**280**	248	205
	2,061	1,936	1,916
Deferred tax liabilities:			
Capital assets	**(523)**	(426)	(383)
Pension	**(182)**	(202)	(138)
	(705)	(628)	(521)
Valuation allowance for deferred tax assets	**(37)**	(45)	(72)
Deferred taxes — net	**$1,319**	$ 1,263	$1,323

A valuation allowance has been recorded at certain non-U.S. subsidiaries that have not yet demonstrated consistent and/or sustainable profitability to support the recognition of net deferred tax assets. Circumstances could change in the future which would allow us to reduce the remaining valuation allowance and recognize additional net deferred tax assets.

In 2000, circumstances changed at our Brazilian subsidiary that allowed us to reduce the valuation allowance and recognize additional net deferred tax assets.

As of December 31, 2001 amounts and expiration dates of net operating loss carryforwards in various non-U.S. taxing jurisdictions were:

2002	2003	2004	2005	2006	2007	2008	Unlimited	Total
$6	$12	$13	$73	$77	$5	—	$592	$778

7. Operating leases

We lease certain computer and communications equipment, transportation equipment, and other property through operating leases. Total rental expense for operating leases was $256, $267, and $246 for 2001, 2000, and 1999, respectively.

Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are:

Years ended December 31, 2002	2003	2004	2005	2006	After 2006	Total
$187	$148	$106	$73	$58	$332	$904

8. Postemployment benefit plans

A. Pension plans

We have both U.S. and non-U.S. pension plans covering substantially all of our employees. The defined benefit plans provide a benefit based on years of service and/or the employee's average earnings near retirement.

Please refer to Table II on Page A-14 for additional financial information.

B. Other postretirement benefit plans

We have defined-benefit retirement health care and life insurance plans for substantially all of our U.S. employees.

Please refer to Table II on Page A-14 for additional financial information.

C. Other postemployment benefit plans

We offer long-term disability benefits, continued health care for disabled employees, survivor income benefits insurance, and supplemental unemployment benefits to substantially all eligible U.S. employees.

D. Summary of long-term liability:

	December 31, 2001	2000	1999
Pensions	**$ 453**	$ 3	$ 3
Postretirement benefits other than pensions	**2,578**	2,441	2,465
Other postemployment benefits	**72**	70	68
	$3,103	$ 2,514	$2,536

(Dollars in millions except per share data)

TABLE II — Financial Information Related to Pension and Other Postretirement Benefit Plans

	Pension Benefits			Other Postretirement Benefits		
	2001	2000	1999	**2001**	2000	1999
Change in benefit obligation:						
Benefit obligation, January 1	**$ 8,089**	$ 7,736	$ 8,034	**$ 3,869**	$ 3,821	$ 4,020
Service cost	**134**	131	147	**72**	71	93
Interest cost	**581**	552	514	**289**	292	270
Business combinations	**2**	—	4	**—**	—	—
Plan amendments	**4**	2	15	**16**	—	—
Actuarial losses (gains)	**372**	387	(408)	**528**	(65)	(329)
Foreign currency exchange rates	**21**	(145)	(52)	**2**	—	—
Participant contributions	**9**	11	13	**4**	3	—
Benefits paid	**(601)**	(585)	(531)	**(266)**	(253)	(233)
Benefit obligation, December 31	**$ 8,611**	$ 8,089	$ 7,736	**$ 4,514**	$ 3,869	$ 3,821
Change in plan assets:						
Fair value of plan assets, January 1	**$ 9,490**	$ 9,700	$ 8,756	**$ 1,324**	$ 1,291	$ 1,098
Actual return on plan assets	**(447)**	477	1,416	**(71)**	22	183
Business combinations	**2**	—	6	**—**	—	—
Foreign currency exchange rate changes	**12**	(160)	(44)	**—**	—	—
Voluntary employer contributions	**—**	—	—	**—**	—	—
Participant contributions	**9**	11	13	**4**	3	—
Benefits paid	**(601)**	(585)	(531)	**(266)**	(247)	(228)
Employer funding of benefits paid	**16**	47	84	**118**	255	238
Fair value of plan assets, December 31	**$ 8,481**	$ 9,490	$ 9,700	**$ 1,109**	$ 1,324	$ 1,291
Over (under) funded, December 31	**$ (129)**	$ 1,401	$ 1,964	**$ (3,405)**	$ (2,545)	$ (2,530)
Unrecognized prior service cost	**363**	412	491	**167**	171	189
Unrecognized net actuarial (gain) loss	**515**	(1,241)	(2,078)	**413**	(317)	(355)
Unrecognized net obligation (asset) existing at adoption of SFAS 87	**7**	5	(18)	**—**	—	—
Contributions made after measurement date	**4**	—	—	**17**	—	—
Net amount recognized in financial position	**$ 760**	$ 577	$ 359	**$ (2,808)**	$ (2,691)	$ (2,696)
Components of net amount recognized in financial position:						
Prepaid benefit costs	**$ 1,052**	$ 901	$ 731	**$ —**	$ —	$ —
Accrued benefit liabilities	**(292)**	(324)	(372)	**(2,808)**	(2,691)	(2,696)
Intangible assets	**210**	1	—	**—**	—	—
Adjustment for minimum pension liability	**(453)**	(3)	(3)	**—**	—	—
Accumulated other comprehensive income	**243**	2	3	**—**	—	—
Net asset (liability) recognized	**$ 760**	$ 577	$ 359	**$ (2,808)**	$ (2,691)	$ (2,696)
Components of net periodic benefit cost:						
Service cost	**$ 134**	$ 131	$ 147	**$ 72**	$ 71	$ 93
Interest cost	**581**	552	514	**289**	292	270
Expected return on plan assets	**(896)**	(854)	(798)	**(136)**	(123)	(107)
Amortization of:						
Net asset existing at adoption of SFAS 87	**(1)**	(23)	(23)	**—**	—	—
Prior service cost[(1)]	**54**	76	101	**21**	19	19
Net actuarial (gain) loss	**(35)**	(62)	(26)	**(9)**	—	1
Total (benefit) cost included in results of operations	**$ (163)**	$ (180)	$ (85)	**$ 237**	$ 259	$ 276
Rate assumptions:						
Assumed discount rate[(2)]	**7.0%**	7.5%	7.4%	**7.3%**	7.8%	7.8%
Expected rate of compensation increase[(2)]	**3.9%**	4.0%	4.0%	**4.0%**	4.0%	4.0%
Expected long-term rate of return on plan assets[(3)]	**9.7%**	9.7%	9.6%	**10.0%**	10.0%	10.0%

For measurement purposes, a 10.6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002. This rate was assumed to decrease gradually to 4.5% for 2009.

(1) Prior service costs are amortized using the straight-line method. For our pension plans, the straight-line method is used over the average remaining service period of employees expected to receive benefits from the plan amendment. For our other postretirement benefit plans, the straight-line method is used over the average remaining service period of employees affected by the plan amendment.

(2) Weighted-average rates as of December 31.

(3) Weighted-average rates used in determining consolidated expense. The weighted-average rates for 2002 are 9.5% and 9.8% for pension and postretirement benefits, respectively.

Effects of a one-percentage-point change in the assumed health care cost trend rates for 2001:

	One-percentage-point increase	One-percentage-point decrease
Approximate effect on the total of service and interest cost components of other postretirement benefit cost	**$ 34**	**$ (28)**
Approximate effect on accumulated postretirement benefit obligation	**$439**	**$(366)**

The following amounts relate to our pension plans with accumulated benefit obligations in excess of plan assets:

	At December 31,		
	2001	2000	1999
Accumulated benefit obligation	**$(4,098)**	$(2,937)	$ (84)
Projected benefit obligation	**$(4,214)**	$(2,943)	$ (92)
Fair value of plan assets	**$ 3,477**	$ 2,833	$ 12

9. Property, plant, and equipment

	December 31, 2001	2000	1999
Land — at original cost	**$ 149**	$ 143	$ 141
Buildings and land improvements	**3,077**	3,016	3,063
Machinery, equipment, and other	**6,658**	6,674	6,375
Equipment leased to others	**2,270**	1,771	1,288
Construction-in-process	**636**	312	304
	12,790	11,916	11,171
Less: Accumulated depreciation	**6,187**	5,965	5,791
Property, plant, and equipment — net	**$6,603**	$ 5,951	$ 5,380

We had commitments for the purchase or construction of capital assets of approximately $260 at December 31, 2001.

Assets recorded under capital leases[1]:

	December 31, 2001	2000	1999
Gross capital leases[2]	**$ 444**	$ 622	$ 688
Less: Accumulated depreciation	**318**	483	529
Net capital leases	**$ 126**	$ 139	$ 159

(1) Included in Property, plant, and equipment table above.
(2) Consists primarily of machinery and equipment.

Equipment leased to others (primarily by *Financial Products*):

	December 31, 2001	2000	1999
Equipment leased to others — at original cost	**$2,270**	$ 1,771	$ 1,288
Less: Accumulated depreciation	**629**	479	408
Equipment leased to others — net	**$1,641**	$ 1,292	$ 880

Scheduled minimum rental payments to be received for equipment leased to others:

December 31,

2002	2003	2004	2005	2006	After 2006
$380	$267	$156	$73	$23	$9

10. Unconsolidated affiliated companies

The company's investment in affiliated companies accounted for by the equity method consists primarily of a 50% interest in Shin Caterpillar Mitsubishi Ltd. located in Japan. Combined financial information of the unconsolidated affiliated companies, accounted for by the equity method (generally on a three month lag), was as follows:

	Years ended September 30, 2001	2000	1999
Results of Operations:			
Sales	**$2,493**	$ 2,773	$ 2,814
Cost of Sales	**1,971**	2,220	2,247
Gross Margin	**522**	553	567
Profit (Loss)	**$ 9**	$ (56)	$ (37)

	September 30, 2001	2000	1999
Financial Position:			
Assets:			
Current assets	**$1,451**	$ 1,583	$ 1,641
Property, plant, and equipment — net	**986**	1,000	978
Other assets	**290**	352	415
	2,727	2,935	3,034
Liabilities:			
Current liabilities	**1,257**	1,284	1,306
Long-term debt due after one year	**414**	557	512
Other liabilities	**281**	253	318
	1,952	2,094	2,136
Ownership	**$ 775**	$ 841	$ 898

At December 31, 2001, consolidated "Profit employed in the business" in Statement 2 included $87 representing undistributed profit of the unconsolidated affiliated companies. In 2001, 2000, and 1999, we received $4, $4, and $8, respectively, in dividends from unconsolidated affiliated companies.

Through June 1999, our investment in FG Wilson was accounted for using the equity method and reported as an unconsolidated affiliated company. In June 1999, we acquired the remaining interest in FG Wilson. Beginning in July 1999, all elements of its financial reporting are included in the appropriate lines of the consolidated financial statements.

Certain investments in unconsolidated affiliated companies are accounted for using the cost method. During the first quarter of 2001, Cat Financial invested for a limited partnership interest in a venture financing structure associated with Caterpillar's rental strategy in the United Kingdom.

11. Credit commitments

December 31, 2001	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facility	$4,250[1]	$4,250[1]	$3,650[1]
Other external	970	436	534
Intercompany	—	500[2]	821[2]
Total credit lines available	5,220	5,186	5,005
Utilized credit	345	219	126
Unused credit	$4,875	$4,967	$4,879

(1) A global credit facility of $4,250 is available to both *Machinery and Engines* and *Financial Products* (Cat Financial) to support commercial paper programs. Cat Financial may use up to 90% of the available facility subject to a maximum debt to equity and a minimum interest coverage ratio. *Machinery and Engines* may use up to 100% of the available facility subject to a minimum level of net worth. Based on these restrictions, and the allocation decisions of available credit made by management, the facility available to Cat Financial at December 31, 2001 was $3,650. The facility is comprised of two components of equal amounts expiring in September 2002 and September 2006.
(2) Represents variable lending agreements between Caterpillar Inc. and Cat Financial.

Based on long-term credit agreements, $1,885, $2,732, and $2,244 of commercial paper outstanding at December 31, 2001, 2000, and 1999, respectively, was classified as long-term debt due after one year.

12. Short-term borrowings

	December 31, 2001	2000	1999
Machinery and Engines:			
Notes payable to banks	**$ 219**	$ 104	$ 51
Commercial paper	**—**	237	—
Other	**—**	28	—
	219	369	51
Financial Products:			
Notes payable to banks	**126**	92	88
Commercial paper	**1,715**	400	534
Other	**323**	427	408
	2,164	919	1,030
Less: Intercompany borrowings	**203**	317	311
Total short-term borrowings	**$2,180**	$ 971	$ 770

(Dollars in millions except per share data)

The weighted average interest rates on external short-term borrowings outstanding were:

	December 31, 2001	2000	1999
Notes payable to banks	**5.6%**	6.9%	5.3%
Commercial paper	**2.0%**	5.9%	5.5%
Other	**3.4%**	6.8%	5.8%

Please refer to Note 16 and Table IV on Page A-18 for fair value information on short-term borrowings.

13. Long-term debt

	December 31, 2001	2000	1999
Machinery and Engines:			
Notes — 9.375% due 2001	**$ —**	$ —	$ 184
Notes — 6.000% due 2003	**253**	252	252
Notes — 6.550% due 2011	**249**	—	—
Debentures — 9.000% due 2006	**211**	203	203
Debentures — 6.000% due 2007	**180**	162	154
Debentures — 7.250% due 2009	**321**	300	300
Debentures — 9.375% due 2011	**123**	123	123
Debentures — 9.750% due 2000-2019	**—**	139	184
Debentures — 9.375% due 2021	**236**	236	236
Debentures — 8.000% due 2023	**199**	199	199
Debentures — 6.625% due 2028	**299**	299	299
Debentures — 7.300% due 2031	**348**	—	—
Debentures — 7.375% due 2097	**297**	297	297
Medium-term notes	**26**	96	96
Capital lease obligations	**467**	474	508
Commercial paper supported by revolving credit agreements (Note 11)	**130**	—	—
Other	**153**	74	64
Total Machinery and Engines	**3,492**	2,854	3,099
Financial Products:			
Commercial paper supported by revolving credit agreements (Note 11)	**1,755**	2,732	2,244
Medium-term notes	**6,003**	5,687	4,524
Other	**41**	61	61
Total Financial Products	**7,799**	8,480	6,829
Total long-term debt due after one year	**$11,291**	$ 11,334	$ 9,928

Other than the debt of the *Financial Products* subsidiaries, all outstanding notes and debentures itemized above are unsecured direct obligations of Caterpillar Inc. The capital lease obligations are collateralized by leased manufacturing equipment and/or security deposits.

The 6% notes may be redeemed in whole at their principal amount if we are required to pay additional taxes or duties as a result of a change in tax law and that obligation cannot be reasonably avoided. In addition, if the identity of beneficial owners of the notes must be disclosed in certain circumstances, we would be required either to redeem the notes or satisfy the information disclosure requirement through the payment of certain taxes or charges. We may also purchase the 6% notes at any time in the open market.

The 6% debentures were sold at significant original issue discounts ($144). This issue is carried net of the unamortized portion of its discount, which is amortized as interest expense over the life of the issue. These debentures have a principal at maturity of $250 and an effective annual cost of 13.3%. We may redeem them, at our option, at an amount equal to the respective principal at maturity.

We may redeem the 6.55% notes and the 7.25%, 6.625%, 7.3%, and 7.375% debentures in whole or in part at our option at any time at a redemption price equal to the greater of 100% of the principal amount of the debentures to be redeemed or the sum of the present value of the remaining scheduled payments.

The terms of other notes and debentures do not specify a redemption option prior to maturity.

The medium-term notes are offered on a continuous basis through agents and are primarily at fixed rates. *Machinery and Engines* medium-term notes have maturities from nine months to 30 years. At December 31, 2001, these notes had a weighted average interest rate of 8.1% with two to three years remaining to maturity. *Financial Products* medium-term notes have a weighted average interest rate of 5.4% with remaining maturities up to 15 years at December 31, 2001.

The aggregate amounts of maturities of long-term debt during each of the years 2002 through 2006, including amounts due within one year and classified as current, are:

	December 31, 2002	2003	2004	2005	2006
Machinery and Engines	$ 73	$ 277	$ 47	$ 18	$ 353
Financial Products	3,058	3,141	812	406	2,581
	$ 3,131	$ 3,418	$ 859	$ 424	$ 2,934

Interest paid on short-term and long-term borrowings for 2001, 2000, and 1999 was $1,009, $930, and $796, respectively.

Please refer to Note 16 and Table IV on Page A-18 for fair value information on long-term debt.

14. Capital stock

A. Stock options

In 1996, stockholders approved a plan providing for the granting of options to purchase common stock to officers and other key employees, as well as non-employee directors. This plan reserves 24,000,000 shares of common stock for issuance. Options vest at the rate of one-third per year over the three year period following the date of grant, and have a maximum term of 10 years. Common shares issued under stock options, including treasury shares reissued, totaled 693,444, 346,333, and 1,449,797, in 2001, 2000, and 1999, respectively.

Our plan grants options which have exercise prices equal to the average market price on the date of grant. We account for our stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Therefore, no compensation expense is recognized in association with these options. As required by Statement of Financial Accounting Standard No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," a summary of the pro forma net income and profit per share amounts is shown in Table III on Page A-17. Consistent with the requirements of SFAS 123, compensation expense related to grants made prior to 1995 has not been taken into consideration. The fair value of each option grant is estimated at the date of grant using the Black-Scholes option-pricing model.

Please refer to Table III on Page A-17 for additional financial information on our stock options.

B. Restricted stock

The 1996 Stock Option and Long-Term Incentive Plan permits the award of restricted stock to officers and other key employees, as well as non-employee directors. During 2001, 143,686 shares of restricted stock were awarded to officers and other key employees as Performance Awards, and 9,750 shares of restricted stock were granted to non-employee directors.

C. Stockholders' rights plan

We are authorized to issue 5,000,000 shares of preferred stock, of which 2,000,000 shares have been designated as Series A Junior Participating Preferred Stock of $1 par value. None of the preferred shares have been issued.

Stockholders would receive certain preferred stock purchase rights if someone acquired or announced a tender offer to acquire 15% or more of outstanding Caterpillar stock. In essence, those rights would permit each holder (other than the acquiring person) to purchase one share of Caterpillar stock at a 50% discount for every share owned. The rights, designed to protect the interests of Caterpillar stockholders during a takeover attempt, expire December 11, 2006.

TABLE III — Financial Information Related to Capital Stock

Changes in the status of common shares subject to issuance under options:

	2001		2000		1999	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Fixed Options:						
Outstanding at beginning of year	**26,336,074**	**$ 44.49**	20,404,176	$ 45.90	18,439,777	$ 38.50
Granted to officers and key employees	**7,512,206**	**$ 53.53**	6,621,858	$ 38.41	4,937,132	$ 62.34
Granted to outside directors	**52,000**	**$ 45.51**	44,000	$ 43.75	52,000	$ 57.56
Exercised	**(1,273,361)**	**$ 23.64**	(543,090)	$ 19.49	(2,752,448)	$ 25.20
Lapsed	**(331,689)**	**$ 47.13**	(190,870)	$ 55.17	(272,285)	$ 54.39
Outstanding at end of year	**32,295,230**	**$ 47.34**	26,336,074	$ 44.49	20,404,176	$ 45.90
Options exercisable at year-end	**19,062,802**	**$ 45.74**	15,214,347	$ 42.47	11,655,668	$ 36.12
Weighted-average fair value of options granted during the year	**$ 14.56**		$ 10.92		$ 16.45	

Stock options outstanding and exercisable:

	Options Outstanding			Options Exercisable	
Exercise Prices	# Outstanding at 12/31/01	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	# Outstanding at 12/31/01	Weighted-Average Exercise Price
$11.78-$16.44	487,820	0.5	$14.93	487,820	$14.93
$18.77-$26.77	1,413,685	2.1	$24.52	1,413,685	$24.52
$27.91-$39.19	10,411,671	6.7	$35.85	6,215,921	$34.13
$43.75-$62.34	19,982,054	7.6	$55.74	10,945,376	$56.45
	32,295,230	7.0	$47.34	19,062,802	$45.74

SFAS 123 pro forma net income and earnings per share:

	Years ended December 31, **2001**	2000	1999
Net Income:			
As reported	**$ 805**	$ 1,053	$ 946
Pro forma	**$ 748**	$ 1,008	$ 910
Profit per share of common stock:			
As reported:			
Basic	**$ 2.35**	$ 3.04	$ 2.66
Assuming dilution	**$ 2.32**	$ 3.02	$ 2.63
Pro forma:			
Basic	**$ 2.18**	$ 2.91	$ 2.56
Assuming dilution	**$ 2.17**	$ 2.90	$ 2.55

Weighted-average assumptions used in determining fair value of option grants:

	Grant Year **2001**	2000	1999
Dividend yield	**2.49%**	2.11%	2.07%
Expected volatility	**30.1%**	26.4%	24.4%
Risk-free interest rates	**4.88%**	6.20%	5.80%
Expected lives	**5 years**	5 years	5 years

(Dollars in millions except per share data)

15. Profit per share

Stock options to purchase 19,886,054, 12,636,262, and 12,953,783 shares of common stock at a weighted-average price of $55.79, $57.14, and $56.99 were outstanding during 2001, 2000, and 1999, respectively, but were not included in the computation of diluted profit per share, because the options' exercise price was greater than the average market price of the common shares.

16. Fair values of financial instruments

We used the following methods and assumptions to estimate the fair value of our financial instruments:

Cash and short-term investments — carrying amount approximated fair value.

Long-term investments (other than investments in unconsolidated affiliated companies) — fair value was estimated based on quoted market prices.

Foreign currency forward and option contracts — fair value of forward contracts was determined by discounting the future cash flow resulting from the differential between the contract price and the forward rate. Fair value of option contracts was determined by using the Black-Scholes model.

Finance receivables — fair value was estimated by discounting the future cash flow using current rates, representative of receivables with similar remaining maturities. Historical bad debt experience was also considered.

Short-term borrowings — carrying amount approximated fair value.

Long-term debt — for *Machinery and Engines* notes and debentures, fair value was estimated based on quoted market prices. For *Financial Products,* fair value was estimated by discounting the future cash flow using our current borrowing rates for similar types and maturities of debt, except for floating rate notes and commercial paper supported by revolving credit agreements for which the carrying amounts were considered a reasonable estimate of fair value.

Interest rate swaps — fair value was estimated based on the amount that we would receive or pay to terminate our agreements as of year end.

Please refer to Table IV below for the fair values of our financial instruments.

17. Concentration of credit risk

Financial instruments with potential credit risk consist primarily of trade and finance receivables and short-term and long-term investments. Additionally, to a lesser extent, we have a potential credit risk associated with counterparties to derivative contracts.

Trade receivables are primarily short-term receivables from independently owned and operated dealers which arise in the normal course of business. We perform regular credit evaluations of our dealers. Collateral generally is not required, and the majority of our trade receivables are unsecured. We do, however, when deemed necessary, make use of various devices such as security agreements and letters of credit to protect our interests. No single dealer represents a significant concentration of credit risk.

TABLE IV — Fair Values of Financial Instruments

Asset (Liability) At December 31	**2001** Carrying Amount	**2001** Fair Value	2000 Carrying Amount	2000 Fair Value	1999 Carrying Amount	1999 Fair Value	Reference #
Cash and short-term investments	**$ 400**	**$ 400**	$ 334	$ 334	$ 548	$ 548	Statement 3, Note 17
Long-term investments	**791**	**791**	741	741	667	667	Note 17
Foreign currency contracts	**2**	**2**	(30)	(34)	69	82	Note 2
Finance receivables — net (excluding operating and finance type leases and currency forward contracts[1])	**11,152**	**11,162**	10,465	10,557	8,774	8,753	Note 5
Short-term borrowings	**(2,180)**	**(2,180)**	(971)	(971)	(770)	(770)	Note 12
Long-term debt (including amounts due within one year)							
Machinery and Engines	**(3,565)**	**(3,749)**	(3,058)	(3,198)	(3,266)	(3,285)	Note 13
Financial Products	**(10,857)**	**(10,976)**	(11,038)	(11,154)	(9,766)	(9,688)	Note 13
Interest rate swaps							
Machinery and Engines —							
in a net receivable position	**—**	**—**	—	25	2	1	Note 2
in a net payable position	**—**	**—**	(1)	—	(8)	(24)	Note 2
Financial Products —							
in a net receivable position	**58**	**58**	8	27	22	29	Note 2
in a net payable position	**(71)**	**(71)**	—	(25)	(1)	(7)	Note 2

[1] Excluded items have a net carrying value at December 31, 2001, 2000, and 1999 of $964, $1,101, and $1,020, respectively.

Finance receivables primarily represent receivables under installment sales contracts, receivables arising from leasing transactions and notes receivable. Receivables from customers in construction-related industries made up approximately one-third of total finance receivables at December 31, 2001, 2000, and 1999. We generally maintain a secured interest in the equipment financed. No single customer or region represents a significant concentration of credit risk.

Short-term and long-term investments are held with high quality institutions and, by policy, the amount of credit exposure to any one institution is limited. Long-term investments are comprised of investments which collateralize capital lease obligations (see Note 13 on Page A-16) and investments of Caterpillar Insurance Holdings, Inc. supporting insurance reserve requirements.

Outstanding derivative instruments, with notional amounts totaling $5,872, $6,794, and $7,795, and terms generally ranging up to five years, were held at December 31, 2001, 2000, and 1999, respectively. Collateral is not required of the counterparties or of our company. We do not anticipate non-performance by any of the counterparties. Our exposure to credit loss in the event of non-performance by the counterparties is limited to only those gains that we have recorded, but have not yet received, cash payment. At December 31, 2001, 2000, and 1999, the exposure to credit loss was $80, $30, and $75, respectively.

Please refer to Note 16 and Table IV on Page A-18 for fair value information.

18. Environmental and legal matters

The company is regulated by federal, state, and international environmental laws governing our use of substances and control of emissions. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings, or competitive position.

We are cleaning up hazardous waste at a number of locations, often with other companies, pursuant to federal and state laws. When it is likely we will pay clean-up costs at a site and those costs can be estimated, the costs are charged against our earnings. In making that estimate, we do not consider amounts expected to be recovered from insurance companies and others.

The amount set aside for environmental cleanup is not material and is included in “Accrued expenses” in Statement 3. If a range of liability estimates is available on a particular site, we accrue the lower end of that range.

We cannot estimate costs on sites in the very early stages of cleanup. Currently, we have five of these sites, and there is no more than a remote chance that a material amount for cleanup will be required.

Pursuant to a Consent Decree Caterpillar entered into with the United States Environmental Protection Agency (EPA), the company is required to meet certain emission standards by October 2002. The Consent Decree provides for the possibility that diesel engine manufacturers may not be able to meet these standards exactly on that date, and allows companies to continue selling non-compliant engines if they pay non-conformance penalties on those engines. The EPA currently is in the process of setting these non-conformance penalties. If Caterpillar must pay non-conformance penalties, our results could be negatively impacted, but not materially in 2002.

On January 16, 2002, Caterpillar commenced an action against Navistar International Transportation Corporation and International Truck & Engine Corporation (Navistar). Caterpillar seeks a declaratory judgment upholding a long-term purchase contract plus damages arising from Navistar’s alleged breach of contract. On January 17, 2002, Navistar commenced an action against Caterpillar that alleges we breached various aspects of the long-term purchase contract. We believe Navistar’s claims are without merit, and resolution of these matters will not have a material impact on our financial statements.

19. Segment information

A. Basis for segment information

The company is organized based on a decentralized structure that has established accountabilities to continually improve business focus and increase our ability to react quickly to changes in both the global business cycle and competitors’ actions. Our current structure uses a product, geographic matrix organization comprised of multiple profit and service center divisions.

Caterpillar is a highly integrated company. The majority of our profit centers are product focused. They are primarily responsible for the design, manufacture, and ongoing support of their products. However, some of these product-focused profit centers also have marketing responsibilities. We also have geographically-based profit centers that are primarily focused on marketing. However, most of these profit centers also have some manufacturing responsibilities. One of our profit centers provides various financial services to our customers and dealers. The service center divisions perform corporate functions and provide centralized services.

We have developed an internal measurement system to evaluate performance and to drive continuous improvement. This measurement system, which is not based on generally accepted accounting principles (GAAP), is intended to motivate desired behavior of employees and drive performance. It is not intended to measure a division’s contribution to enterprise results. The sales and cost information used for internal purposes varies significantly from our consolidated, externally-reported information resulting in substantial reconciling items. Each division has specific performance targets and is evaluated and compensated based on achieving those targets. Performance targets differ from division to division; therefore, meaningful comparisons cannot be made among the profit or service center divisions. It is the comparison of actual results to budgeted results that makes our internal reporting valuable to management. Consequently, we feel that the financial information required by Statement of Financial Accounting Standards No. 131 (SFAS 131) “Disclosures about Segments of an Enterprise and Related Information” has limited value for our external readers.

Due to Caterpillar’s high level of integration and our concern that segment disclosures based on SFAS 131 requirements have limited value to external readers, we are continuing to disclose GAAP-based financial results for our three lines of business (Machinery, Engines, and Financial Products) in our Management’s Discussion and Analysis beginning on Page A-25.

B. Description of segments

The profit center divisions meet the SFAS 131 definition of "operating segments;" however, the service center divisions do not. Several of the profit centers have similar characteristics and have been aggregated. The following is a brief description of our seven reportable segments and the business activities included in the "All other" category.

Asia/Pacific Marketing: Primarily responsible for marketing products through dealers in Australia, Asia (excluding Japan), and the Pacific Rim. Also includes the regional manufacturing of some products which are also produced by *Construction & Mining Products.*

Construction & Mining Products: Primarily responsible for the design, manufacture, and ongoing support of small, medium, and large machinery used in a variety of construction and mining applications. Also includes the design, manufacture, procurement, and marketing of components and control systems that are consumed primarily in the manufacturing of our machinery.

EAME Marketing: Primarily responsible for marketing products through dealers in Europe, Africa, the Middle East, and the Commonwealth of Independent States. Also includes the regional manufacturing of some products which are also produced by *Construction & Mining Products* and *Power Products.*

Finance & Insurance Services: Provides financing to customers and dealers for the purchase and lease of Caterpillar and non-competitive related equipment, as well as some financing for Caterpillar sales to dealers. Also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

Latin America Marketing: Primarily responsible for marketing products through dealers in Latin America. Also includes the regional manufacturing of some products that are also produced by *Construction & Mining Products* and *Power Products.*

Power Products: Primarily responsible for the design, manufacture, marketing, and ongoing support of reciprocating and turbine engines along with related systems. These engines and related systems are used in products manufactured in other segments, on-highway trucks, and locomotives; and in a variety of construction, electric power generation, marine, petroleum, and industrial applications.

North America Marketing: Primarily responsible for marketing products (excluding *Power Products*) through dealers in the United States and Canada.

All other: Primarily includes activities such as: service support and parts distribution to Caterpillar dealers worldwide; the design, manufacture, and ongoing support of agricultural machinery and paving products; logistics services for other companies; service tools for Caterpillar dealers; preventive maintenance products (filters and fluids); and the remanufacture of Caterpillar engines and components.

C. Segment measurement and reconciliations

Please refer to Table V on Pages A-21 and A-22 for financial information regarding our segments. There are several accounting differences between our segment reporting and our GAAP-based external reporting. Our segments are measured on an accountable basis; therefore, only those items for which divisional management is directly responsible are included in the determination of segment profit/(loss) and assets. The following is a list of the more significant accounting differences:

- Generally, liabilities are managed at the corporate level and are not included in segment operations. Segment accountable assets generally include inventories, receivables, property, plant, and equipment.
- We account for intersegment transfers using a system of market-based prices. With minor exceptions, each of the profit centers either sells or purchases virtually all of its products to or from other profit centers within the company. Our high level of integration results in our internally-reported sales being approximately double that of our consolidated, externally-reported sales.
- Segment inventories and cost of sales are valued using a current cost methodology.
- Timing differences occur between our internal reporting and our external reporting such as: postretirement benefit expenses and profit that is recognized on intersegment transfers.
- Interest expense is imputed (i.e., charged) to profit centers based on their level of accountable assets. This calculation takes into consideration the corporate debt to debt-plus-equity ratio and a weighted-average corporate interest rate.
- In general, foreign currency fluctuations are neutralized for segment reporting.
- Accountable profit is determined on a pretax basis.

Reconciling items are created based on accounting differences between segment reporting and our consolidated, external reporting. Please refer to Table V on Pages A-21 and A-22 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations of accounting differences. However, for the reconciliation of profit, we have grouped the reconciling items as follows:

- **Corporate costs:** Certain corporate costs are not charged to our segments. These costs are related to corporate requirements and strategies that are considered to be for the benefit of the entire organization.
- **Methodology differences:** See previous discussion of significant accounting differences between segment reporting and consolidated, external reporting.
- **Methodology changes in segment reporting:** Estimated restatements of prior periods to reflect changes in our internal-reporting methodology.

TABLE V — Segment Information (unaudited)

Business Segments:

	Asia/ Pacific Marketing	Construction & Mining Products	EAME Marketing	Financing & Insurance Services	Latin America Marketing	Power Products	North America Marketing	All Other	Total
2001									
External sales and revenues	**$1,411**	**222**	**3,403**	**1,717**	**1,479**	**5,334**	**5,878**	**1,238**	**$20,682**
Intersegment sales and revenues	**$ 12**	**7,330**	**669**	**1**	**145**	**4,777**	**219**	**1,842**	**$14,995**
Total sales and revenues	**$1,423**	**7,552**	**4,072**	**1,718**	**1,624**	**10,111**	**6,097**	**3,080**	**$35,677**
Depreciation and amortization	**$ 11**	**213**	**60**	**315**	**25**	**359**	**—**	**73**	**$ 1,056**
Imputed interest expense	**$ 13**	**70**	**29**	**673**	**8**	**115**	**61**	**66**	**$ 1,035**
Accountable profit (loss)	**$ 18**	**526**	**164**	**334**	**59**	**195**	**54**	**248**	**$ 1,598**
Accountable assets at Dec. 31	**$ 413**	**2,432**	**896**	**15,439**	**574**	**3,907**	**1,368**	**2,462**	**$27,491**
Capital Expenditures	**$ 9**	**271**	**61**	**858**	**20**	**337**	**—**	**93**	**$ 1,649**
2000									
External sales and revenues	$ 1,380	222	3,330	1,527	1,276	5,736	5,861	1,039	$ 20,371
Intersegment sales and revenues	$ 7	7,255	744	—	124	4,847	173	1,886	$ 15,036
Total sales and revenues	$ 1,387	7,477	4,074	1,527	1,400	10,583	6,034	2,925	$ 35,407
Depreciation and amortization	$ 9	210	61	237	27	338	—	69	$ 951
Imputed interest expense	$ 9	60	29	703	10	100	88	65	$ 1,064
Accountable profit (loss)	$ 39	646	195	253	30	487	82	203	$ 1,935
Accountable assets at Dec. 31	$ 373	2,229	967	14,185	580	3,810	1,739	2,383	$ 26,266
Capital Expenditures	$ 7	190	67	659	24	261	1	79	$ 1,288
1999									
External sales and revenues	$ 1,337	170	3,134	1,397	1,229	5,648	5,941	1,000	$ 19,856
Intersegment sales and revenues	$ 4	6,882	727	10	84	4,545	179	1,810	$ 14,241
Total sales and revenues	$ 1,341	7,052	3,861	1,407	1,313	10,193	6,120	2,810	$ 34,097
Depreciation and amortization	$ 8	215	62	194	28	327	—	65	$ 899
Imputed interest expense	$ 15	66	27	569	5	108	39	65	$ 894
Accountable profit (loss)	$ 46	602	149	207	68	347	31	160	$ 1,610
Accountable assets at Dec. 31	$ 365	2,227	917	12,776	546	3,923	852	2,302	$ 23,908
Capital Expenditures	$ 23	216	78	431	20	316	2	79	$ 1,165

Reconciliations:

Sales & Revenues

	2001	2000	1999
Total external sales and revenues from business segments	**$20,682**	$20,371	$19,856
Other	**(232)**	(196)	(154)
Total consolidated sales and revenues	**$20,450**	$20,175	$19,702

Profit before taxes

	2001	2000	1999
Total accountable profit from business segments	**$ 1,598**	$ 1,935	$ 1,610
Corporate costs	**(444)***	(232)	(218)
Methodology differences	**(48)**	(252)	(29)
Other	**63**	77	58
Total consolidated profit before taxes	**$ 1,169**	$ 1,528	$ 1,421

Assets

	December 31,		
	2001	2000	1999
Total accountable assets from business segments	**$27,491**	$26,266	$23,908
Items not included in segment assets:			
Deferred income taxes & prepaids	**2,572**	2,323	2,107
Intangible assets & other assets	**1,977**	1,757	1,748
Investments in affiliated companies	**677**	450	452
Cash and short-term investments	**400**	334	548
Service center assets	**637**	453	442
Liabilities included in segment assets	**853**	696	558
Inventory methodology differences	**(1,571)**	(1,653)	(1,679)
Intercompany trade receivables double counted in segment assets	**(1,757)**	(1,790)	(958)
Other	**(622)**	(372)	(415)
Total consolidated assets	**$30,657**	$28,464	$26,711

*Includes $(153) of nonrecurring charges. See Note 23 on Page A-22.

Enterprise-Wide Disclosures:

External sales and revenues from products and services:

	2001	2000	1999
Machinery	**$12,158**	$11,857	$11,705
Engines	**6,869**	7,056	6,854
Financial Products	**1,423**	1,262	1,143
Total consolidated	**$20,450**	$20,175	$19,702

Continued on Page A-22

(Dollars in millions except per share data)

TABLE V Continued — Segment Information (unaudited)

Information about Geographic Areas:

	Sales & Revenues[1]			Net property, plant, and equipment December 31,		
	2001	2000	1999	**2001**	2000	1999
Inside United States	**$ 10,033**	$ 10,076	$ 10,171	**$ 4,351**	$ 3,854	$ 3,397
Outside United States	**10,417**	10,099	9,531	**2,252**[2]	2,097[2]	1,983[2]
Total	**$ 20,450**	$ 20,175	$ 19,702	**$ 6,603**	$ 5,951	$ 5,380

[1] Sales of machinery and engines are based on dealer location. Revenues from services provided are based on where service is rendered.
[2] Amount includes $681, $628, and $614 of net property, plant, and equipment located in the United Kingdom as of December 31, 2001, 2000, and 1999, respectively.

20. Selected quarterly financial results (unaudited)

	2001 Quarter 1st	2nd	3rd	4th
Sales and revenues	**$ 4,810**	**$ 5,488**	**$ 5,056**	**$ 5,096**
Less: Revenues	**349**	**356**	**357**	**361**
Sales	**4,461**	**5,132**	**4,699**	**4,735**
Cost of goods sold	**3,462**	**3,955**	**3,669**	**3,666**
Gross margin	**999**	**1,177**	**1,030**	**1,069**
Profit	**162**	**271**	**205**	**167**
Profit per common share	**$ .47**	**$ .79**	**$ .60**	**$ .49**
Profit per common share — diluted	**$ .47**	**$ .78**	**$ .59**	**$ .48**

	2000 Quarter 1st	2nd	3rd	4th
Sales and revenues	$ 4,919	$ 5,363	$ 4,779	$ 5,114
Less: Revenues	294	307	327	334
Sales	4,625	5,056	4,452	4,780
Cost of goods sold	3,558	3,840	3,471	3,628
Gross margin	1,067	1,216	981	1,152
Profit	258	315	216	264
Profit per common share	$ .73	$ .91	$ .63	$ .77
Profit per common share — diluted	$ .73	$ .90	$ .62	$ .76

21. Available-for-sale securities

Caterpillar Insurance Holdings, Inc. had investments in certain debt and equity securities at December 31, 2001 that have been classified as available-for-sale in accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115) and recorded at fair value based upon quoted market prices. Gains and losses arising from the revaluation of available-for-sale securities are included, net of applicable deferred income taxes, in equity ("Accumulated other comprehensive income" in Statement 3). Realized gains and losses on sales of investments are determined using the average cost method for debt instruments and the FIFO method for equity securities.

	December 31, 2001 Cost Basis	Net Gains/Losses	Fair Value
Government debt	$ 80	$ —	$ 80
Corporate bonds	157	1	158
Equity securities	200	(40)	160
	$437	$ (39)	$398

The fair value of the available-for-sale debt securities, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Fair Value
Due in one year or less	$10
Due after one year through five years	$96
Due after five years through ten years	$65
Due after ten years	$67

Proceeds from sales of investments in debt and equity securities during 2001 were $246. Gross gains of $2 and gross losses of $5 have been included in current earnings as a result of these sales.

22. Alliances and acquisitions

In the fourth quarter of 2001, we entered a software alliance with Ford Motor Company to develop a world-class logistics information system to increase the speed at which service repair parts are delivered to market.

During the second quarter of 1999, we acquired the remaining 51% interest in FG Wilson, a leading packager of diesel-powered generator sets.

23. Nonrecurring charges

In the fourth quarter of 2001, we recorded nonrecurring charges totaling $153 on a pretax basis.

In December 2001, Caterpillar Inc. signed an agreement with AGCO to sell the design, assembly and marketing of the new MT Series of Caterpillar's Challenger high-tech farm tractors during the first quarter of 2002. The assets associated with this sale had a book value of $52. These assets, which are held in our *All Other* segment, have been written down to $20. The $32 pretax loss on assets associated with this sale is reflected in the "Other operating expenses" line of Statement 1. An additional pretax charge of $49 for other costs required by the terms of the sales contract was recorded in the "Other operating expenses" line of Statement 1.

In December 2001, Caterpillar Inc. announced plans to cease production of diesel engines at the Perkins Engines Shrewsbury, England plant by the end of 2002. Production will be reallocated to other Caterpillar engine facilities to better leverage technology and capacity. The book value of assets at the plant was $31. These assets, which are held in our *Power Products* segment, have been written down to $15. The $16 pretax loss on assets is reflected in the "Other operating expenses" line of Statement 1. An additional pretax charge of $4 for future expenditures associated with ceasing diesel engine production at Shrewsbury was recorded in the "Other operating expenses" line of Statement 1.

In December 2001, Caterpillar Inc. announced plans to reduce worldwide employment at selected locations in order to reduce costs and improve efficiencies. Approximately 495 of the reduction will result from the closing of the Perkins Engines Shrewsbury plant. Another 433 will come from salaried and management reductions in the United States in the first half of 2002. A pretax charge of $44 for future expenditures associated with these separations was recorded in the "Other operating expenses" line of Statement 1.

Other pretax impairment charges of $8 were taken on two manufacturing buildings in the fourth quarter of 2001. These charges are reflected in the "Other operating expenses" line of Statement 1.

Five-year Financial Summary
(Dollars in millions except per share data)

Years ended December 31,	**2001**	2000	1999	1998	1997
Sales and revenues	**$20,450**	20,175	19,702	20,977	18,925
Sales	**$19,027**	18,913	18,559	19,972	18,110
Percent inside the United States	**49%**	50%	50%	51%	49%
Percent outside the United States	**51%**	50%	50%	49%	51%
Revenues	**$ 1,423**	1,262	1,143	1,005	815
Profit	**$ 805**	1,053	946	1,513	1,665
Profit per common share[1]	**$ 2.35**	3.04	2.66	4.17	4.44
Profit per common share — diluted[1]	**$ 2.32**	3.02	2.63	4.11	4.37
Dividends declared per share of common stock	**$ 1.390**	1.345	1.275	1.150	.950
Return on average common stock equity	**14.4%**	19.0%	17.9%	30.9%	37.9%
Capital expenditures:					
Property, plant, and equipment	**$ 1,100**	928	913	982	851
Equipment leased to others	**$ 868**	665	490	344	282
Depreciation and amortization	**$ 1,169**	1,063	977	893	766
Research and engineering expenses	**$ 898**	854	814	838	700
As a percent of sales and revenues	**4.4%**	4.2%	4.1%	4.0%	3.7%
Wages, salaries, and employee benefits	**$ 4,272**	4,029	4,044	4,146	3,773
Average number of employees	**70,678**	67,200	66,225	64,441	58,366
December 31,					
Total assets:					
Consolidated	**$30,657**	28,464	26,711	25,128	20,756
Machinery and Engines[2]	**$17,275**	16,554	16,158	15,619	14,188
Financial Products	**$15,895**	14,618	12,951	11,648	7,806
Long-term debt due after one year:					
Consolidated	**$11,291**	11,334	9,928	9,404	6,942
Machinery and Engines[2]	**$ 3,492**	2,854	3,099	2,993	2,367
Financial Products	**$ 7,799**	8,480	6,829	6,411	4,575
Total debt:					
Consolidated	**$16,602**	15,067	13,802	12,452	8,568
Machinery and Engines[2]	**$ 3,784**	3,427	3,317	3,102	2,474
Financial Products	**$13,021**	11,957	10,796	9,562	6,338
Percent of total debt to total debt and stockholders' equity (Machinery and Engines)	**40%**	38%	38%	38%	35%

[1] Computed on weighted-average number of shares outstanding.
[2] Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

Transactions between Machinery and Engines *and* Financial Products *have been eliminated to arrive at consolidated data.*

It is our objective to provide the most meaningful disclosures in our Management's Discussion and Analysis in order to explain significant changes in our company's results of operations and liquidity and capital resources. As discussed in Note 19A, "Basis for segment information" on Page A-19, our segment financial information is not based on generally accepted accounting principles and it is not intended to measure contributions to enterprise results. Therefore, it is impractical for us to try to discuss our company's results of operations and liquidity and capital resources solely based on segment information. Where practical, we have linked our discussions to segment information provided in Table V on Pages A-21 and A-22 (see Reconciliation of *Machinery and Engine* Sales by Geographic Region to External Sales by Marketing Segment on Page A-26). Our discussions will focus on consolidated results and our three principal lines of business as described below:

Consolidated — represents the consolidated data of Caterpillar Inc. and all its subsidiaries (affiliated companies that are more than 50% owned).

Machinery — design, manufacture, and marketing of construction, mining, agricultural, and forestry machinery — track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrapers, track and wheel excavators, backhoe loaders, mining shovels, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, telescopic handlers, skid steer loaders, and related parts.

Engines — design, manufacture, and marketing of engines for Caterpillar *Machinery,* on-highway trucks and locomotives; marine, petroleum, construction, industrial, agricultural, and other applications; electric power generation systems; and related parts. Reciprocating engines meet power needs ranging from 5 to over 22,000 horsepower (4 to over 16 200 kilowatts). Turbines range from 1,600 to 19,500 horsepower (1000 to 14 000 kilowatts).

Financial Products — financing to customers and dealers for the purchase and lease of Caterpillar and noncompetitive related equipment, as well as some financing for Caterpillar sales to dealers. Also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment. This line of business consists primarily of Caterpillar Financial Services Corporation (Cat Financial) and its subsidiaries and Caterpillar Insurance Holdings, Inc.

Machinery and Engines Sales Table

(Millions of dollars)	Total	North America	EAME	Latin America	Asia/Pacific
Fourth-Quarter 2001					
Machinery	$ 2,799	$ 1,417	$ 809	$ 222	$ 351
Engines***	1,936	816	562	348	210
	$ 4,735	$ 2,233	$ 1,371	$ 570	$ 561
Fourth-Quarter 2000					
Machinery	$ 2,795	$ 1,402	$ 793	$ 270	$ 330
Engines***	1,985	1,016	582	185	202
	$ 4,780	$ 2,418	$ 1,375	$ 455	$ 532

***Does not include internal engine transfers of $296 million and $323 million in 2001 and 2000, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

FOURTH-QUARTER 2001 COMPARED WITH FOURTH-QUARTER 2000

Sales and revenues for fourth-quarter 2001 were $5.10 billion, $18 million lower than fourth-quarter 2000. Slightly higher physical sales volume and an 8 percent increase in Financial Products revenues were more than offset by lower price realization. Profit of $167 million, including pretax nonrecurring charges of $153 million ($97 million after tax), was $97 million lower than fourth-quarter 2000. These charges were for the sale of the Challenger™ agricultural tractor line, plant closing and consolidations and costs for planned employment reductions. Excluding the nonrecurring charges, profit was $264 million, flat with fourth-quarter 2000.

MACHINERY AND ENGINES

Machinery sales were $2.80 billion, about flat compared to fourth-quarter 2000. Slightly higher physical sales volume was offset by unfavorable price realization. Sales were up in all regions except in Latin America.

Engine sales were $1.94 billion, a decrease of $49 million or 2 percent from fourth-quarter 2000. Higher physical sales volume was more than offset by lower price realization.

Operating Profit Table

(Millions of dollars)	Fourth-Quarter 2001	Fourth-Quarter 2000
Machinery	**$ 137**	$ 248
Engines	**39**	192
	$ 176*	$ 440

*Includes $153 million of nonrecurring charges.

Caterpillar operations are highly integrated; therefore, we use a number of allocations to determine lines of business financial data.

Machinery operating profit decreased $111 million from fourth-quarter 2000. The favorable impact of the slightly higher physical sales volume was more than offset by the nonrecurring charges ($98 million).

Engine operating profit decreased $153 million from fourth-quarter 2000. The benefit of higher sales volumes was more than offset by lower price realization and the nonrecurring charges ($55 million). The lower price realization impact was mostly attributable to discounting on truck engines and electric power units.

Interest expense was $13 million lower than fourth-quarter 2000.

Other income/expense was income of $42 million compared with expense of $52 million last year. The favorable change was mostly due to the absence of foreign exchange losses experienced in 2000 (primarily the British pound and Brazilian real), higher gains on the sales of assets and the favorable settlement of a lawsuit.

FINANCIAL PRODUCTS

Revenues for the fourth quarter were $415 million, up $25 million or 6 percent compared with fourth-quarter 2000 (excluding revenue transactions with *Machinery and Engines*, revenues increased $27 million or 8 percent). The increase resulted primarily from continued portfolio growth at Cat Financial, which had record new retail finance activity, as well as increased extended warranty premiums at Caterpillar Insurance Holdings, Inc. (Cat Insurance).

Before tax profit decreased $9 million or 10 percent from fourth-quarter 2000. Increased profit at Cat Financial resulting from continued portfolio growth was more than offset by lower market returns on the investment portfolio at Cat Insurance.

INCOME TAXES

Excluding the nonrecurring charges reported in 2001, fourth-quarter tax expense reflects an effective annual tax rate of 32 percent for both 2001 and 2000.

UNCONSOLIDATED AFFILIATED COMPANIES

The company's share of unconsolidated affiliated companies' results increased $11 million from a year ago, primarily due to stronger results at Shin Caterpillar Mitsubishi Ltd.

Reconciliation of Machinery and Engine Sales by Geographic Region to External Sales by Marketing Segment

(Millions of dollars)	**2001**	2000	1999
North America Geographic Region	**$ 10,260**	$ 10,492	$ 10,415
Engine sales included in the Power Products segment	**(3,470)**	(3,880)	(3,690)
Company owned dealer sales included in the All Other segment	**(438)**	(350)	(389)
North America Geographic Region sales which are included in the All Other segment	**(263)**	(197)	(133)
Other*	**(211)**	(204)	(262)
North America Marketing external sales	**$ 5,878**	$ 5,861	$ 5,941
EAME	**$ 5,114**	$ 5,041	$ 4,854
Power Products sales not included in the EAME Marketing segment	**(1,230)**	(1,306)	(1,352)
Other*	**(481)**	(405)	(368)
EAME Marketing external sales	**$ 3,403**	$ 3,330	$ 3,134
Latin America Geographic Region	**$ 1,639**	$ 1,431	$ 1,472
Power Products sales not included in the Latin America Marketing segment	**(284)**	(247)	(328)
Other*	**124**	92	85
Latin America Marketing external sales	**$ 1,479**	$ 1,276	$ 1,229
Asia/Pacific Geographic Region	**$ 2,014**	$ 1,949	$ 1,818
Power Products sales not included in the Asia/Pacific Marketing segment	**(350)**	(303)	(278)
Other*	**(253)**	(266)	(203)
Asia/Pacific Marketing external sales	**$ 1,411**	$ 1,380	$ 1,337

*Mostly represents external sales of the Construction & Mining Products and the All Other segments.

Machinery and Engines Sales by Geographic Region

(Millions of dollars)	Total	North America	EAME*	Latin America	Asia/Pacific
2001					
Machinery	$12,158	$ 6,790	$ 3,215	$ 891	$ 1,262
Engines**	6,869	3,470	1,899	748	752
	$19,027	$10,260	$ 5,114	$ 1,639	$ 2,014
2000					
Machinery	$11,857	$ 6,607	$ 3,121	$ 893	$ 1,236
Engines**	7,056	3,885	1,920	538	713
	$18,913	$10,492	$ 5,041	$ 1,431	$ 1,949
1999					
Machinery	$11,705	$ 6,725	$ 2,955	$ 851	$ 1,174
Engines**	6,854	3,690	1,899	621	644
	$18,559	$10,415	$ 4,854	$ 1,472	$ 1,818

*Europe, Africa & Middle East and Commonwealth of Independent States.

**Does not include internal engine transfers of $1,231 million, $1,356 million, and $1,234 million in 2001, 2000, and 1999, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

2001 COMPARED WITH 2000

Sales and revenues for 2001 were $20.45 billion, 1 percent more than 2000. A 1 percent increase in physical sales volume and a 13 percent increase in Financial Products revenues were partially offset by the unfavorable impact of the stronger U.S. dollar on sales denominated in currencies other than U.S. dollars (primarily the euro and Australian dollar).

Profit of $805 million, including nonrecurring charges of $153 million ($97 million after tax), was down $248 million. These charges were for the sale of the Challenger™ agricultural tractor line, plant closing and consolidations and costs for planned employment reductions. Excluding nonrecurring charges, profit was $902 million, down $151 million or 14 percent. An increase in profit due to higher sales volume was more than offset by the unfavorable impact of cost inefficiencies caused by sharp volume shifts at some manufacturing facilities, slightly higher SG&A and the absence of a favorable $39 million tax adjustment at Cat Brasil Ltda. in 2000. SG&A increases were related to spending for future growth and to improve long-term cost structure. The negative impact of currency on sales was more than offset by a positive impact on costs.

MACHINERY AND ENGINES

Machinery sales were $12.16 billion, an increase over 2000 of $301 million resulting from a 3 percent increase in physical sales volume. Sales were higher in all regions except Latin America which was about flat.

Engine sales were $6.87 billion, a decrease of $187 million or 3 percent from 2000 even though physical volume was flat.

Unfavorable price realization resulting from competitive pressures in North America combined with the unfavorable impact of the stronger U.S. dollar on sales denominated in currencies other than U.S. dollars caused the sales decline.

Higher sales in the electric power, petroleum and marine sectors were offset by a substantial drop in truck engine sales.

Operating Profit Table

(Millions of dollars)	**2001**	2000	1999
Machinery	**$ 849**	$1,001	$ 867
Engines	**348**	667	506
	$1,197*	$1,668	$1,373

*Includes $153 million of nonrecurring charges.

Caterpillar operations are highly integrated; therefore, we use a number of allocations to determine lines of business financial data.

Machinery operating profit decreased $152 million from 2000. The benefit from slightly higher physical volume was more than offset by higher costs, including the nonrecurring charges ($98 million), employment-related cost increases and higher energy costs.

Engine operating profit decreased $319 million from 2000. The decline was primarily due to the lower price realization, impact of manufacturing inefficiencies related to sharp swings in production levels and the nonrecurring charges ($55 million).

Interest expense was $7 million lower than a year ago.

Other income/expense improved by $38 million due to lower foreign currency losses (primarily the British pound) in 2001.

Table of Supplemental Information

(Millions of dollars)	**2001**	2000	1999
Identifiable Assets:			
Machinery	**$ 10,121**	$ 9,602	$ 9,160
Engines	**7,154**	6,952	6,998
Total	**$ 17,275**	$ 16,554	$ 16,158
Capital Expenditures:			
Machinery	**$ 616**	$ 573	$ 507
Engines	**493**	327	398
Total	**$ 1,109**	$ 900	$ 905
Depreciation and Amortization:			
Machinery	**$ 424**	$ 419	$ 409
Engines	**411**	394	363
Total	**$ 835**	$ 813	$ 772

Caterpillar operations are highly integrated; therefore, we use a number of allocations to determine lines of business financial data.

FINANCIAL PRODUCTS

Revenues for 2001 were a record $1.65 billion, up $180 million or 12 percent compared with 2000 (excluding revenue transactions with *Machinery and Engines*, revenues increased $161 million or 13 percent). The increase resulted primarily from continued portfolio growth at Cat Financial.

Before tax profit increased $67 million or 24 percent from 2000. Record profit at Cat Financial resulted from increased spread on the receivables portfolio and increased gains on sales of receivables.

INCOME TAXES

Excluding the tax effect of the nonrecurring charges reported in 2001 and the favorable tax adjustment of $39 million at Caterpillar Brasil Ltda. in 2000, tax expense in both years reflects an effective tax rate of 32 percent.

UNCONSOLIDATED AFFILIATED COMPANIES

The company's share of unconsolidated affiliated companies' results increased $31 million from a year ago, primarily due to stronger results at Shin Caterpillar Mitsubishi Ltd.

SUPPLEMENTAL INFORMATION

Dealer Machine Sales to End Users and Deliveries to Dealer Rental Operations

Sales (including both sales to end users and deliveries to dealer rental operations) in North America were higher than 2000. Sales increased as a result of strong customer acceptance of several new models and a shift in product mix toward larger machines. These factors more than offset the impact of lower industry demand in the United States and Canada. For the region, sales into mining were up sharply due to strong demand from the coal mining industry. Sales into waste and agriculture also increased. Sales into general construction, quarry & aggregates, forestry and industrial declined. Sales into heavy construction remained at record high levels.

For the EAME region, sales increased into general construction, waste, agriculture, heavy construction, mining, forestry and quarry & aggregates. Sales into the industrial sector declined.

Sales in Asia/Pacific increased to the mining, heavy construction, quarry & aggregates and waste sectors. Sales into forestry, general construction, industrial and agriculture declined from a year ago.

In Latin America, sales were higher as increases in heavy construction, general construction, mining, waste and agriculture more than offset lower sales into forestry, quarry & aggregates and industrial.

Dealer Inventories of New Machines

Worldwide dealer new inventories at year-end 2001 were below year-earlier levels in all regions. Inventories compared to current selling rates were near year-earlier levels in all regions except EAME where they were lower.

Engine Sales to End Users and OEMs

We recorded another record year in electric power engine sales despite slower sales growth. That, combined with strong sales into the North American petroleum sector, which benefited both reciprocating and turbine engines, partially offset significantly weaker on-highway truck engine sales in North America.

In EAME, stronger demand in marine and petroleum sectors was more than offset by significantly lower demand for industrial engines resulting in slightly lower 2001 sales.

Sales in Asia/Pacific rose marginally with all of the sales gains coming from the marine sector. Sales in Latin America rose slightly with all of the sales gain coming from substantially improved petroleum and electric power demand.

Overall, worldwide engine sales were slightly lower in 2001.

2000 COMPARED WITH 1999

Sales and revenues for 2000 were $20.18 billion, $473 million higher than 1999. The increase was primarily due to a 3 percent increase in physical sales volume and a 10 percent increase in *Financial Products* revenues, partially offset by the unfavorable impact of the stronger U.S. dollar on sales denominated in currencies other than U.S. dollars (primarily the euro). Profit of $1.05 billion was $107 million more than 1999. Operating profit improved due primarily to higher physical volume, improved price realization (excluding currency) and manufacturing efficiencies. The unfavorable impact of currency on sales was offset by a favorable impact on costs, with no effect on operating profit. However, the change in other income was unfavorable $113 million primarily due to foreign exchange translation losses in 2000. Income taxes were favorably impacted by an adjustment at Caterpillar Brasil Ltda. in the third quarter of 2000. Profit per share of $3.02 was up 39 cents from 1999.

MACHINERY AND ENGINES

Machinery sales were $11.86 billion, an increase of $152 million or 1 percent from 1999. A 4 percent increase in physical sales volume was largely offset by the effect of the stronger U.S. dollar on sales denominated in currencies other than U.S. dollars (primarily the euro). Higher sales in EAME, Asia/Pacific and Latin America more than offset lower sales in North America. Sales in North America declined due to lower industry demand, which more than offset the positive impact of a slower rate of inventory reduction by dealers compared to 1999. In EAME, sales were higher due to increased industry demand throughout the region and dealer inventory growth. Sales in Latin America improved as dealers held inventory steady compared to sharp cutbacks in 1999. Sales in Asia/Pacific were up as improved retail demand more than offset slower dealer inventory growth.

Engine sales were $7.06 billion, an increase of $202 million or 3 percent from 1999. The increase was due to a 2 percent increase in physical sales volume and higher price realization.

Higher sales in North America, Asia/Pacific and EAME more than offset lower sales in Latin America. Sales benefited from robust demand worldwide for electric power generation, and improved share of industry sales of engines to North American truck OEMs. These positive factors more than offset the impact of a sharply lower North American truck industry.

Machinery operating profit increased $134 million, or 15 percent, from 1999 due to higher sales volume and lower selling, general, and administrative (SG&A) expenses. These favorable items were partially offset by unfavorable geographic mix.

Engine operating profit increased $161 million, or 32 percent, from 1999 due to improved manufacturing efficiencies, better product mix related to increased demand for electric power, and higher sales volume. These were partially offset by higher SG&A and research and development (R&D) expenses.

Interest expense was $23 million higher than 1999 due to higher average debt levels.

Other income/expense was expense of $126 million compared with income of $66 million in 1999. The adverse change was mostly due to discounts taken on the sales of trade receivables and unfavorable foreign currency results. The discounts on sales of trade receivables relate to the revolving program with Caterpillar Financial Services, which was implemented in 1998 as a cost-effective means of financing operations.

FINANCIAL PRODUCTS

Revenues for 2000 were a record $1.47 billion, up $188 million, or 15 percent, compared with 1999 (excluding revenue transactions with *Machinery and Engines*, revenues increased $119 million, or 10 percent). The increase resulted primarily from continued growth in Cat Financial's portfolio.

Before tax profit increased $27 million, or 11 percent, from 1999. Record profit at Cat Financial resulting from continued portfolio growth was partially offset by a reduction in favorable reserve adjustments at Caterpillar Insurance Co. Ltd. (Cat Insurance).

INCOME TAXES

Both 2000 and 1999 tax expense reflect an estimated annual effective tax rate of 32 percent. However, 2000 income tax expense was favorably affected by a positive adjustment of $39 million at Caterpillar Brasil Ltda. in the third quarter.

UNCONSOLIDATED AFFILIATED COMPANIES

The company's share of unconsolidated affiliated companies' results declined $8 million from 1999, primarily due to weaker results at Shin Caterpillar Mitsubishi Ltd. and the conversion of FG Wilson from an affiliated company to a consolidated subsidiary in July 1999.

LIQUIDITY & CAPITAL RESOURCES

Sources of funds

The company generates its capital resources primarily through operations. Consolidated operating cash flow was $1.99 billion for 2001, compared with $2.06 billion for 2000. The decrease was largely due to lower profit and increased working capital requirements. We anticipate that the majority of future capital resource requirements will be funded by operating cash flow which is largely driven by profit. See our Outlook beginning on page A-32.

Debt is also a source of capital resources for the company. Total debt as of December 31, 2001 was $16.60 billion, an increase of $1.54 billion from year-end 2000. During 2001, debt related to *Machinery and Engines* increased $357 million, to $3.78 billion, while debt related to *Financial Products* (Cat Financial) increased $1.06 billion to $13.02 billion. We have a global credit facility of $4.25 billion available to both *Machinery and Engines* and Cat Financial to support commercial paper programs. Cat Financial may use up to 90% of the available facility subject to a maximum debt to equity and a minimum interest coverage ratio. *Machinery and Engines* may use up to 100% of the available facility subject to a minimum level of net worth. Based on these restrictions, and the allocation decisions of available credit made by management, the facility available to Cat Financial at December 31, 2001 was $3.65 billion. The facility is comprised of two components of equal amounts expiring in September 2002 and September 2006. Our total credit commitments as of December 31, 2001 were:

(Millions of dollars)

	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facility	$4,250	$4,250	$3,650
Other external	970	436	534
Intercompany	—	500	821
Total credit lines available	5,220	5,186	5,005
Utilized credit	345	219	126
Unused credit	$4,875	$4,967	$4,879

We also generate funding through the securitization of receivables. In 2001, we generated $2,477 million and $630 million of capital resources from the securitization of trade and finance receivables, respectively. As of December 31, 2001, we had trade and finance receivables of $2,647 million and $12,116 million, respectively.

We do not generate material funding through structured finance transactions.

Committed funds

The company has committed cash outflow related to debt and operating lease agreements and capital expenditures. Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are:

(Millions of dollars)

2002	2003	2004	2005	2006	After 2006	Total
$187	$148	$106	$73	$58	$332	$904

The aggregate amounts of maturities of long-term debt, including that due within one year and classified as current, are:

(Millions of dollars)

	2002	2003	2004	2005	2006	After 2006	Total
Machinery and Engines ...	$ 73	$ 277	$ 47	$ 18	$ 353	$ 2,797	$ 3,565
Financial Products ..	3,058	3,141	812	406	2,581	859	10,857
	$ 3,131	$ 3,418	$ 859	$ 424	$ 2,934	$ 3,656	$14,422

We had commitments for the purchase of construction or capital assets of approximately $260 million at December 31, 2001.

We did not have contingent liabilities with more than a remote chance of occurrence at December 31, 2001.

Machinery and Engines

Operating cash flow was $1.41 billion for 2001, compared with $1.63 billion for 2000. The decrease was primarily due to lower profit and increased working capital requirements in 2001. Capital expenditures for 2001, excluding equipment leased to others, were $1.07 billion compared with $891 million for 2000. During the second quarter of 2001, $600 million of 10- and 30-year debt was sold. $250 million in notes priced at 6.55% is due in 2011. $350 million in debentures priced at 7.3% is due in 2031. The proceeds from the offering were used for general corporate purposes and to lower overall debt costs. During the third quarter of 2001, Caterpillar Inc. filed with the Securities and Exchange Commission to periodically sell up to $500 million in debt securities. The debt to debt-plus-equity ratio as of December 31, 2001 was 40%.

Financial Products

Operating cash flow was $590 million for 2001, compared with $474 million for 2000. The increase was primarily due to higher profit and decreased working capital requirements in 2001. Cash used to purchase equipment leased to others was $830 million in 2001. In addition, net cash used for finance receivables was $838 million in 2001, compared with $1.20 billion in 2000. December 31, 2001 finance receivables past due over 30 days were 3.9%, compared with 3.6% at the end of 2000.

Financial Products debt was $13.02 billion at December 31, 2001, an increase of $1.06 billion from December 31, 2000, and primarily comprised $9.02 billion of medium-term notes, $217 million of notes payable to Caterpillar, $126 million of notes payable to banks, and $3.47 billion of commercial paper. During the second quarter of 2001, $500 million of five-year debt, priced at 5.95%, was sold. The proceeds from the offering were used for general corporate purposes and to lower overall debt costs. The ratio of debt to equity of Cat Financial was 7.7:1 at December 31, 2001 compared with 8.0:1 at December 31, 2000.

Dividends paid per common share

Quarter	2001	2000	1999
First	**$ .340**	$ .325	$ .300
Second	**.340**	.325	.300
Third	**.350**	.340	.325
Fourth	**.350**	.340	.325
	$1.380	$1.330	$1.250

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. The more significant estimates include: residual values for leased assets and reserves for warranty, product liability losses, postemployment benefits, post-sale discounts, credit losses and certain nonrecurring costs. We use the following methods and assumptions in determining our estimates:

Warranty reserve — Determined by applying historical claim rate experience to the current field population and dealer inventory. Generally, historical claim rates are developed using a 12-month rolling average of actual warranty expense. These rates are applied to the field population and dealer inventory to determine the reserve.

Product liability reserve — Determined based upon reported claims in process of settlement and actuarial estimates for losses incurred but not reported.

Postemployment benefit reserve — Determined in accordance with SFAS 87, 106 and 112 using the assumptions detailed in Note 8 to the Consolidated Financial Statements.

Post-sale discount reserve — The company extends numerous merchandising programs that provide discounts to dealers as products are sold to end users. The reserve is determined based on historical data adjusted for known changes in merchandising programs.

Residual values for leased assets — Determined based on the product, specifications, application, and hours of usage. Each product has its own model for evaluation that includes market value cycles and forecasts. Consideration is also given to the number of machines that will be returned from lease during a given time frame.

Credit loss reserve — Determined by applying historical credit loss experience to the current receivable portfolio with consideration given to the condition of the economy and trends in past due accounts.

Nonrecurring cost reserve — Determined in accordance with the appropriate accounting guidance depending upon the facts and circumstances surrounding the situation. 2001 nonrecurring charges discussed in Note 23 to the Consolidated Financial Statements were estimated in accordance with SFAS 5 and 121 and EITF 94-3.

We have incorporated many years of historical data into the determination of each of these estimates. We have a proven history of using accurate estimates and sound assumptions to calculate and record appropriate reserves and residual values.

EMPLOYMENT

At the end of 2001, Caterpillar's worldwide employment was 72,004 compared with 68,440 one year ago. Of the total increase, 1,815 resulted from acquisitions, primarily outside the United States.

Full-Time Employees at Year End

	2001	2000	1999
Inside U.S.	**38,664**	37,660	38,379
Outside U.S.	**33,340**	30,780	28,517
Total	**72,004**	68,440	66,896
By Region:			
North America	**38,879**	37,870	38,560
EAME	**23,531**	21,880	20,794
Latin America	**7,012**	6,186	5,493
Asia/Pacific	**2,582**	2,504	2,049
Total	**72,004**	68,440	66,896

OTHER MATTERS

ENVIRONMENTAL AND LEGAL MATTERS

The company is regulated by federal, state, and international environmental laws governing our use of substances and control of emissions. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings, or competitive position.

We are cleaning up hazardous waste at a number of locations, often with other companies, pursuant to federal and state laws. When it is likely we will pay clean-up costs at a site and those costs can be estimated, the costs are charged against our earnings. In doing that estimate, we do not consider amounts expected to be recovered from insurance companies and others.

The amount set aside for environmental cleanup is not material and is included in "Accrued expenses" in Statement 3. If a range of liability estimates is available on a particular site, we accrue the lower end of that range.

We cannot estimate costs on sites in the very early stages of cleanup. Currently, we have five of these sites, and there is no more than a remote chance that a material amount for cleanup will be required.

Pursuant to a Consent Decree Caterpillar entered into with the United States Environmental Protection Agency (EPA), the company is required to meet certain emission standards by October 2002. The Consent Decree provides for the possibility that diesel engine manufacturers may not be able to meet these standards exactly on that date, and allows companies to continue selling non-compliant engines if they pay non-conformance penalties on those engines. The EPA currently is in the process of setting these non-conformance penalties. If Caterpillar must pay non-conformance penalties, our results could be negatively impacted, but not materially in 2002.

On January 16, 2002, Caterpillar commenced an action against Navistar International Transportation Corporation and International Truck & Engine Corporation (Navistar). Caterpillar seeks a declaratory judgment upholding a long-term purchase contract plus damages arising from Navistar's alleged breach of contract. On January 17, 2002, Navistar commenced an action against Caterpillar that alleges we breached various aspects of the long-term purchase contract. We believe Navistar's claims are without merit, and resolution of these matters will not have a material impact on our financial statements.

SENSITIVITY

Foreign Exchange Rate Sensitivity

Based on the anticipated and firmly committed cash inflow and outflow for our *Machinery and Engines* operations for the next 12 months and the foreign currency derivative instruments in place at year end, a hypothetical 10% weakening of the U.S. dollar relative to all other currencies would adversely affect our expected 2002 cash flow for our *Machinery and Engines* operations by $62 million. Last year, similar assumptions and calculations yielded a potential $62 million adverse impact on 2001 pretax earnings.

Since our policy for *Financial Products* operations is to hedge the foreign exchange risk when the currency of our debt portfolio does not match the currency of our receivable portfolio, a 10% change in the value of the U.S. dollar relative to all other currencies would not have a material effect on our consolidated financial position, results of operations, or cash flow. Neither our policy nor the effect of a 10% change in the value of the U.S. dollar has changed from that reported at the end of last year.

The effect of the hypothetical change in exchange rates ignores the effect this movement may have on other variables, including competitive risk. If it were possible to quantify this competitive impact, the results could well be different from the sensitivity effects shown above. In addition, it is unlikely that all currencies would uniformly strengthen or weaken relative to the U.S. dollar. In reality, some currencies may weaken while others may strengthen.

Interest Rate Sensitivity

For our *Machinery and Engines* operations, we currently use interest rate swaps to lower the cost of borrowed funds by attaching fixed-to-floating interest rate swaps to fixed rate debt. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect 2002 pretax earnings of *Machinery and Engines* by $3 million. Last year, similar assumptions and calculations yielded a potential $22 million adverse impact on 2001 pretax earnings.

For our *Financial Products* operations, we use interest rate derivative instruments primarily to meet our "match funding" objectives and strategies. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect the 2002 pretax earnings of *Financial Products* by $15 million. Last year, similar assumptions and calculations yielded a potential $15 million adverse impact on 2001 pretax earnings.

The effect of the hypothetical change in interest rates ignores the effect this movement may have on other variables including changes in actual sales volumes that could be indirectly attributed to changes in interest rates. The actions that management would take in response to such a change are also ignored. If it were possible to quantify this impact, the results could well be different than the sensitivity effects shown above.

OUTLOOK

Summary

After a severe slowdown in 2001, world economic growth as well as growth in industrial production are projected to improve, albeit gradually, over the course of 2002. This improvement will be driven by lower interest rates and energy costs around the globe, combined with significant fiscal stimulus in North America.

While world growth is expected to improve gradually, momentum is expected to build from very weak activity levels at the beginning of 2002. As a result, world growth is expected to be about flat in the first half — a significant slowdown from growth rates in the first half of 2001 — before picking up momentum and closing the year with annualized growth rates approaching 3 percent.

In this economic environment, worldwide industry opportunity and company sales and revenues are projected to be about flat compared with 2001. For the full year we expect profit to be up slightly compared to 2001, excluding the 2001 nonrecurring charges, although we expect significantly lower profit in the first half, particularly the first quarter. The full-year profit improvement reflects the company's continuing actions to reduce costs and improve efficiencies.

North America

In the United States, even though a supplementary fiscal stimulus package was not approved, Congress approved an increase for transportation funding in 2002. Leading economic indicators began recovering at the close of 2001 as consumer spending and expectations rebounded from the retrenchment that we saw after the September 11 terrorist attacks. As a result, the U.S. economy is on track for flat to slightly positive growth in the first quarter, followed by stronger growth in the second, and gaining momentum in the third and fourth quarters of 2002. The Canadian economy will track the U.S. closely, and consumer spending and housing in Canada will benefit as well from scheduled personal tax reductions.

Industry sales of construction and industrial machines are projected to be flat to down slightly in most sectors. Coal mining is expected to be down moderately.

Reciprocating and turbine engine sales are expected to be flat to up slightly. For truck engine sales, we expect industry heavy-duty truck engine volumes to be down moderately. Volumes for electric power are expected to be about flat. As a result, company sales in North America are expected to be about flat.

EAME

In EAME, growth in Europe is expected to lag the recovery in North America by about a quarter. We expect a weak first quarter to be followed by a flat second quarter and improving growth in the second half of 2002. Weak commodity prices are expected to restrain growth in Africa/Middle East and the CIS. Company sales in the EAME region are projected to be about flat.

Asia/Pacific

In Asia/Pacific, business conditions are expected to improve in developing Asia in the second half of 2002 in response to the U.S. recovery, but Japan is expected to remain weak and continue to be a drag on the regional recovery. Growth in China is expected to continue at a solid rate, leading to higher sales, and sales in Australia are expected to be up slightly. Company sales in the region are expected to be down slightly.

Latin America

In Latin America, business conditions in Mexico are expected to improve in conjunction with the U.S. recovery, while power shortages in Brazil are expected to become less acute in 2002. There was a sharp increase in political and economic uncertainty in Argentina at the end of last year. Our outlook assumes that the majority of the negative shocks to machine and engine industry demand will be confined to Argentina. Company sales for the region are expected to be down slightly.

* * *

The information included in the Outlook section is forward looking and involves risks and uncertainties that could significantly affect expected results. A discussion of these risks and uncertainties is contained in Form 8-K filed with the Securities & Exchange Commission (SEC) on January 23, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS ■

SUPPLEMENTAL STOCKHOLDER INFORMATION

Stockholder Services:

Stock Transfer Agent
Mellon Investor Services
P.O. Box 3315
South Hackensack, NJ 07606-3315
phone: (866) 203-6622 (U.S. and Canada)
(201) 231-5649 (Outside U.S. and Canada)
hearing impaired:
(800) 329-8660 (U.S. and Canada)
(201) 329-8354 (Outside U.S. and Canada)
Internet home page: www.melloninvestor.com

Caterpillar Assistant Secretary
Laurie J. Huxtable
Assistant Secretary
Caterpillar Inc.
100 N.E. Adams Street
Peoria, IL 61629-7310
phone: (309) 675-4619
fax: (309) 675-6620
e-mail: **CATshareservices@CAT.com**

Stock Purchase Plan:

Current stockholders and other interested investors may purchase Caterpillar Inc. common stock directly through the Investor Services Program sponsored and administered by our Transfer Agent.

Current stockholders can get more information on the program from our Transfer Agent using the contact information provided above. Non-shareholders can request program materials by calling: (800) 842-7629 (U.S. and Canada) or (201) 329-8660 (outside U.S. and Canada). The Investor Services Program materials are available online from Mellon's website or linked from www.CAT.com/dspp.

Investor Relations:

Institutional analysts, portfolio managers, and representatives of financial institutions seeking additional information about the company should contact:

Director of Investor Relations
James W. Anderson
Caterpillar Inc.
100 N.E. Adams Street, Peoria, IL 61629-5310
phone: (309) 675-4549
fax: (309) 675-4457
e-mail: **CATir@CAT.com**
Internet website: www.CAT.com/investor

Common Stock (NYSE: CAT)

Listing Information: Caterpillar common stock is listed on the New York, Pacific and Chicago stock exchanges in the United States, and on stock exchanges in Belgium, France, Germany, Great Britain and Switzerland.

Price Ranges: Quarterly price ranges of Caterpillar common stock on the New York Stock Exchange, the principal market in which the stock is traded, were:

	2001		2000	
Quarter	**High**	**Low**	High	Low
First	**49.63**	**39.75**	$55^1/_8$	$33^1/_2$
Second	**56.81**	**41.50**	$44^7/_8$	$33^{13}/_{16}$
Third	**55.72**	**40.35**	$39^5/_8$	$32^1/_2$
Fourth	**53.21**	**43.35**	$47^{15}/_{16}$	$29^9/_{16}$

Number of Stockholders: Stockholders of record at year-end totaled 36,339, compared with 36,253 at the end of 2000. Approximately 68% of our issued shares are held by institutions and banks, 24% by individuals, and 8% by Caterpillar benefit plans.

Employees' investment and profit-sharing plans acquired 4,810,070 shares of Caterpillar stock in 2001. Investment plans, for which membership is voluntary, held 28,751,756 shares for employee accounts at 2001 year end. Profit-sharing plans, in which membership is automatic for most U.S. and Canadian employees in eligible categories, held 449,110 shares at 2001 year end.

Company Publications:

Current information:

- phone our Information Hotline — (800) 228-7717 (U.S. and Canada) or (858) 244-2080 (outside U.S. and Canada) to request company publications by mail, listen to a summary of Caterpillar's latest financial results and current outlook, or to request a copy of results by fax or mail
- request, view, or download materials on-line or register for e-mail alerts by visiting www.CAT.com/materialsrequest

Historical information:

- view/download on-line at www.CAT.com/historical

Annual Meeting:

On Wednesday, April 10, 2002, at 1:30 p.m. Central Time, the annual meeting of stockholders will be held at the Bank One Auditorium, Chicago, Illinois. Requests for proxies are being mailed to stockholders with this report on or about March 1, 2002.

Internet:

Visit us on the Internet at www.CAT.com.

Information contained on our website is not incorporated by reference into this document.

DIRECTORS AND OFFICERS

DIRECTORS

Lilyan H. Affinito[1,3]	Former Vice Chairman, Maxxam Group Inc.
Glen A. Barton	Chairman and CEO, Caterpillar Inc.
W. Frank Blount[1,3]	Chairman and CEO, Cypress Communications Inc.
John R. Brazil[2,4]	President, Trinity University
John T. Dillon[1,3]	Chairman and CEO, International Paper
Juan Gallardo[1,2]	Chairman, Grupo Embotelladoras Unidas S.A. de C.V.
David R. Goode[1,2]	Chairman, President, and CEO, Norfolk Southern Corporation
James P. Gorter[1,2]	Former Chairman, Baker, Fentress & Company
Peter A. Magowan[2,4]	President and Managing General Partner, San Francisco Giants
William A. Osborn[1,2]	Chairman and CEO, Northern Trust Corporation and The Northern Trust Company
Gordon R. Parker[3,4]	Former Chairman, Newmont Mining Corporation
Charles D. Powell[2,4]	Chairman, Sagitta Asset Management Limited
Joshua I. Smith[3,4]	Chairman and Managing Partner, The Coaching Group LLC
Clayton K. Yeutter[3,4]	Of Counsel to Hogan & Hartson, Washington, D.C.

[1]*Member of Audit Committee (David R. Goode, chairman)*
[2]*Member of Compensation Committee (James P. Gorter, chairman)*
[3]*Member of Nominating & Governance Committee (John T. Dillon, chairman)*
[4]*Member of Public Policy Committee (John R. Brazil, chairman)*

OFFICERS

Glen A. Barton	Chairman and CEO
Vito H. Baumgartner	Group President
Gerald S. Flaherty[5]	Group President
Douglas R. Oberhelman	Group President
James W. Owens	Group President
Gerald L. Shaheen	Group President
Richard L. Thompson	Group President
R. Rennie Atterbury III[5]	Vice President, General Counsel and Secretary
Sidney C. Banwart	Vice President
Michael J. Baunton	Vice President
James S. Beard	Vice President
Richard A. Benson	Vice President
James B. Buda	Vice President, General Counsel and Secretary
Rodney L. Bussell	Vice President
James E. Despain[5]	Vice President
Michael A. Flexsenhar[5]	Vice President
Thomas A. Gales	Vice President
Donald M. Ings	Vice President
Richard P. Lavin	Vice President
Stuart L. Levenick	Vice President
Duane H. Livingston	Vice President
Robert R. Macier	Vice President
David A. McKie	Vice President
F. Lynn McPheeters	Vice President, Chief Financial Officer
Daniel M. Murphy	Vice President
Gerald Palmer	Vice President
James J. Parker	Vice President
Robert C. Petterson	Vice President
John E. Pfeffer	Vice President
Siegfried R. Ramseyer[5]	Vice President
Edward J. Rapp	Vice President
Alan J. Rassi	Vice President
Gary A. Stroup	Vice President
Gerard R. Vittecoq	Vice President
Sherril K. West	Vice President
Donald G. Western	Vice President
Steven H. Wunning	Vice President
Kenneth J. Zika	Controller
Kevin E. Colgan	Treasurer
Robin D. Beran	Assistant Treasurer
Tinkie E. Demmin	Assistant Secretary
Laurie J. Huxtable	Assistant Secretary

Note: All director/officer information is as of December 31, 2001, except as noted.

[5]*Will retire effective January 1, 2002.*

EXHIBIT 21

CATERPILLAR INC.
SUBSIDIARIES AND AFFILIATES
(as of December 31, 2001)

Name of Company	Where Organized
10G LLC	Delaware
A.S.V., Inc.	Minnesota
Acefun SA de CV	Mexico
Aceros Fundidas Internationales SRL de CV	Mexico
Aceros Fundidos Internacionales LLC	Delaware
Advanced Filtration Systems Inc.	Delaware
Aiwa Co., Ltd.	Japan
Akashi GS Co., Ltd.	Japan
All Parts International Inc.	Delaware
Anchor Coupling Inc.	Delaware
Aquila Mining Systems Ltd.	Canada
Asia Power Systems (Tianjin) Ltd.	China
AsiaTrak (Tianjin) Ltd.	China
Automotive Development Holdings B.V.	Netherlands
Bio-Energy Partners	Illinois
Bitelli S.p.A.	Italy
Brown Group Holdings Limited	England and Wales
Carter Machinery Company, Incorporated	Delaware
Caterpillar (Africa) (Proprietary) Limited	South Africa
Caterpillar (Bermuda) Funding Company	Bermuda
Caterpillar (Bermuda) Funding Parent Company	Bermuda
Caterpillar (Bermuda) Holding Company	Bermuda
Caterpillar (Bermuda) Ltd.	Bermuda
Caterpillar (China) Investment Co., Ltd.	China
Caterpillar (HK) Limited	Hong Kong
Caterpillar (Thailand) Limited	Thailand
Caterpillar (U.K.) Limited	England
Caterpillar Agricultural Products Inc.	Delaware
Caterpillar Americas Co.	Delaware
Caterpillar Americas Funding Inc.	Delaware
Caterpillar Americas Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Americas SARL	Switzerland
Caterpillar Americas Services Co.	Delaware
Caterpillar Andes S.A.	Chile
Caterpillar Arrendadora Financiera, S.A. de C.V.	Mexico
Caterpillar Asia Limited	Hong Kong
Caterpillar Asia Pte. Ltd.	Singapore
Caterpillar Assurance Company Limited	Grand Cayman Island
Caterpillar Belgium S. A.	Belgium
Caterpillar Brasil Ltda.	Brazil
Caterpillar Brasil Servicos S/C Ltda.	Brazil
Caterpillar Card Services Corporation	Nevada

Caterpillar Centro de Demostraciones y Desarrollo, S.L.	Spain
Caterpillar China Limited	Hong Kong
Caterpillar Claas America LLC	Delaware
Caterpillar CMC Finance Corporation	Delaware
Caterpillar CMC, LLC	Delaware
Caterpillar Commercial Australia Pty. Ltd.	Australia
Caterpillar Commercial Holding S.A.	Switzerland
Caterpillar Commercial LLC	Delaware
Caterpillar Commercial Northern Europe Limited	England and Wales
Caterpillar Commercial Private Limited	India
Caterpillar Commercial S.A.	Belgium
Caterpillar Commercial S.A.R.L.	France
Caterpillar Commercial Services Ltd.	Canada
Caterpillar Commercial Services S.A.R.L.	France
Caterpillar Commerciale S.r.L.	Italy
Caterpillar Corporativo Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Credito, S.A. de C.V.	Mexico
Caterpillar Distribution Services Europe B.V.B.A.	Belgium
Caterpillar Elphinstone Pty. Ltd.	Australia
Caterpillar Energy Company S.A.	Guatemala
Caterpillar Engine Systems Inc.	Delaware
Caterpillar Engine Systems Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Export Limited	US Virgin Islands
Caterpillar Factoraje Financiero, S.A. de C.V.	Mexico
Caterpillar Finance France S.A.	France
Caterpillar Finance Kabushiki Kaisya	Japan
Caterpillar Finance, s.r.o.	Czech Republic
Caterpillar Financial Acquisition Funding L.L.C.	Delaware
Caterpillar Financial Acquisition Funding Partners	United Kingdom
Caterpillar Financial Asset Sales Corporation	Nevada
Caterpillar Financial Australia Limited	Australia
Caterpillar Financial Corporacion Financiera, S.A., E.F.C.	Spain
Caterpillar Financial Dealer Funding LLC	Delaware
Caterpillar Financial Funding Corporation	Nevada
Caterpillar Financial Member Company	Delaware
Caterpillar Financial Nordic Services A.B.	Sweden
Caterpillar Financial Nova Scotia Corporation	Canada
Caterpillar Financial Receivables Corporation	Nevada
Caterpillar Financial Renting, S.A.	Spain
Caterpillar Financial S.A. Arrendamento Mercantil	Brazil
Caterpillar Financial S.A. Credito, Financiamento e Investimento	Brazil
Caterpillar Financial Services (Ireland) plc	Ireland
Caterpillar Financial Services (UK) Limited	England
Caterpillar Financial Services Argentina S.A.	Argentina
Caterpillar Financial Services Asia Pte. Ltd.	Singapore
Caterpillar Financial Services Corporation	Delaware
Caterpillar Financial Services CR, s.r.o.	Czech Republic
Caterpillar Financial Services GmbH & Co. KG	Germany

Caterpillar Financial Services Korea, Ltd.	Korea
Caterpillar Financial Services Limited	Canada
Caterpillar Financial Services Malaysia Sdn Bhd	Malaysia
Caterpillar Financial Services Philippines Inc.	Philippines
Caterpillar Financial Services Poland Sp. zo.o.	Poland
Caterpillar Financial Services S.A.	Switzerland
Caterpillar Financial Services Verwaltungs GmbH	Germany
Caterpillar Financial Services Yugen Kaisya	Japan
Caterpillar Forest Products Inc.	Delaware
Caterpillar Formacion Tecnica, S. L.	Spain
Caterpillar France S.A.	France
Caterpillar GB, L.L.C.	Delaware
Caterpillar Global Mining Pty. Ltd.	Australia
Caterpillar Group Limited	England and Wales
Caterpillar Group Services S.A.	Belgium
Caterpillar Holding (France) S.A.R.L.	France
Caterpillar Holding Germany GmbH	Germany
Caterpillar Holding Spain, S.L.	Spain
Caterpillar Holdings Australia Pty. Ltd.	Australia
Caterpillar Hungary Ltd.	Hungary
Caterpillar Impact Products Limited	United Kingdom
Caterpillar India Private Limited	India
Caterpillar Industrial Inc.	Ohio
Caterpillar Industrial Products, Inc.	Delaware
Caterpillar Institute (WA) Pty Ltd.	Australia
Caterpillar Insurance Co. Ltd.	Bermuda
Caterpillar Insurance Company	Missouri
Caterpillar Insurance Holdings Inc.	Delaware
Caterpillar Insurance Services Corporation	Tennessee
Caterpillar International Finance plc	Ireland
Caterpillar International Funding S.A.R.L.	Switzerland
Caterpillar International Holding S.A.R.L.	Switzerland
Caterpillar International Investments S.A.R.L.	Switzerland
Caterpillar International Leasing L.L.C.	Delaware
Caterpillar International Services Corporation	Nevada
Caterpillar International Services del Peru S.A.	Peru
Caterpillar Investment Management Ltd.	Delaware
Caterpillar Investments	England and Wales
Caterpillar Latin America Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Latin America Services de Puerto Rico, S. en C.	Puerto Rico
Caterpillar Latin America Servicios de Chile Limitada	Chili
Caterpillar Latin Americas Services, S.R.L.	Costa Rica
Caterpillar Leasing (Thailand) Limited	Thailand
Caterpillar Leasing Chile, S.A.	Chile
Caterpillar Leasing GmbH	Germany
Caterpillar Logistics Administrative Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Logistics Client Services LLC	Delaware
Caterpillar Logistics France SAS	France

Caterpillar Logistics N.V.	Belgium
Caterpillar Logistics Services (France) SARL	France
Caterpillar Logistics Services (Tianjin) Ltd.	China
Caterpillar Logistics Services (UK) Limited	England and Wales
Caterpillar Logistics Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Logistics Services Germany GmbH & Co. KG	Germany
Caterpillar Logistics Services Germany Verwaltungs GmbH	Germany
Caterpillar Logistics Services International N.V.	Belgium
Caterpillar Logistics Services Polska Sp.zo.o.	Poland
Caterpillar Logistics Services Spain, S.A.	Spain
Caterpillar Logistics Services, Inc.	Delaware
Caterpillar Logistics Services-Egypt Ltd.	Egypt
Caterpillar Logistics Technology Services LLC	Delaware
Caterpillar Materiels Routiers S.A.	France
Caterpillar Mexico, S.A. de C.V.	Mexico
Caterpillar Motoren GmbH & Co. KG	Germany
Caterpillar Motoren Rostock GmbH	Germany
Caterpillar Motoren Verwaltungs-GmbH	Germany
Caterpillar New Zealand Depositary Company	Netherlands
Caterpillar New Zealand Funding Company	Netherlands
Caterpillar New Zealand Securities Company	Bermuda
Caterpillar NZ Funding LLC	Delaware
Caterpillar NZ Funding Parent Limited	Netherlands
Caterpillar of Australia Pty. Ltd.	Australia
Caterpillar of Canada Ltd.	Canada
Caterpillar of Delaware, Inc.	Delaware
Caterpillar Overseas Credit Corporation S.A.	Switzerland
Caterpillar Overseas Investment Holding, S.A.R.L.	Switzerland
Caterpillar Overseas S.A.	Switzerland
Caterpillar Paving Products Inc.	Oklahoma
Caterpillar Paving Products Xuzhou Ltd.	China
Caterpillar Pension Trust Limited	England and Wales
Caterpillar Peterlee Limited	England
Caterpillar Poland Sp. zo.o	Poland
Caterpillar Power Systems Inc.	Delaware
Caterpillar Power Systems y Compañia Limitada	Nicaragua
Caterpillar Power Ventures Corporation	Delaware
Caterpillar Power Ventures International Mauritius Ltd.	Mauritius
Caterpillar Power Ventures International, Ltd.	Bermuda
Caterpillar Product Services Corporation	Missouri
Caterpillar Redistribution Services Inc.	Delaware
Caterpillar Redistribution Services International S.A.R.L.	Switzerland
Caterpillar Renting France S.A.S.	France
Caterpillar S.A.R.L.	Switzerland
Caterpillar Securities Inc.	Delaware
Caterpillar Services Limited	Delaware
Caterpillar Servicios Mexico S. de R.L. de C.V.	Mexico
Caterpillar Skinningrove Limited	England and Wales

Caterpillar Special Services Belgium S.P.R.L	Belgium
Caterpillar Stockton Limited	England and Wales
Caterpillar Technical Services - Europe Limited	England
Caterpillar Torreon S. de R.L. de C.V.	Mexico
Caterpillar Tosno L.L.C.	Russia
Caterpillar Transmissions France SARL	France
Caterpillar UK Employee Trust Limited	England and Wales
Caterpillar UK Holdings Limited	England and Wales
Caterpillar Work Tools B.V.	Netherlands
Caterpillar Work Tools Canada Ltd.	Canada
Caterpillar Work Tools GmbH & Co. KG	Germany
Caterpillar Work Tools Verwaltungs-GmbH	Germany
Caterpillar Work Tools, Inc.	Kansas
Caterpillar World Trading Corporation	Delaware
Caterpillar World Trading of Europe S.A.R.L.	Switzerland
Caterpillar Xuzhou Ltd.	China
Centre de Distribution de Wallonie S.A.	Belgium
Chugoku Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
Claas Caterpillar Europe GmbH & Co. KG	Germany
Claas Caterpillar Europe Verwaltungs GmbH	Germany
Clean World Co.	Japan
CM Custom Product Co., Ltd.	Japan
CM Human Services Co., Ltd.	Japan
CM Logistics Services Co., Ltd.	Japan
CM Rental Kinki Co., Ltd.	Japan
CM Rental Tokai Co., Ltd.	Japan
CMEC Co., Ltd.	Japan
Cramo Holding AB	Sweden
Depositary (Bermuda) Limited	Bermuda
Dia Rental Hokuriku Co., Ltd.	Japan
Diamond Office Management Co., Ltd.	Japan
Dynamic Automation Systems Pty. Ltd.	Australia
East Kanto Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
Easytop Limited	England and Wales
EDC European Excavator Design Center GmbH & Co. KG	Germany
EDC European Excavator Design Center Verwaltungs GmbH	Germany
Elektrocieplawnia Starahowice Sp. Z.o.o.	Poland
Elphinstone Commercial Services Ltd.	Canada
EMC Testing Inc.	Delaware
Endeavour Caterpillar New Zealand Finance Company	New Zealand
Energy Services International Group, Ltd.	Delaware
Energy Services International Limited	Bermuda
Ensambladora Tecnologica de Mexico, S.A. de C.V.	Mexico
Enteco Servicos S. de R.L. de C.V.	Mexico
ESI do Brasil Ltda.	Brazil
F. M. K. Co., Ltd.	Japan
F.G. Wilson (Engineering) Limited	Northern Ireland
F.G. Wilson (Proprietary) Limited	South Africa

F.G. Wilson (USA) L.L.C.	Delaware
F.G. Wilson Australia PTY Limited	Australia
F.G. Wilson Engineering (Dublin) Limited	Ireland
F.G. Wilson Generators India Private Limited	India
F.G. Wilson Incorporated	Delaware
F.G. Wilson Singapore Pte Limited	Singapore
Federal Financial Services LLC	Delaware
Financieringsmaatschappij Bolier B.V.	Netherlands
FMS Equipment Rentals Inc.	Delaware
Forchester del Peru S.R.L.	Peru
Forchester do Brasil Ltda.	Brazil
Forchester International S.A.	Uruguay
Germanischer Lloyd AG	Germany
GFCM Servicios, S.A. de C.V.	Mexico
Grupo Financiero Caterpillar Mexico, S.A. de C.V.	Mexico
Guangzhou MaK Diesel Engine Ltd.	China
Hama-rental Co.	Japan
Heroco B.V.	Netherlands
Hindustan Powerplus Limited	India
Hokkaido Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
Hokken Service Co.	Japan
Hokuriku Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
Hook Up, Inc.	Delaware
Hydropro S.r.l.	Italy
I & S Operations, Inc.	Georgia
Inmobiliaria Conek, S.A.	Mexico
Ironmart LLC	Delaware
IronPlanet.com, Inc.	Delaware
Jigsaw Investors Corp.	Ontario
Jupiter Power Asia Co., Ltd.	Cambodia
Jupiter Power Cambodia Co., Ltd.	Cambodia
Jupiter Power Holdings Ltd.	Bermuda
Kappa Energy Partners	Texas
Kasaragod Power Corporation Private Limited	India
Kiden Lease Co., Ltd.	Japan
Kinki Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
K-Lea Co., Ltd.	Japan
Kyoei Co.	Japan
Laminex V.o.F.	Netherlands
Landfill Energy Partners I	Texas
Let’s Co., Ltd.	Japan
Lexington Real Estate Holding Corporation	Delaware
Machida Kiko Co., Ltd.	Japan
Machinefabriek Bolier B.V.	Netherlands
MaK (London) Limited	United Kingdom
MaK Americas Inc.	Canada
MaK Americas Inc.	Illinois
MaK Beteiligungs GmbH	Germany

MaK Mediterranee S.A.S.	France
MaK Motoren Asia Pte. Ltd.	Singapore
MaK Netherland B.V.	Netherlands
Material Handling Associates, Inc.	Delaware
MCFA Canada Ltd.	Ontario
MCFA FSC Inc.	Barbados
Mec-Track S.r.l.	Italy
Merwedehaven Beheer B.V.	Netherlands
MICA Energy Systems	Michigan
Mincom Pty Ltd	Australia
Mistubishi Caterpillar Forklift Europe B.V.	Netherlands
Mitsubishi Caterpillar Forklift America de Argentina S.A.	Argentina
Mitsubishi Caterpillar Forklift America Inc.	Delaware
Mitsubishi Caterpillar Forklift Asia Pte. Ltd.	Singapore
Mopesa Motores Power, SA	Mexico
Motores Diesel Andino S.A.	Peru
Motori Perkins S.P.A.	Italy
Nagano Kouki Co., Ltd.	Japan
Necoles Investments B.V.	Netherlands
Nexus International Inc.	Delaware
Nexus International S.r.l.	Italy
Nihon Kenki Lease Co., Ltd.	Japan
OTSG, Inc.	Delaware
P. T. Caterpillar Finance Indonesia	Indonesia
P. T. Natra Raya	Indonesia
P. T. Solar Services Indonesia	Indonesia
Peoria Dredging Technologies L.L.C.	Delaware
Perkins do Brazil Comercial Ltda.	Brazil
Perkins Engines (Asia Pacific) Pte Ltd	Singapore
Perkins Engines (Australia) Pty. Ltd.	Australia
Perkins Engines (Latin America) Inc.	Delaware
Perkins Engines (Shrewsbury) Limited	England and Wales
Perkins Engines (Tianjin) Company Limited	China
Perkins Engines Company Limited	England and Wales
Perkins Engines, Inc.	Maryland
Perkins Executive Pension Trust Limited	England and Wales
Perkins France (SAS)	France
Perkins Holdings Limited	Delaware and England and Wales
Perkins International Inc.	Delaware
Perkins Limited	England and Wales
Perkins Motoren GmbH & Co. KG	Germany
Perkins Motoren Management GmbH	Germany
Perkins Pension Trust Limited	England and Wales
Perkins Power Sales & Service Limited	England and Wales
Perkins Shibaura Engines Limited	England and Wales
Perkins Technology Inc.	Delaware

Pioneer Distribution Inc.	South Carolina
Pioneer Machinery LLC	Delaware
PMHC LLC	Delaware
Przedsiebiorstuo Energetyki Ciepincj (Bugaj)	Poland
R.V.K. Energy Private Limited	India
Rapidparts Inc.	Delaware
Rapisarda Fluid SRL	Italy
Rapisarda Industries Srl	Italy
Rapisarda SpA	Italy
Rega Kyushu Co., Ltd.	Japan
Rex World Co., Ltd.	Japan
Sabre Engines Limited	England
Sagami GS Co., Ltd.	Japan
Sanko Rental Co.	Japan
SCM Operator Training Co., Ltd.	Japan
SCM Shoji Co., Ltd.	Japan
SCM System Service Co., Ltd.	Japan
Servtech Limited	Ireland
Shanxi International Casting Co. Ltd.	China
Sharp Success Agriculture Limited	England
Shin Caterpillar Mitsubishi Ltd.	Japan
Shin Hokken Ltd.	Japan
Solar Turbines Canada Ltd./Ltee.	Canada
Solar Turbines Europe S.A.	Belgium
Solar Turbines Incorporated	Delaware
Solar Turbines International Company	Delaware
Solar Turbines Overseas Pension Scheme Trustees Limited	Guernsey
Solar Turbines Services Company	California
Solar Turbines Services Nigeria Limited	Nigeria
Solar Turbines UK Limited	England and Wales
SPL Software Alliance LLC	Delaware
STI Capital Company	Delaware
Suryachakra Power Corporation Private Limited	India
Tech Itoh Co., Ltd.	Japan
Tecnologia Modificada S.A. de C.V.	Mexico
The Heartland Community Development Corporation	Illinois
Tokai Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
Tokyo Rental Co., Ltd.	Japan
Tone Lease Co.	Japan
Tunnel Rental Co., Ltd.	Japan
Turbinas Solar de Venezuela, C.A.	Venezuela
Turbo Tecnologia de Reparaciones S.A. de C.V.	Mexico
Turboservices SDN BDH	Malaysia
Turner Powertrain Systems Limited	England and Wales
UK Hose Assembly Limited	England

VALA (UK) LP	United Kingdon
VALA CV	Netherlands
VALA Inc.	Delaware
VALA LLC	Delaware
Veratech Holding B.V.	Netherlands
V-TRAC Holdings Limited	Cook Islands
V-TRAC Infrastructure Development Company	Vietnam
West Kanto Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
West Kanto Rental Co., Ltd.	Japan
Wright Equipment Company (Pty) Limited	South Africa
Yeep Co.	Japan

PRICEWATERHOUSECOOPERS

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8 (No. 2-90123, as amended, 2-97450, as amended, 33-3718, as amended, 33-8003, 33-14116, 33-37353, 33-39280, 33-40598, 333-03609, 333-32853, 333-32851 and 333-41464) of Caterpillar Inc. of our report dated January 23, 2002 related to the financial statements of Caterpillar Inc., appearing on page A-3 of the Appendix to the Company's 2002 Annual Meeting Proxy Statement which is incorporated in this Annual Report on Form 10-K.

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statement on Forms S-3 (Nos. 33-46194, 333-22041, 333-43133, 333-43983, and 333-71468) of Caterpillar Inc. of our report dated January 23, 2002 related to the consolidated financial statements of Caterpillar Inc., appearing on page A-3 of the Appendix to the Company's 2002 Annual Meeting Proxy Statement which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Peoria, Illinois
March 18, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [Fee Required]**
For the Fiscal Year Ended December 31, 2001

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]**
For the transition period from _____ to _____

Commission File Number 1-768

CATERPILLAR FOREIGN SERVICE EMPLOYEES' STOCK PURCHASE PLAN

(Full title of the Plan)

CATERPILLAR INC.

(Name of issuer of the securities held pursuant to the Plan)

100 NE ADAMS STREET, PEORIA, ILLINOIS 61629

(Address of principal executive offices)

REQUIRED INFORMATION

Item 1.

Financial Statements for this Plan are not enclosed since the requirements to file such financial statements were deemed inapplicable in accordance with the letter from the Securities and Exchange Commission dated January 26, 1973.

Item 2.

(See response to Item 1).

Item 3.

(See response to Item 1).

Item 4.

Not Applicable

CATERPILLAR®

YELA0681